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STATE OF CALIFORNIA

March 23, 2012

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA53
Federal Housing Finance Agency, Eighth Floor
400 Seventh St SW
Washington D.C. 20024

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

Dear Mr. Pollard:

The action taken on July 6, 2010 by the Federal Housing Finance Agency (FHFA) to stop Property Assessed Clean Energy (PACE) financing has significantly influenced the ability of California and other states to advance one of the most cost effective and innovative ways to support and finance energy efficiency and renewable energy improvements on homes. I would urge the FHFA to resolve the concerns raised by supporting reasonable underwriting standards that ensure local PACE programs can maximize benefit and minimize risk in order for local jurisdictions across the country to meet their energy reduction targets and consumer demand.

California is at the forefront of the clean energy movement. The state has established ambitious energy targets that encourage energy conservation and the use of renewable energy generation. Under current state law, by 2020, California is required to reduce the levels of greenhouse gas emissions to 1990 levels and produce 33 percent of its retail electricity from renewable energy. Regulation also requires a 20 percent reduction in energy consumption in existing homes by 2015, a 40 percent reduction by 2020, and that new homes achieve zero net energy by 2020. These targets will require innovation and concerted effort in the fields of energy production and construction, as well as the retrofitting of millions of homes across the state in order to meet the state's energy policy goals.

A 2011 report commissioned by the California Public Utilities Commission identified that approximately 5.8 million single-family homes in California are good candidates for substantial energy efficiency upgrades. In order to reach California's energy goals, pioneering energy efficiency financing tools will play a key role. To reach enough homeowners, it is essential that financing programs be simple and cost-effective.

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While California, similar to most other states, has designed ambitious energy policy goals and there is a clear demand for financing options to pay for the upfront costs of energy efficiency home improvements, traditional financing mechanisms are not ideal options for most California homeowners. Loan terms are often too brief a period, loans are often of limited sizes and make it difficult to invest in large-scale retrofits (the kind that often provide the most efficient outcomes), and interest rates are too high to attract enough homeowners. PACE financing is an ideal solution to this problem.

California law specifically encourages PACE financing through the use of credit enhancements to support local jurisdictions with existing PACE programs. Senate Bill 77, signed into law in April 2010, appropriates up to $25 million to create a PACE bond reserve program administered by the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), where I serve as Chair of the Board, a financing entity of the State Treasurer's Office. In order for a local jurisdiction to be eligible for state financial assistance in the form of a bond reserve, certain underwriting standards and consumer protection measures will be established in the PACE bond reserve program. The purpose of this program is to reduce the interest rate on issued bonds and, as a result, it is anticipated that these savings would be passed on to homeowners in the state.

I should also point out that HR 2599 (PACE Assessment Protection Act of 2011), if enacted, will provide additional guidance on standards to be established by PACE programs and under the California PACE bond reserve program. The development and implementation of these underwriting standards would address one of FHFA's main concerns regarding the need for uniform requirements across local jurisdictions.

Many cities and counties have demonstrated interest in using PACE financing to reduce energy costs for their residents and help meet the state's energy goals. Almost all of these potential PACE programs have been delaying residential retrofits due to the FHFA's action, and similarly, CAEATFA's efforts to develop the PACE bond reserve program have been stalled until the legality and vitality of residential PACE programs is further clarified and explored by FHFA, Congress, or in the courts. Once a determination has been reached through federal legislation or in the courts, CAEATFA will begin a public rulemaking process to develop minimum underwriting standards for local jurisdictions interested in accessing the PACE bond reserve funds.

In the meantime, CAEATFA will continue to explore alternative financing methods that could make financing more accessible to consumers. While other options need to be explored, it is widely recognized that these traditional and alternative financing mechanisms do not have the momentum or demand of PACE assessments.

I respectfully request that you act with all due haste so that we can ensure implementation of PACE programs reach their potential.

Sincerely,

Bill Lockyer

BILL LOCKYER
California State Treasurer

cc: Members of the California Congressional Delegation
Edmund G. Brown Jr., Governor, State of California
Mr. Edward DeMarco, Acting Director, Federal Housing Finance Agency
Dr. Steven Chu, Secretary, U.S. Department of Energy
Shaun Donovan, Secretary, U.S. Department of Housing and Urban Development
Timothy Geithner, Secretary, U.S. Department of the Treasury
Nancy Sutley, Chair, Council on Environmental Quality
Michael J. Williams, President and Chief Executive Officer, Fannie Mae
Charles E. Haldeman Jr., Chief Executive Officer, Freddie Mac
Members of the California Alternative Energy and Advanced Transportation Financing Authority