

From: Anne Butterfield <annefarr45@comcast.net>
Sent: Monday, March 26, 2012 3:14 PM
To: !FHFA REG-COMMENTS
Cc: Butterfield Anne
Subject: Fwd: RIN 2590? AA53
Attachments: Coal_Cost_2004-2010_2011-11-11(1) Shows Graphs.xlsx

Please use this message; I have included a file.

Begin forwarded message:

From: Anne Butterfield <AnneFarr45@comcast.net>
Date: March 26, 2012 1:09:50 PM MDT
To: RegComments@fhfa.gov
Cc: Butterfield Anne <annefarr45@comcast.net>
Subject: RIN 2590? AA53

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; Comments on Advanced Notice of Proposed Rulemaking and EIS Scoping Comments

Dear Mr. Pollard:

I appreciate the opportunity provided by FHFA to comment on the July 2010 directive that froze PACE programs, allowing people to comment and recommend that FHFA adopt reasonable underwriting standards such as those found in HR 2599 that ensure local PACE programs are designed to maximize benefit and minimize risk.

I urge you to withdraw the July 2010 directive that froze 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 your agency to reinstate these programs at a time when we need them most.

Once reinstated by FHFA, PACE programs will spawn rich growth of skilled jobs across the nation, jobs which cannot be outsourced, stimulating local economies by paying local labor to remodel residential homes and shield homeowners from escalating energy prices.

Projects built through PACE financing can save residences money by reducing the need for electrical loads such as lighting, heating, devices and appliances when the remodel involves adding power generation, and they can reduce the need for heating when insulation or thermal applications are installed. The result will empower homeowners to more ably meet their mortgage obligations, and such remodels ALSO enhance resale value (please see this study <http://eetd.lbl.gov/ea/emp/reports/lbnl-4476e-rs.pdf>)

My comment for the FHFA is that to look after the safety and soundness of loans it would be wise to appreciate and plan for the large risk presented by the escalation of fossil fuel prices in currently underway in all sectors. Concern for safety and soundness of loans should lead directly to allowing PACE programs to resume right away.

1. Coal for electricity. Coal is widely known to be escalating in cost due to the "easy stuff" having been dug out". The table in the file below shows delivered coal costs to utilities climbing in all states from 2004 to 2010; all prices have increased by roughly 10% per year for the period -- many have doubled.

The US supply of cheap coal is has been dwindling and many thousands of megawatts of coal-burning capacity are being retired in favor of natural gas burning.

In West Virginia, Ken Ward is skilled and experienced reporter on the coal mining industry for

the West Virginia Gazette. At <http://blogs.wvgazette.com/coaltattoo/2012/01/24/looming-coal-crisis-will-w-va-leaders-do-anything/> he refers to the Energy Information Administration's 2012 Annual Energy Outlook, saying:

Coal production in Central Appalachia may not decline as sharply over the next five years as previously projected, but the long-term forecast looks even worse, according to a new U.S. Department of Energy report.

On Monday, DOE's Energy Information Administration increased its estimates of annual regional coal production for each of the next five years, but then projected steeper drops through the rest of the decade, with output reaching a low of 77 million tons in 2020.

Overall, production from Central Appalachia — mostly Southern West Virginia and Eastern Kentucky — is expected to drop to about 86 million tons, a decline of nearly 54 percent between 2011 and 2035.

In the western US, the Powder River Basin of Wyoming continues to chug away producing about 40 percent of the nation's coal for electricity (or, about 16 percent of America's electric supply), and PRB coal widely known to be heading into a brick wall in the form of increasing overburden in the basin. Prices will be moving inexorably upward, and as PRB's coal travels very far on oil powered locomotives to markets (with delivery costs being up to 75% of finished price in many eastern US markets), electricity from coal is being pushed up in a fossil fuel vice.

2. Oil for heating and more. In spite of recently increased US domestic oil production with the boom in shale oil and gas exploration, prices for oil are controlled by the worldwide market and remain high. Three drivers support high and increasing prices: one, the onset of huge demand from India, China and other developing economies, and two, price volatility ensuing from speculators' activity, and three, exotic extraction techniques such as deep water and arctic drilling, hydraulic fracturing, and tar sands extraction which are themselves evidence of getting "to the end of the road" for inexpensive oil. Households which are still heated with oil need PACE financing to shift to more efficient insulation and heating techniques, lest such households be victim to further escalating oil prices and thus subject to mortgage default. Additionally, the price of oil for automotive fuels will also indirectly impact the financial viability of FHFA mortgage holders to meet their obligations. We are in the midst of a "fossil fuel vice" squeezing the American people and the time to head that off with reinstated PACE efficiency and clean energy programs is as early as possible.

