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# California State Senate

SENATOR  
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TWENTY-THIRD SENATE DISTRICT



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NATURAL RESOURCES & WATER  
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TRANSPORTATION & HOUSING

March 26, 2012

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

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

Dear Mr. Pollard:

As Senators and Assemblymembers representing millions of California voters, we write to provide comments on the Federal Housing and Finance Authority's Proposed Rule regarding the Property Assessed Clean Energy Program known as PACE.

Because the FHFA is required by law to take the public interest into account when formulating regulations, and because of PACE's many compelling advantages for the American public, we strongly urge the FHFA to allow PACE to proceed.

Further, we urge the FHFA to direct Fannie Mae and Freddie Mac to develop fair underwriting standards for PACE programs in conformance with the guidelines established by the Department of Energy and HR 2599, the PACE Assessment Protection Act of 2011.

Our strong support of PACE is based on its numerous benefits for our country:

- **PACE eliminates the barrier of upfront costs to individuals** wanting to invest in energy efficiency and renewable upgrades.
- **PACE is essential to our energy independence and energy security** because it vastly increases our ability to harvest our own clean, safe energy resources.
- **PACE spurs job creation and economic development** without requiring federal, state, or local government taxes and subsidies.
- **PACE protects the environment** by reducing reliance on fossil fuels.
- **PACE strengthens our utility industry** by avoiding the costs of building new power plants and transmission systems, and placing lower demand on the energy grid.
- **PACE enhances the financial security of homeowners** by insulating them from unpredictable price hikes for energy and increasing the resale value of their homes.

- **PACE improves public health** by reducing energy demand and air and greenhouse gas pollution.

To address some of the concerns outlined in the Advanced Notice of Proposed Rulemaking:

**Questions 1 through 4 regarding risk and safety and soundness concerns:**

Studies show that the concern regarding risk is overstated. Energy efficiency and renewable energy improvements result in a net increase in homeowners' incomes through reductions in energy bills, immediately freeing up cash to help them repay their loans. Property values go up, strengthening owners' financial position and increasing the value of a lender's collateral.

According to the American Council for an Energy-Efficient Economy (ACEEE), "Energy efficiency loan financing is proving to be a stable, low risk investment with low default rates and large-scale potential. A review of 24 energy efficiency loan programs finds extremely low default rates ranging from 0–3% throughout the life of the financing program. Default rates for efficiency loan programs have also remained largely unchanged, even during the near collapse of the real estate market over the past few years.

"Energy efficiency loans are proving to be a winning investment in a time of economic uncertainty. Based on these findings, now is the time to scale-up to serve many more homeowners and businesses," said ACEEE Executive Director Steven Nadel.

Of nearly 3,200 upgraded properties in CO, CA and NY, there are only a handful of known defaults, substantially fewer than the default rate for non-PACE properties in the same districts.

In addition, adequate protective language has been written into the National PACE guidelines published by The White House (10/18/09) and the Department of Energy (5/7/10), as well as HR 2599 (Hayworth R-NY19), a bi-partisan bill in the House of Representatives that further delineates national standards to minimize risk to lenders and consumers.

**Question 6, regarding effect on underlying property value:**

Studies have shown that PACE upgrades positively impact property values, increasing resale prices by an average of \$17,000. Realtors attest that buyers are willing to pay \$9/square foot more for Energy Star houses. The economic benefit in Sonoma County, CA has been significant: 1,628 residential and 51 commercial upgrades have been completed through their PACE program, saving 7.7 MW of energy and 4,645 tons of annual GHG reduction. These projects generated \$43.3 million in contracts for the hard-hit local construction industry, with a multiplier effect of \$120-130 million in economic benefit.

**Questions 7 and 8, regarding effect on environment and the completion of energy-related home improvement projects that would not otherwise have been completed:**

The potential for energy savings is huge in the American housing market, yet financing remains a key barrier, which has led to extremely low implementation among potential participants.

According to the ACEEE, “buildings in the U.S. account for approximately 70% of electricity use and 40% of greenhouse gas emissions, thereby offering significant opportunities for energy savings and GHG emissions reductions through the installation of energy efficiency retrofits and small renewable energy systems.

“PACE addresses these opportunities because it overcomes the barriers of high upfront costs and payback times that often exceed expected occupancy.”

A study published in September 2011 by the ACEEE states, “Existing loan programs have only begun to scratch the surface of the potential market.”

PACE clearly has enormous potential for realizing positive effects on the environment. Absent such programs, millions of home and business owners would be missing an unprecedented opportunity to reap the myriad benefits of the available technology.

PACE programs enjoy strong bi-partisan support at the local, state and Federal levels. In just 2½ years, PACE legislation was passed by 28 states. The public overwhelmingly supports PACE because of its unique ability to spur homeowner investment in clean, on-site renewable energy. In supporting distributed energy resources, PACE offers an ability to scale that is unmatched by other alternatives.

We urge the FHFA to work with local and state governments and federal agencies to craft reasonable underwriting standards that ensure that PACE programs maximize benefit and minimize risk. We urge you to fulfill your duty to act in the public interest by supporting these broadly beneficial programs, and adopting the “No Action Alternative” that would allow PACE programs to proceed.

We appreciate this opportunity to comment on the FHFA’s proposed rules and thank you for your consideration.

Sincerely,



Senator Fran Pavley



Assemblymember Jared Huffman