



ENVIRONMENTAL
ENTREPRENEURS

www.e2.org

Mr. Alfred Pollard, General Counsel
Attn: Comments/RIN 2590-AA53
Federal Housing Finance Agency, Eighth Floor
400 Seventh Street, SW.
Washington, DC 20024

September 13, 2012

Dear Mr. Pollard:

On behalf of Environmental Entrepreneurs (E2), I urge the Federal Housing Finance Agency to reverse its position in its Proposed Rule and restore Property Assessed Clean Energy (PACE) programs that help property owners make energy efficiency and renewable energy upgrades to their homes.

E2 represents a national community of business leaders who promote strong environmental policy to grow the economy. We are entrepreneurs, investors and professional who collectively manage over \$90 billion of venture capital and private equity. Our members have started over 1,400 businesses, which in turn have created over 500,000 jobs.

On various occasions in the past, E2 has expressed strong support for PACE, most recently in response to the FHFA's Advance Notice of Proposed Rulemaking. PACE programs provide the private sector and local governments the opportunity to work together to make energy efficiency and renewable energy improvements for homes nationwide. In doing so, PACE programs hold potential to generate tremendous economic benefits for our nation – without federal tax subsidies, mandates or expansions of any federal programs.

We recognize FHFA's obligation to ensure that FNMA and FHLMC (the "Enterprises") operate in a safe and sound manner, and ensure that mortgage investments are made prudently. However, we believe that mechanisms contained in the alternatives identified by the FHFA in its Proposed Rule provide acceptable means of reducing the risk to the Enterprises. Unfortunately, the Proposed Rule rejects those alternatives and effectively prohibits all PACE programs.

In its Notice of Proposed Rule, the FHFA criticizes the lack of clear, consistent national standards for implementation of PACE programs. However, both Alternatives 2 and 3 recognize specific underwriting standards that could be applied to PACE programs (and, in the case of Alternative 2, are more restrictive than current Enterprise underwriting standards). We strongly support Alternative 3, which would incorporate the underwriting standards contained in H.R. 2599 -- a bill that has bipartisan support and which was specifically designed to address FHFA's concerns. The H.R. 2599 standards provide rigorous underwriting criteria and other protections to reduce the risk of default, ensure that PACE-financed improvements add to the value of homes, protect consumers and adequately protect the Enterprises from risk.

We therefore urge the FHFA to adopt, in its final rulemaking, a modified version of Alternative 3 which provides that if PACE liens are recorded and the underwriting standards outlined in H.R. 2599 are met, the Enterprises should not take actions to call a default on a mortgage because it has become subject to a first-line PACE obligation, be permitted to purchase mortgages subject to first-lien PACE obligations and treat PACE assessments in a similar manner as any other municipal tax assessment; and if requested, consent to the imposition of a first-lien PACE obligation. This variation on Alternative 3 provides a solution that is supported by the evidence, can be implemented by local governments right away and will allow PACE programs to move forward.

We also urge the FHFA, in its final rule, to leave open the future opportunity to address its concerns through implementation of elements of its proposed Alternative 1 (Guarantee/Insurance). At this time, there is no insurance product in the marketplace or an established reserve fund that protects against "100% of any net loss" as suggested by FHFA, but some form of insurance or loan loss reserve could provide additional risk mitigation in the future. If an insurance product or reserve fund that provides sufficient protection against the risk to the Enterprises perceived by FHFA becomes available, local governments should be permitted to choose whether to utilize such products or comply with the Alternative 3 standards.

It is unfortunate that FHFA would choose to shut down residential PACE programs when a workable solution is either available now or can be resolved in a collaborative stakeholder process in a relatively short period of time. By adopting a modified Alternative 3 to the Proposed Rule and leaving the door open to future use of national standards and/or insurance products, PACE programs can move forward in a manner that leaves homeowners better off than they were before and provides significant benefits to our communities by driving economic growth and jobs and helping homeowners have more control over their energy costs.

Sincerely,



Judith Albert
Executive Director, Environmental Entrepreneurs

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