3. Natural Gas for heating and electricity. One would think our recent "shale gas boom" (a.k.a. fracking), would solve the problems mentioned above. After all, gas has plunged in price and proponents including the President of the United States have said we're looking at 100 years of cheap gas.

However, numerous organizations have asserted that the gas boom will be short lived and is a financial bubble in the making. Eminent researcher Dave Hughes in this report (<http://www.postcarbon.org/reports/PCI-report-nat-gas-future.pdf>) explains how the US and Canada have immense stores of natural gas though producing it shall be a Herculean feat due to the fact that "conventional gas wells decline by 25-40 percent in their first year of production, whereas shale gas wells decline at rates such as 63-85 percent."

Ian Urbina of the New York Times also has reported in depth on gas supply controversies, which include industry insiders calling the bountiful projections for gas a sham:

http://www.nytimes.com/2011/06/26/us/26gas.html?_r=1&ref=energy-environment).

As deliveries of natural gas surge and retreat, boomeranging prices plus a drain in capital could result. We have already seen an overwhelming economic bubble in the housing and financial markets and now we could see one in the gas industry too -- even as an intense new demand for natural gas supply is underway among utilities which aim to produce more electricity from gas while retiring many thousands of gigawatts of coal burning capacity. Startlingly, the reserve of natural gas may be as little as 11 years, according to Jeff Goodell of Rolling Stone, a leading journalist on fossil fuel extraction who has closely defended his reporting about fracking:

“The resource is indeed close to 100 years; but according to most calculations (including the Potential Gas Committee, a respected source that is cited by Chesapeake), the reserve is more like 11 years. The actual amount of gas we’ll be able to get out of the ground in the future depends on factors like price and demand and whether new technologies can be developed to get at hard-to-extract gas, and whether or not you care that it requires blasting and drilling our way through suburbs and national parks.” See:

<http://www.rollingstone.com/politics/blogs/national-affairs/rolling-stone-responds-to-chesapeake-energy-on-the-fracking-bubble-20120306#ixzz1qAAThEpX>. (emphasis added).

Meanwhile 62 million homes in the US are heated by natural gas. They (and their mortgages) are vulnerable if they are not firmed in the way of needing to use less gas. Homes need to be firmed against a rebound in gas prices brought by numerous competing demands on the fuel coupled with a burst of the extraction bubble as well as compounded by the known destructive aspects of the practice as it encroaches on neighborhoods. Once again, a fossil fuel squeeze -- but this one "on quaaludes". This a strong case for restoring PACE programs to help communities ready themselves for disruptions from and to fossil fuel supplies.

4. Environmental impact of fracking for oil and gas -- As if an economic bubble in gas production were not enough to recommend the steady trimming of energy demand in the US housing stock, there is also the environmental impact of fracking which continues to gain more credible bad reports. University of Colorado's School of Public Health has found higher concentrations of air pollution in a half-mile radius of fracking operations. The Denver Post reported that the chemicals can have neurological or respiratory effects that include eye irritation, headaches, sore throat and difficulty breathing. "We are seeing indications that oil and gas operations can release chemicals that can be harmful to residents." Fracking presents a barrage of threats to public health and real estate

value. (See http://www.denverpost.com/breakingnews/ci_20210720/cu-denver-study-links-fracking-higher-concentration-air)

Each of these major impacts from today's manner of using and extracting fossil fuels will act as stressors on the real estate and mortgage values that FHFA is responsible to consider. Mortgage holders will pay increasing or erratic prices on fossil fuels. Also those homes near fracking operations may see damage to their real estate values through noise, noxious fumes, visual impact, damage to foundations from shaking and earthquakes, plus damage to water supplies. The clear amelioration to this situation of converging threats of our energy markets is to step back by needing less of the fuel.

Environmental and economic impacts of climate change –

It’s not the right question to ask if this storm or that storm is due to global warming or [due to] natural variability.

