

March 26, 2012

Mr. Alfred Pollard  
General Counsel  
Federal Housing Finance Agency  
400 7th Street, NW  
Washington, DC 20024

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

Dear Mr. Pollard:

Consumers Union<sup>1</sup> is very committed to ensuring consumers reap the benefits of energy efficiency and improving energy efficiency programs, and we urge the Federal Housing Finance Agency (FHFA) to allow Property Assessed Clean Energy (PACE) programs to move forward. We would also like to highlight several consumer protections that are essential to ensuring the success of PACE programs and delivering value to residential consumers.

Weatherization, energy efficiency upgrades, and distributed clean energy generation are all attractive investments for consumers interested in reducing their energy bills and cutting pollution in their communities. Low-cost loan programs for such projects are far from uniform and are often unknown or unavailable to many residential consumers. PACE programs can provide a good financing option for consumers, provided that stringent criteria and oversight are incorporated into the program. FHFA has an opportunity to both expand and improve PACE programs so that they function as a low-cost, low-risk loan program that will help consumers invest in clean energy and energy efficiency.

Incorporating the underwriting guidelines and safeguards provided in the bi-partisan H.R. 2599 (the PACE Assessment Protection Act, particularly Section 5), will substantially strengthen protections for consumers and existing mortgage lenders. Key provisions include: 1) disqualifying homeowners who are behind on their mortgage or who have other indicators of heightened default risk, such as bankruptcy or debt delinquency; 2) requiring an initial audit performed by an independent, accredited

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<sup>1</sup> Consumers Union is the public policy and advocacy division of Consumer Reports. Consumers Union works for telecommunications reform, health reform, food and product safety, financial reform, and other consumer issues. Consumer Reports is the world's largest independent product-testing organization. Using its more than 50 labs, auto test center, and survey research center, the nonprofit rates thousands of products and services annually. Founded in 1936, Consumer Reports has over 8 million subscribers to its magazine, website, and other publications.

professional in accordance with well-respected standards; 4) requiring that work be completed by qualified professionals; 5) ensuring minimum equity in the home; 6) capping PACE liens at 10 percent of the total home cost; and 7) ensuring a savings-to-investment ratio greater than one. The FHFA should adopt these underwriting guidelines as program requirements in order for mortgages on properties with PACE-financed improvements to be eligible for purchase by government-sponsored enterprises. By encouraging standardization and setting a goalpost for high standards, FHFA will improve and encourage more PACE programs throughout the country.

In addition, Consumers Union strongly recommends including an independent, post-work audit prior to dispersal of funds to ensure that contractors have indeed made the improvements that will deliver the promised monetary and energy savings. Without robust audits before and after the work is done, consumers are vulnerable to fraud and shoddy workmanship, and the program's goals of reducing energy consumption will not be met. Existing mortgagees will also benefit from these protections that lower default risk, help increase the value and lower the operating costs of the home in which the investment is being made.

Recognizing the excellent value that PACE programs can provide residential consumers and the enormous community, economic and environmental benefits, FHFA should reverse the July 2010 directive blocking PACE and allow these programs to proceed with appropriate consumer protections. Thank you for considering our views.

Sincerely,

Shannon Baker-Branstetter  
Policy Counsel, Consumers Union