



THE FLORIDA STATE UNIVERSITY
COLLEGE OF BUSINESS
The Florida Catastrophic Storm Risk Management Center

March 26, 2012

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

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

Dear Mr. Pollard,

We ask the Federal Housing Finance Agency (FHFA) to reconsider its current position on Property Assessed Clean Energy (PACE) programs. Our faculty and staff take a favorable view of these innovative clean energy financing programs and the significant benefits they can bring to our states and communities nationwide.

Evidence from existing PACE programs show that PACE can save homeowners and businesses money on their energy bills without increasing risks to existing mortgage lenders. Based on current data made available to us from these programs there is **no sign of higher existing lender default rates** for mortgages secured by properties which have taken on PACE assessments than default rates on other properties in those communities. To the contrary, the evidence we have seen so far suggests below average mortgage default rates among PACE-assessed properties as compared with other properties. Moreover, structuring future PACE programs to incorporate the safeguards (such as provided in H.R. 2599: the PACE Assessment Protection Act) will substantially strengthen protections for consumers and existing mortgage lenders.

As you proceed with this rulemaking, we urge FHFA to withdraw the July 2010 directive freezing PACE programs and allow these programs to move forward. Hundreds of communities in the 27 states that have passed PACE-enabling legislation are counting on the Agency to carefully consider stakeholder input, the significant benefits of PACE programs, and the potential solutions to the Agency's concerns that have been included in H.R. 2599. Below we outline the primary reasons why FHFA should consider reviving these programs and the protections PACE provides to homeowners and businesses as well as existing mortgage lenders.

PACE provides significant economic and public benefits

PACE financing may boost local economic growth and create local jobs. Moreover, a substantial portion of the jobs created would be in the struggling construction sector. 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.

In addition, PACE can 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.¹ Another 2011 study indicated that homes with EnergyStar ratings showed purchase prices to be nearly \$9.00 higher per square foot for energy-efficient homes.² 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.³

PACE programs can be structured to address FHFA's concerns and FHFA can take action to ensure the soundness of PACE

Underwriting guidelines for PACE programs are currently included in the bi-partisan PACE Assessment Protection Act (H.R. 2599). These guidelines include measures such as ensuring minimum equity in the home, capping PACE liens at 10 percent of the total home cost, and ensuring a savings-to-investment ratio greater than one. The FHFA can play a key role in ensuring the safety and soundness of PACE financing by adopting robust underwriting guidelines as program requirements in order for mortgages on properties with PACE-financed improvements to be eligible for purchase by the government-sponsored enterprises.

Policy Recommendation

We see PACE as a key to our economic recovery and energy independence. Because of PACE's uniquely positive role in creating jobs, spurring local economic development, and giving property owners and our communities more control over their energy costs, we ask the FHFA take action to reverse the July 2010 directive blocking PACE and allow these programs to proceed.

Signed,



Lorilee A. Medders, Ph.D.
Associate Director

¹ Brian Hoen, Ryan Wiser, 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).

² 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).

³ Neven 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).