Nowadays, there’s always an element of both.

—Kevin Trenberth, National Center on Atmospheric Research

The Washington Post editorialized on March 24, 2012, that The Organization for Economic Cooperation and Development reckons that continuing to slack on cutting emissions through 2020 — the current plan in the United States — would result in 50 percent higher costs in 2050 and could also enhance the risk of permanently damaging the environment.

The 800-lb gorilla in the room is climate change churning in our atmosphere and licking up at our shorelines, bringing dangerous heat waves as well as Snowmageddon events, and changing growth patterns of plants and insects. These impacts are not coming in multiple decades as we used to assume with inappropriate linear thinking; instead they are coming at us with a Doppler effect of increasing speed. This season as I write to you, our nation has been visited with record shattering warm weather with temperatures 30-40 degrees above average. Imagine a comparable warm spell occurring in August rather than March; it would cause widespread death and test our energy systems to the maximum. Homes that are better insulated would have better outcomes for residents, and those homes sporting solar panels etc. would contribute energy needed for the afternoon peak loads commanded by air conditioning. Indeed, wide proliferation of solar power

and other PACE-enabled generating technologies could contribute to grid reliability as well as human survivability in major weather events. PACE programs empowering homeowners to fortify their homes and energy systems for the grueling weather events ahead are no question a matter of public interest and national security.

Mr. Pollard the above are my own thoughts developed with the help of years of research and reporting done for my regular column appearing in the Boulder Daily Camera in Boulder Colorado. Below, for more particulars about PACE programs, I will reiterate what others have said:

1. PACE assessments are valid - and are not “loans” as asserted by FHFA
FHFA has repeatedly referred to PACE assessments as “loans.” To the contrary, they are property tax assessments with characteristics similar to those of more than 37,000 other land-secured special assessment districts in the United States that are rooted in hundreds of years of state and local law. Such districts are typically created at the voluntary behest of property owners who vote to allow their local governments to finance public improvements such as sewer systems, sidewalks, lighting, parks, open space acquisitions, and business improvements on their behalf. Other districts allow property owners to act voluntarily and individually to adopt municipally financed improvements to their property that are repaid with assessments. PACE districts are similar to many other special assessment districts as well, in the size of their assessments and length of their repayment period.

2)
PACE assessments present minimal risks to lenders, investors, homeowners and GSEs
FHFA asserts that PACE presents “significant safety and soundness” concerns, but there is no evidence that this is true. There is long-standing experience, borne out by studies, that energy efficiency and renewable energy improvements reduce homeowners’ energy bills and increase their property’s value, strengthening their financial position and increasing the value of a lender’s collateral. PACE financed improvements allow homeowners to hedge themselves against fuel price spikes and rising fuel costs over time. These factors lessen, if not eliminate, the safety and soundness risk than the FHFA has asserted. Local governments that established PACE programs prior to the July 6, 2010 action by FHFA developed program standards to protect lenders and consumers. The White House (October 18, 2009) and the Department of Energy (May 7, 2010) both published national PACE guidelines with clear, strong underwriting standards to ensure that homeowners are able to afford the improvements. A bi-partisan bill in the House of Representatives (HR 2599 – Hayworth R-NY19) further delineates national standards to minimize risk to lenders and consumers. Finally, the early results of PACE pilot programs in Boulder County, CO; Sonoma County and Palm Desert, CA; and Babylon, NY; show that PACE presents minimal risk: there are only a handful of known defaults out of nearly 3,200 upgraded properties, substantially fewer than the rate of default for non-PACE property-owners in the same districts.

3)

Home energy improvements financed with PACE achieve important economic and environmental benefits. State and local governments have also passed PACE laws because PACE has great potential to help governments attain important economic and environmental goals. For example, according to a May 2011 Department of Energy study, the Boulder County PACE program created over 120 jobs, generated more than \$20 million in overall economic activity and reduced consumers' energy use by more than \$125,000 in the first year alone. These benefits are important by themselves. In developing a rule that serves the public interest, the FHFA must weigh perceived risks against economic benefits that clearly reduce default rates.

4)

Proposed Rule:

We strongly urge FHFA to reconsider its blanket opposition to PACE programs and to revise the Statement and the Directive.

