

March 25, 2012



Mr. Alfred Pollard
General Counsel
Federal Housing Finance Agency
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Washington, DC 20024

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Minneapolis, MN 55414

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

Dear Mr. Pollard,

The BlueGreen Alliance urges the Federal Housing Finance Agency (FHFA) to allow Property Assessed Clean Energy (PACE) programs to move forward. Our more than 14 million members and supporters care deeply about these innovative clean energy financing programs and the significant benefits they will bring to our states and communities nationwide. At this moment of fragile economic recovery, it would be a travesty to fail to exploit a policy opportunity that delivers job creation while at the same time contributing to cleaner air.

To be more specific, we strongly urge FHFA to withdraw the July 2010 directive freezing PACE programs and allow these programs to move forward. The potential solutions to the Agency's concerns are included in H.R. 2599 (the PACE Assessment Protection Act), which includes safeguards that will substantially strengthen protections for consumers and existing mortgage lenders.

We have evidence from existing PACE programs demonstrating that PACE saves homeowners and businesses money on their energy bills, creates much-needed local jobs in some of the hardest hit sectors of the economy, and cuts pollution that harms our health and environment—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, and safeguards provided in H.R. 2599 should ensure will further protect mortgage lenders and consumers.

PACE financing boosts local economic growth and creates local jobs, including many in construction, a sector of the economy that continues to struggle. Energy savings achieved through building upgrades offer the huge net benefits with financing support like PACE. By spreading out the upfront costs of energy upgrades, energy savings can exceed costs from the outset. In significant parts of the country, renewable energy options like rooftop solar systems allows homeowners to lock in rates that are below those they currently pay. In both instances, the result is that homeowners have more money left in their pocket. 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.¹

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. A recent independent analysis estimates that \$4 million in 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.²

Another economic benefit offered by PACE is that it will help strengthen American manufacturing of clean energy (efficiency and renewable energy) technologies. By taking the lead in deploying clean energy technologies here at home, we can help to create the conditions needed to grow domestic manufacturing. Manufacturers are increasingly recognizing the benefits of domestic manufacturing and the hidden costs of outsourcing. Growing a domestic market in these breakthrough industries is a necessary step to taking leadership in the global marketplace.

Beyond these direct economic benefits, there are important health benefits to be gained from PACE-financed energy upgrades. The National Research Council has estimated that the pollution costs of our current electricity system amount to approximately \$60 billion annually.

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-- 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. The average mortgage default rate in those jurisdictions would predict 72 defaults for the same number of properties. Done right, PACE can improve overall repayment rates because energy upgrades reduce future energy bills, thereby improving the ability of building owners to afford their mortgage payments.

In addition, PACE 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 indicated that homes with EnergyStar ratings showed purchase prices to be nearly \$9.00 higher per

¹ 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).

² 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).

³ Brian Hoen, Ryan Wisser, 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).

square foot for 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

Through the robust underwriting guidelines for PACE programs are currently included in the bi-partisan PACE Assessment Protection Act (H.R. 2599), the FHFA can take action to ensure the soundness of PACE. We urge FHFA to help to further increase the safety and soundness of PACE financing by adopting these underwriting guidelines as program requirements to be eligible for purchase by the government-sponsored enterprises.

The BlueGreen Alliance recommends in the strongest terms that the FHFA immediately reverse the July 2010 directive blocking PACE. 27 states have passed PACE-enabling legislation and are eager to move forward with this important policy. They should be allowed to proceed. The benefits are too great and risks are vanishingly small. These programs must be allowed to proceed as an important tool to bolster the economic recovery and make meaningful progress towards our energy independence, cleaner air, and housing recovery objectives.

Thank you for considering our input.

Signed,

Chris Busch
Policy Director
BlueGreen Alliance

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).

⁵Neven 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).