



March 23, 2012

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

RE: Mortgage Assets Affected by PACE Programs (RIN 2590-AA5)

Dear Mr. Pollard:

On behalf of the American Public Power Association (APPA), I am writing to request that the Federal Housing Finance Agency (FHFA) to allow Property Assessed Clean Energy (PACE) programs to move forward. APPA is the national service organization representing the interests of over 2,000 community-owned, not-for-profit electric utilities. These utilities include state public power agencies, municipal electric utilities, and special utility districts that provide electricity and other services to over 46 million Americans. Our members care deeply about these innovative clean energy financing programs and the significant benefits they will bring to communities nationwide.

Evidence from existing PACE programs shows that PACE saves homeowners and businesses money on their energy bills, creates much-needed local jobs, and offsets power plant production—all while reducing risks to existing mortgage lenders. Current data from these programs show existing lender default rates for mortgages secured by properties which have taken on PACE assessments to be far below average mortgage default rates in those communities. Moreover, structuring future PACE programs to incorporate the safeguards provided in H.R. 2599, the PACE Assessment Protection Act, will substantially strengthen protections for consumers and existing mortgage lenders.

As you proceed with this rulemaking, we urge FHFA to withdraw the July 2010 directive freezing PACE programs and allow these programs to move forward. Hundreds of communities in the 27 states that have passed PACE-enabling legislation are counting on the Agency to carefully consider stakeholder input, the significant benefits of PACE programs, and the potential solutions to the Agency's concerns that have been included in H.R. 2599. There are several reasons why FHFA should revive these critical programs and the protections PACE provides to homeowners and businesses as well as existing mortgage lenders.

First, PACE programs provide significant economic and public health benefits at very low risk. In the absence of clear policy guidelines, they can provide clarity and financing mechanisms that enable service providers to commit to taking on employees and scaling their business. Unfreezing these programs will enable companies to hire workers on a permanent basis, knowing that there will be a certainty of financing.

PACE financing boosts local economic growth and creates local jobs. According to a recent independent study, \$4 million of total PACE-financed energy project spending, spread evenly across four cities, would generate: \$10 million in gross economic output; \$1 million in combined federal, state and local tax

revenue; and 60 jobs.¹ On a broader scale, if just one percent of America's 75 million single family homeowners were to invest in PACE-financed energy upgrades (with an average project size of \$20,000), the economic impact would be \$15 billion in gross economic output, \$4 billion in combined federal, state, and local tax revenue, and 226,000 jobs.² Moreover, a substantial portion of the jobs created would be in the struggling construction sector. In the span of only one year, Boulder, Colorado's PACE program created over 120 jobs, generated more than \$20 million in overall economic activity, and reduced consumers' energy costs by more than \$125,000.

Importantly, PACE can provide these benefits with minimal risk to existing mortgage lenders. In fact, early data from active programs indicates that PACE actually reduces existing lenders' default risk--out of more than 2,500 properties with active PACE liens, the number of existing lender defaults is far lower than the average mortgage default rate in those jurisdictions. In addition, PACE programs can further reduce risk to existing lenders by improving the value of their properties. Numerous studies show that energy efficiency and renewable energy improvements increase a home's value. For example, an **April 2011 study** of 72,000 homes by the Lawrence Berkeley National Laboratory showed that homes with solar PV systems had an average \$17,000 sales price premium.³ **Another 2011 study** found that homes with EnergyStar ratings had purchase prices that were nearly \$9.00 per square foot higher than non-energy-efficient homes.⁴ These studies confirm the work of an **earlier study** which showed that residential selling prices are positively correlated with lower energy bills, most often attributed to energy efficiency improvements.⁵

Second, PACE programs can be structured to address FHFA's concerns regarding the soundness of PACE. Robust underwriting guidelines for PACE programs are currently included in H.R. 2599. These guidelines were designed with the objective of minimizing risks to lenders and consumers and include measures such as ensuring minimum equity in the home, capping PACE liens at 10 percent of the total home cost, and ensuring a savings-to-investment ratio greater than one. Rather than cite the lack of national standards as a reason to oppose PACE, the FHFA should play a key role in ensuring the safety and soundness of PACE financing by adopting these underwriting guidelines as program requirements in order for mortgages on properties with PACE-financed improvements to be eligible for purchase by government-sponsored enterprises.

APPA supports PACE programs because of their ability to reduce energy bills, increase homeowner cash flow for mortgage payments, reduce mortgage default risk, create local jobs, and reduce greenhouse gas emissions. We respectfully request that the FHFA should take action to reverse the July 2010 directive blocking PACE and allow these programs to proceed.

¹ ECONorthwest, Economic Impact Analysis of Property Assessed Clean Energy Programs (PACE), April 2011, available at <http://pacenow.org/blog/wp-content/uploads/PACE-Econometric-Study-by-ECONorthwest-for-PACENow-5-4-11.pdf>, (accessed on February 28, 2012).

² Mark Muro and Devashree Saha, Bring Residential PACE Back to Life, Brookings Institution, February 22, 2012), available at http://www.brookings.edu/opinions/2011/0830_clean_energy_muro_saha.aspx, (accessed on February 28, 2012).

³ Brian Hoen, Ryan Wiser, Peter Cappers, and Mark Thayer, An Analysis of the Effects of Residential Photovoltaic Energy Systems on Home Sales Prices in California, Lawrence Berkeley National Laboratory, April 2011, available at <http://eetd.lbl.gov/ea/emp/reports/lbnl-4476e.pdf>, (accessed on February 28, 2012).

⁴ Brian Bloom, MaryEllen C. Nobe, and Michael D. Nobe, Valuing Green Home Designs: A Study of Energy Star Homes, Journal of Sustainable Real Estate, JOSRE, Vol. 3 No. 1 (2011). available at http://www.costar.com/uploadedFiles/JOSRE/JournalPdfs/06_109_126.pdf, (accessed on February 28, 2012).

⁵ Neven and Watson, Evidence of Rational Market Valuations for Home Energy Efficiency, The Appraisal Journal, October 1998, available at http://pacenow.org/documents/EnergyEfficiency%282%29_appraisal%20J.PDF, (accessed on February 28, 2012).

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Sincerely,

A handwritten signature in black ink that reads "Mark Crisson". The signature is written in a cursive style with a large, looping initial "M" and a long, sweeping tail.

Mark Crisson
President & CEO

MC/DW