We recommend that FHFA's proposed rule provide that Fannie Mae, Freddie Mac, and any other mortgage lenders regulated by FHFA (Enterprises) be allowed to buy residential mortgages with PACE assessments that are originated by programs that conform to standards and guidelines such as those established in HR 2599 (The PACE Assessment Protection Act) to protect the interests of local governments, homeowners, mortgage lenders and Government Sponsored Enterprises (GSEs).

5) EIS Scoping Comments

The Proposed Action in FHFA's Environmental Impact Statement (EIS) should be changed to provide that the Enterprises may purchase mortgages subject to a first-lien PACE obligation or that could become subject to first-lien PACE obligations so long as the applicable PACE program conforms to standards and guidelines such as those established in HR 2599 (The PACE Assessment Protection Act) or the Department of Energy's "Guidelines for Pilot PACE Financing Programs" (May 7, 2010) (DOE Guidelines). If FHFA does not alter the Proposed Action, one of the alternatives analyzed in the EIS should be revisions to the FHFA's July 6, 2010 Statement and February 28, 2010 Directive to provide that the Enterprises are permitted to purchase mortgages subject to a first-lien PACE obligation or that could become subject to first-lien PACE obligations so long as the applicable PACE program conforms to standards and guidelines such as those established in HR 2599 or the DOE Guidelines.

Very Sincerely,
Anne B Butterfield
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303 245 8786

Table 1**Average Increase on Coal Cost Delivered to Electric Utilities -- 2004 to 2010**

Version 1.3, November 11, 2011

Corrections or questions to Leslie Glustrom 303-245-8736 or lglustrom(at)gmail.com

Data from Table 4.10.B. in the Energy Information Administration's Electric Power Monthly
<http://205.254.135.24/electricity/monthly/>

State	2004	2005	2006	2007	2008	2009	2010
Western States							
Alaska	unk	unk	unk	unk	\$1.46	\$1.10	\$1.37
Arizona	\$1.28	\$1.38	\$1.41	\$1.55	\$1.73	\$1.81	\$1.79
California ⁵	\$1.94	\$2.04	n/a	n/a	n/a	n/a	n/a
Colorado	\$0.97	\$1.06	\$1.26	\$1.26	\$1.44	\$1.56	\$1.57
Hawaii	n/a						
Idaho	n/a						
Montana	\$0.63	\$0.69	\$0.89	\$0.97	\$1.34	\$1.39	\$1.46
New Mexico	\$1.48	\$1.49	\$1.59	\$1.84	\$1.99	\$1.90	\$2.06
Nevada	\$1.36	\$1.55	\$1.73	\$1.87	\$2.20	\$2.19	\$2.43
Oregon	\$1.19	\$1.28	\$1.30	\$1.35	\$1.45	\$1.75	\$1.66
Utah	\$1.14	\$1.14	\$1.23	\$1.36	\$1.38	\$1.57	\$1.70
Washington	n/a						
Wyoming	\$0.86	\$0.95	\$1.01	\$1.08	\$1.15	\$1.17	\$1.29
Eastern States							
Alabama	\$1.51	\$1.74	\$2.07	\$2.09	\$2.70	\$2.67	\$2.81
Arkansas	\$1.23	\$1.34	\$1.45	\$1.58	\$1.72	\$1.67	\$1.71
Connecticut	n/a						
Delaware	unk						
Florida	\$1.89	\$2.14	\$2.52	\$2.49	\$2.90	\$3.37	\$3.46
Georgia	\$1.79	\$2.16	\$2.39	\$2.59	\$3.04	\$3.61	\$3.91
Illinois	\$1.16	\$1.11	\$1.32	\$1.38	\$1.79	\$2.02	\$1.90
Indiana	\$1.21	\$1.40	\$1.50	\$1.57	\$1.91	\$2.01	\$2.13
Iowa	\$0.90	\$0.95	\$1.03	\$1.08	\$1.18	\$1.23	\$1.33
Kansas	\$1.03	\$1.10	\$1.19	\$1.22	\$1.41	\$1.43	\$1.51
Kentucky	\$1.39	\$1.60	\$1.73	\$1.77	\$2.18	\$2.19	\$2.26
Louisiana	\$1.37	\$1.51	\$1.76	\$2.14	\$2.36	\$2.35	\$2.40
Maine	n/a						
Maryland ²	\$1.74	\$1.90	\$2.32	\$2.11	\$3.71	\$3.02	\$3.46
Massachusetts	\$2.02	\$2.90	\$2.90	\$2.65	unk	unk	unk
Michigan	\$1.37	\$1.54	\$1.68	\$1.70	\$1.93	\$2.23	\$2.09
Minnesota	\$1.06	\$1.11	\$1.19	\$1.50	\$1.66	\$1.43	\$1.76
Mississippi	\$1.73	\$2.25	\$2.52	\$2.89	\$3.25	\$3.37	\$3.26
Missouri	\$0.92	\$1.00	\$1.11	\$1.32	\$1.50	\$1.52	\$1.58
Nebraska	\$0.66	\$0.70	\$0.80	\$0.88	\$0.90	\$1.32	\$1.40
New Hampshire	\$2.01	\$2.41	\$2.57	\$2.80	\$3.53	\$3.66	\$3.80
New Jersey ³	\$2.27	\$2.55	\$3.03	\$2.79	\$4.13	\$2.40	NM

