March 26, 2012

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
400 7th Street, SW
8th Floor
Washington, DC 20024

Attention: Comments/RIN 2590–AA53

Dear Mr. Pollard:

On behalf of the 25,000 members of the Appraisal Institute and the American Society of Farm Managers and Rural Appraisers, thank you for the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") Advance Notice of Proposed Rulemaking concerning mortgage assets affected by Property Assessed Clean Energy (''PACE'') programs.

We applaud your agency for soliciting comments from industry stakeholders to gather ideas on how to address this complicated issue. We have comments on one question posed in the request:

> ***Question 6:*** **How does the effect on the value of the underlying property of an energy-related home-improvement project financed through a first-lien PACE program compare to the effect on the value of the underlying property that would flow from the same project if financed in any other manner?**

The existence of a PACE loan is comparable with situations that involve a special assessment for sewer or water. The special assessment can pass to the new buyer or be paid off by the seller. When paid off by the seller, it is negotiated in the sale price.

From a valuation perspective, it is important to understand whether a seller paid assessment influenced the sales price. The appraiser would have to look at the sales price and decide if the buyer assuming the loan affected the price paid by the buyer. The appraiser must ask whether the buyer paid a higher price because the seller paid off the loan amount. In the converse situation where the buyer assumes responsibility for the assessment, the appraiser would ask, did the buyer pay less because the buyer assumed the loan?

This is likely a form of sales or seller concession, and if so, recognized appraisal methodology would deduct this concession dollar for dollar under a "cash equivalency" basis, or if the market suggests the amount is less than market based on a paired sales analysis, the market-derived adjustment would be applied.

The example found at Table 1 below illustrates how the appraisal industry analyzes this type of situation. The appraiser would consider the PACE loan as a concession paid by the seller and derives its cash equivalency, so the price paid for Sale 2 is equal to Sale 1. As a result, the appraiser would deduct $10,000 from Sale 2's price. It should be noted that there are no absolutes, and every situation is different, since every real estate market is different. However, this is likely to be a common scenario.

Table 1

	Sale 1	Sale 2
Sale Price	$175,000	$185,000
Concessions	None- No PACE or Utility Loan	Seller paid $10,000 PACE Loan or utility payment
Financing	Conventional mortgage	Conventional Mortgage
Date of contract	7/2/2011	7/31/2011
Energy Efficiency	Good – HERS 55	Good- HERS 58

One concern with the PACE loans from an appraiser's perspective, is disclosure. It must be in the sales contract for the appraiser to know who assumes the PACE or Utility Loan and the amount of the loan. However, would appraisers be responsible for searching the records to find out if a PACE loan exists?

Our organizations suggest this burden not be placed on appraisers. Moving forward, we suggest that FHFA require disclosure of any existing PACE loan to an appraiser, should it embark on a program that seeks to advance the PACE program.

Thank you for your consideration and we would be happy to arrange a meeting and discuss this with you in person. Please call Bill Garber, Director of Government Relations for the Appraisal Institute, at 202-292-5586 or bgarber@appraisalinstitute.org, or Brian Rodgers, Manager of Government Relations, at (202) 298-5597 or brodgers@appraisalinstitute.org should you have any questions.

Sincerely,

Appraisal Institute
American Society of Farm Managers and Rural Appraisers