September 27, 2012

Mr. Alfred Pollard
General Counsel
Federal Housing Finance Agency
400 7th St., N.W.
Washington, DC 20024

RE: RIN 2590-AA53 Mortgage Assets Affected by PACE Programs

Dear Mr. Pollard:

This letter constitutes the comments from Renovate America on the Notice of Proposed Rulemaking ("Notice") addressing whether and under what conditions the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively, the "Enterprises") will purchase mortgages for properties participating in Property Assessed Clean Energy ("PACE") programs.

Renovate America and PACE

Renovate America, Inc. provides PACE financing services to eighteen cities in California. In our May 26, 2010 meeting with FHFA, we expressed our alignment with the view that standardization, risk management and underwriting discipline were needed to make PACE programs successful for all stakeholders and have enforced such views in the cities where we provide PACE financing services. We continue to believe this is the case: ***with the appropriate standards and oversight by FHFA and the Enterprises, the lending and housing industries would <u>benefit</u> to have a new PACE based financing product to promote energy and water conservation measures.*** While lending products exist today (Fannie Mae Energy Efficiency Mortgage, Freddie Mac Energy Efficiency Mortgage) and others have been introduced over the last 40+ years, none have had a significant positive impact on the lending and housing industries that a PACE based product can deliver.

The concept of PACE was named one of the top 20 ideas that could change the world by Scientific American magazine and one of the top 10 breakthrough ideas for 2010 in the Harvard business Review. Twenty-eight state Legislatures authorized the establishment of PACE program. The White House embraced the concept and made it part of the "Recovery Through Retrofit" program.

We welcome continued dialogue and implementation of a PACE solution which in addition to promoting job growth, energy independence, improvement in the environment, would also **reduce** the risk of repayment of mortgages and therefore improve the credit and marketability of mortgage backed securities.

Response to Notice

We do not agree with the premise of the Notice that PACE programs materially increase financial risks to the Enterprises. We encourage the FHFA to review the facts on record provided by the responses to the Notice. These facts demonstrate the following benefits to FHFA, the GSEs and the Investors of the mortgage backed securities:

PACE programs increase home values. There are a number of studies cited by commenters on the Advance Notice which provide data that energy efficiency and renewable energy projects increase property values. See comment letter from the Attorney General's office of the State of California dated September 12, 2012, pages 5-7.

PACE participants have lower default rates. The FHFA speculates that "the homeowner's assumption of the new PACE obligation may itself increase the risk that the homeowner will become delinquent or default on other financial obligations, including any mortgage obligations." (p. 36088) Rather than suggest that they "may" increase risk, we suggest FHFA a) evaluate expert data on historical actual PACE obligations and b) continue to evaluate data over a period of time before concluding whether or not PACE participants increase delinquencies and default on mortgages.

Sonoma County, CA has had one of the longest running PACE programs in the nation which first provided assessment financing in March 2009. As identified from the Sonoma County response dated September 12, 2012, an expert produced two reports – one on the default rate among PACE participants as compared to the County as a whole, and one examining the causes of default. The expert report identified the default rate of mortgages that had PACE obligations was 0.85% whereas the default rate for residential properties in Sonoma County at the time was 2.19%. The expert determined the substantially lower default rate for PACE participants was statistically significant. Additionally, the expert reviewed properties that have a higher property tax burden and compared them to properties with low property tax burdens and concluded that higher tax burdens had no statistically significant impact on the probability of mortgage default.

Recommendation

Since there is statistically significant data which confirms that PACE lowers default risks and increases property value, we recommend the FHFA embrace PACE and establish underwriting guidelines which would enable it to complement the Enterprises existing mortgage portfolio.

As such, we recommend the FHFA adopt a modified version of Alternative 3. We would agree to all of the proposed underwriting guidelines in Alternative 3 with the following changes:

No lender consent. Requiring lender consent will discourage the adoption of the program among consumers due to the length of time and complication caused in getting lender consent.

No audit. Numerous programs have implemented rebate and/or loan programs. Inserting this requirement will discourage the adoption of the program because a) audits cost $500-$800 and b) most eligible products are replaced only when they break/fail to perform. When a product breaks, the property owner is looking to replace it as quickly as possible. For example, if you live in Washington D.C. and your 12 year old air-conditioning system fails in 100 degree heat, you will want to replace it that afternoon. Any steps, including energy audits, which extend the time it takes to replace such products are avoided by homeowners. For example, most consumers today select a low energy efficient system and finance it on their credit card. The selection of a low energy efficient product and the financing go hand-in-hand: Credit cards provide instant credit, and low energy efficient products provide the lowest sticker price. Unfortunately, this solution is not good for the consumer, the FHFA, or the mortgage lender as it is the highest energy cost for the consumer.

Providing a financing solution which encourages the adoption of an energy efficient system financed over the useful life of the product at low interest rates is good for the consumer and good for the FHFA. PACE can deliver this. The U.S. Department of Energy ("DOE") provides guidance on energy efficient products and quantifies the financial impact to homeowners. Utilizing industry efficiency standards embraced by the DOE is a more practical product qualifier.

<u>AVM approval</u>. A value provided by a qualified AVM methodology provides sufficiently accurate and usually more conservative values of the property. This valuation process is considerably less costly and matches the time frame a consumer requires to replace the broken product.

<u>Modified savings calculation</u>. Rather than require the total savings exceed the total costs of the financing, the savings calculation should be based on comparing the energy efficient improvement against a model which does not qualify under the program. This is the same comparison the DOE provides consumers in the energy calculators they make available on the DOE website. Most homes require a roof, windows, air-conditioning, and heat. And virtually all of these products have a useful life and must be replaced. FHFA can put forth a program which enables failed products to be replaced with energy efficient products which decrease the financial burden on the homeowner.

<u>10 % Equity</u>. The Sonoma County results utilized a not to exceed LTV of 100%. Thus, if we lower the requirement to an LTV not to exceed 90%, the results should be even better than the empirical data.

Conclusion

The FHFA (its predecessor) and the GSEs have long sought to provide borrowers with an effective loan product to encourage the adoption of energy efficient products. It appears that a solution is within reach. If the FHFA adds underwriting criteria and oversight, the FHFA and the Enterprises can attain what they have long sought - a practical financing vehicle to lower operating costs of the property, increase home values, and lower default rates; not to mention other macro benefits the product will deliver: lower energy consumption, lower energy imports and lower greenhouse gas emissions.

Sincerely,

/s/
JP McNeill
CEO
Renovate America, Inc.