State	2004	2005	2006	2007	2008	2009	2010
New York	\$1.58	\$2.10	\$2.24	\$2.26	\$2.57	\$2.29	\$3.72
North Carolina	\$2.00	\$2.43	\$2.67	\$2.74	\$3.27	\$3.63	\$3.54
North Dakota	\$0.77	\$0.82	\$0.88	\$0.95	\$1.08	\$1.15	\$1.24
Ohio	\$1.32	\$1.52	\$1.68	\$1.65	\$1.96	\$2.28	\$2.12
Oklahoma	\$1.01	\$1.02	\$1.09	\$1.15	\$1.32	\$1.64	\$1.71
Pennsylvania ⁴	\$1.23	\$1.50	\$1.63	\$1.73	\$2.09	\$2.33	\$2.36
Rhode Island	n/a						
South Carolina	\$1.91	\$2.13	\$2.30	\$2.31	\$2.86	\$3.63	\$3.70
South Dakota	\$1.38	\$1.42	\$1.49	\$1.55	\$1.74	\$1.80	\$1.90
Tennessee	\$1.33	\$1.48	\$1.66	\$1.85	\$2.15	\$2.51	\$2.64
Texas	\$1.34	\$1.41	\$1.47	\$1.59	\$1.88	\$1.87	\$1.85
Vermont	n/a						
Virginia	\$1.90	\$2.28	\$2.41	\$2.39	\$2.64	\$3.05	\$3.29
West Virginia	\$1.41	\$1.58	\$1.76	\$1.81	\$2.35	\$2.64	\$2.48
Wisconsin	\$1.16	\$1.25	\$1.45	\$1.66	\$1.94	\$2.02	\$2.12
U.S. Total	\$1.34	\$1.52	\$1.68	\$1.77	\$2.06	\$2.23	\$2.27

¹ There are some differences in reporting between 2004, 2009 and 2010. Refer to the original sources for more details. These differences are not expected to have a large impact on the conclusions.

² Maryland data is for the Electric Power Sector. No electric utility data was reported.

³ New Jersey reported \$2.40 for 2009 coal deliveries to electric utilities in 2009, but \$4.13/MMBTU in 2008. 2009 coal deliveries to the Electric Power Sector are reported as \$3.90/MMBTU and \$3.92 to Independent Power Producers. The \$2.40/MMBTU reported for 2009 coal deliveries to Electric Utilities appears questionable. NM = Not meaningful due to large relative standard error or excessive percentage change.

⁴ Pennsylvania data is for the electric sector. No electric utility data was reported for 2004, 2007, 2009

COLORADO AVERAGE COAL COSTS 2004-2010

Data from Table 4.10.B. in the Energy Information Administration's Electric Power Monthly
<http://205.254.135.24/electricity/monthly>



OKLAHOMA AVERAGE COAL COSTS 2004-2010

Data from Table 4.10.B. in the Energy Information Administration's Electric Power Monthly
<http://205.254.135.24/electricity/monthly>



MINNESOTA AVERAGE COAL COSTS 2004-2010

Data from Table 4.10.B. in the Energy Information Administration's Electric Power Monthly
<http://205.254.135.24/electricity/monthly>

