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OFFICE OF GENERAL COUNSEL

August 22, 2012

Alfred M. Pollard, General Counsel
Federal Housing Finance Authority
Eighth Floor, 400 Seventh Street SW
Washington, DC 20024

RE: RIN 2590-AA53
Underwriting Standards Relating to Mortgage Assets Affected by PACE Programs

Dear Mr. Pollard:

New Resource Bank would like to take the opportunity to comment on the positions taken by the FHFA with regard to risks associated with PACE (Parcel Assessed Clean Energy) programs in its Notice of Proposed Rulemaking. We believe that PACE provides a positive benefit by providing a means to reduce energy consumption and reliance on fossil fuels, resulting in a cleaner, safer and more sustainable world.

While there are a number of important questions that remain to be answered in order to standardize PACE programs, we believe that there are objective, effective, and practicable solutions that can be implemented to make PACE programs acceptable to mortgage investors.

As a regulated financial institution, we understand the FHFA's duty to ensure that the FNMA and the FHLMC (the Enterprises) operate in a safe and sound manner, and take specific precautions to ensure that investments in mortgages are made wisely and responsibly. Our own credit administration policies are similarly established to provide for prudent underwriting and optimal mitigation of risk.

Thus, we find it troubling that the FHFA appears to have taken the position that unless all risk related to PACE obligations is eliminated, such obligations represent undue risk and consequently, the FHFA would oppose investments in PACE affected mortgages. We would ask that the FHFA recognize that it has already established thresholds for acceptable risk (i.e. uniform underwriting standards) and utilize the same logic when looking at PACE affected transactions.

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We have reviewed the three Risk Mitigation Alternatives in the subject NPR. Specifically, we direct your attention to ***Section V. Discussion of the Proposed Rule and Alternatives Being Considered***. Each of the alternatives proposes a distinct risk mitigation strategy under which the FHFA would *allow* the Enterprises to invest in PACE affected mortgages. In my reading of the rule, it is unclear whether consent for mortgages that meet the requirements of the specific alternative (and also meets all other standard requirements) is mandatory or voluntary.

The first alternative involves allowing investment in PACE affected mortgages in which the PACE obligation is insured or guaranteed by a "qualified" insurer to the benefit of the Enterprise. The primary reservation of the FHFA is the fact that an insurer might fail, and consequently, that the risk attributable to the PACE obligation *cannot be eliminated*.

We find significant irony in the FHFA's position. Not only are the underlying investments in mortgages replete with risk that cannot be eliminated, but those same mortgages are required to have hazard insurance on the collateral property. In effect, the FHFA has set its own standards for risk tolerance that include some level of insurance risk, but it is unwilling to extend the same standards to PACE affected mortgages.

The second alternative involves allowing investment in PACE related mortgages in which the mortgage secured by the PACE obligation meets five primary conditions, including stringent underwriting standards such as a 65% loan to value ratio, a 35% debt to income ratio, and 720 FICO score.

Once again, the reservations expressed by the FHFA begin with the position that the alternative would not "eliminate the material financial risks that first lien PACE programs would otherwise pose to the Enterprises." Yet the specific credit standards proposed in the alternative are substantially *more demanding* than the underwriting standards currently in use by the Enterprises for non-PACE transactions. As such, I see very little logic in the FHFA's position.

The third alternative provides a more comprehensive set of standards that would appear to serve as a model for PACE programs. The standards include a prohibition on those PACE affected mortgages exhibiting delinquent real estate taxes and mortgage payments, an energy audit and cost benefit analysis of the proposed improvements, and a term feature that limits the length of the PACE obligation to the useful life of the funded improvements. Of particular note is the requirement that the total energy and water savings resulting from the PACE improvements exceed the costs of the PACE assessment.

The reservations to this alternative stated by the FHFA generally fall into two categories: 1) the mitigation strategies do not provide adequate specificity for the Enterprises to evaluate, and 2) the Enterprises do not have the resources to evaluate the results, in any case.

This position ignores the obvious: with additional collaboration, the details regarding program specifics can be formulated in such a way as to standardize PACE structures and satisfy the primary objectives of all stakeholders.

In evaluating the position of the FHFA as a whole, I note that the tenor of the objections running throughout the subject NPR seems to indicate that FHFA is uninterested in constructively pursuing a mutually beneficial resolution. I can only hope that this is a result of the strict legal nature of the document and not an actual reflection of the broad sentiment among leaders at the FHFA.

At New Resource Bank, we have proven that a regulated financial institution does not have to sacrifice safe and sound underwriting practices in order to build a more sustainable economy. We know that real leadership occurs when there is cooperation by and among lending professionals, regulatory agencies, and both public and private entities to solve economic, social, and environmental problems.

We strongly urge the FHFA to consider the mitigation strategies proposed in the subject NPR and use these as a foundation to work with PACE program advocates to establish safe, practical, and cost effective measures that will make the purchase of PACE affected mortgages by the Enterprises a routine occurrence.

I would be happy to discuss these thoughts with you in greater detail at your convenience.

Yours Truly,

William A. Peterson
Chief Credit Officer