Comments submitted to The Federal Housing Finance Agency, July 30, 2012

Regarding 12 CFR Part 1254, proposed "PACE Underwriting Standards" for *Fannie Mae* and *Freddy Mac*

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Thank you for the opportunity to augment the public comments already received about the proposed PACE Underwriting Standards. I have been a residential builder and efficiency advocate for 30 years. Through consulting work with the *Oregon Housing and Community Services Department*, I had contact with *Fannie Mae's* Oregon office (1998 – 2000), related to development of their "Home Performance Power" partnership with *NAHB*.

I support FHFA's 7/6/10 "Statement", to "limit……financial risks associated with first-lien PACE programs". I also support FHFA's 2/28/11 "directive", to resolve the issue of risk prior to the purchase of "mortgages affected by first-lien PACE obligations".

FHFA has accurately identified the risk and complexity associated with the PACE financing mechanism, including the fact that these programs "generally anticipate that private-sector capital would flow through the local government to the homeowner-borrower" (page 4). I do not believe it is necessary for the public sector to intervene between private capital and private homeowners. In fact, this role creates an additional risk. Since PACE programs include new public expense at a time when public dollars are increasingly scarce, FHFA cannot be certain that administrative responsibilities will always be met, or that public funds will be available to flow as anticipated.

FHFA received serious, detailed reservations about PACE from a broad spectrum of banking, real estate, housing, development, and construction interests. These substantive, professional comments provide clear support for FHFA's evaluation of the *Fannie Mae* and *Freddie Mac* interface with existing PACE programs.

Among those who want PACE programs to be accepted by FHFA, the strongest voice appears to be from "clean energy" advocates, for whom PACE is just part of a broader clean energy agenda. I did not find evidence to demonstrate how effectively PACE delivers clean energy, or reduces demand on the grid. Nor I did not see any testimony that compared PACE to other financing options.

Fortunately, FHFA can compare financing options described at the 6/28/12 US Senate *Energy and Natural Resources Committee* "efficiency financing" hearing. The Committee invited 6 efficiency program leaders from around the country to provide testimony about "non-federal" financing options. From the 6 models, I believe that the best mechanism for delivering efficiency or renewable energy was presented by Shari Borrelli of the *United Illuminating Company* (Connecticut). Her 4 page testimony can be found at http://www.energy.senate.gov/public/index.cfm/files/serve?File_id=c2ef48af-369c-4528-b888-7b8584db035a The full testimony is available at http://www.energy.senate.gov/public/index.cfm/hearings-and-business-meetings?ID=c217c8fd-0d77-465f-be7d-a6a4573cb34c.

The *United Illuminating Company* efficiency program is operated by a utility without any tax dollars. It provides "energy retrofit" financing without a connection to the mortgage or local taxing agencies. The program does not involve any transactions between homeowners and public agencies: it simply connects building contractors to the company's energy customers, and uses in-house, on-bill financing. I consider this a more effective and less risky model, if *Fannie Mae* and *Freddie Mac* want to support clean energy.

Based on their experience providing energy services, utilities can be expected to deliver more clean energy per dollar invested, and create even greater opportunities for clean energy businesses and investors. This elevated private sector role also eliminates the risk, however assessed, of the PACE mechanism. By merging clean energy financing with energy suppliers, repayment is secured by the customer's need for energy, rather than a complex mortgage-based mechanism.