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Re: *Comments on RIN 2590-AA53 "Mortgage Assets affected by PACE Programs"*

I submit this comment in strong support of Property Assessed Clean Energy (PACE) financing. This comment focuses on the lack of the right source of capital to finance investments in residential energy efficiency (EE), and will show that PACE would be, for most of the nation's 75+/- million homeowners, the smartest way for homeowners to access the necessary funds.

Why do we need PACE as a mechanism for financing energy efficiency investments in homes? First let's review the larger problem – an under-investment in energy efficiency in homes.

Summarizing the underinvestment in energy efficiency:

Situation:

- 1) Most homes are energy *inefficient*, with numerous studies showing opportunities for 10-30% reductions in energy use and related utility bills.
- 2) There are energy efficiency products and services in the marketplace that will increase a home's energy efficiency.
- 3) These efficiencies will reliably reduce utility bills.
- 4) EE investments are cost effective; bill reductions will eventually add up to recover the cost of the EE investment (including financing costs), and will do so before the useful life of the EE product or service is reached.

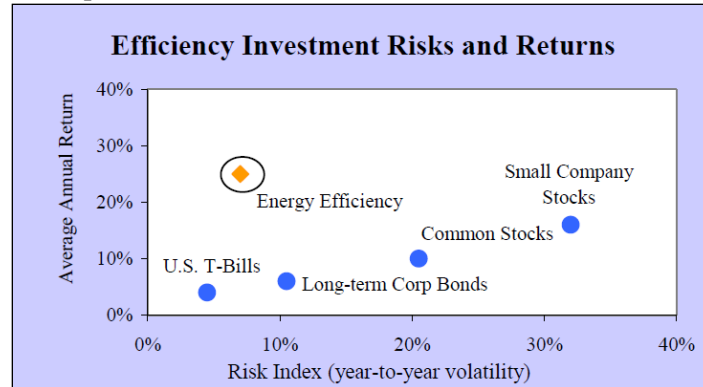
Conundrum:

- 5) Then why isn't everyone making energy efficiency investments? Why do people continue to send unnecessarily high payments to their utility companies every month? Why do people waste money when they can avoid doing so?

There are many reasons why there is a vast underinvestment in energy efficiency in homes.

One oft-provided answer to the question of "Why not greater investment in EE?" is that the consumer can find a place to put her cash in an investment vehicle that will provide a better return on investment (ROI) with the same or better risk profile as the EE option. To counter this response, EE advocates and researchers have plotted the risk and average returns of various investment vehicles, including EE. The results are compelling: EE investments provide a higher annual return with lower risk than typical stock and bond portfolios:

Comparison of Risk and Return for Various Investments¹



While this graph is quite compelling, it is somewhat misleading in a critical aspect, an aspect that reveals the answer to our conundrum: liquidity.

Liquidity is a key distinctive feature that separates EE from the other investment vehicles in the graph. An EE investment does not yield an asset that is 100% liquid, whereas the other options are very liquid. To explain, if I own a stock or a bond and I am low on cash and in need of a six pack of beer, I can turn that asset into cash very quickly – in a few hours in many cases. But if I want to turn my EE investment into cash, I can't very easily turn my insulation, CFL or LED light, or Energy Star washing machine into dollar bills. And the financial vehicles don't exist that would allow me to turn 12 or 120 or 240 months of net monthly utility bill savings into cash. In short, one cannot compare EE with stocks or bonds because of the significant difference in their relative liquidity.

Another option for liquidating my EE investment is to sell my home, with all the EE measures embedded within it. Yet selling a \$200,000 home is an extremely inefficient way to recover my \$10,000 package of EE measures, not to mention quite disruptive to my life. A home has high intrinsic value, such as providing me shelter; I would need to buy or rent another home, and there is no guarantee that I would easily find one to my liking, preferred location, and price point. A stock or a bond has only extrinsic value for me as an investor, and as a commodity, it is easily substituted.

So using my own cash does not seem to be a strong option for me. And the cash option itself may not exist for a large number of homeowners. Another option, then, is to borrow money from a private lender, as an unsecured loan or against the equity in my home or some other assets. Yet a great many homeowners – for any variety of reasons – cannot easily or economically borrow funds for an EE investment (or for any other purpose, for that matter). And for those who can borrow funds, the terms of the loan may not match up beneficially with the utility savings cash flows, putting one in a cash

¹ American Council for an Energy Efficient Economy, "The Size of the Energy Efficiency Market: Generating a More Complete Picture," (May 2008); pg. 29, figure 10. <http://www.aceee.org/sites/default/files/publications/researchreports/E083.pdf>

negative position for some or all of the loan period, thereby making the EE investment too unattractive to make in the first place.

It is important to draw the distinction between EE and renewable energy (RE) investments. The latter is a product (e.g., a solar photovoltaic panel) that creates an output (kilowatts) that can be sold, thus there is a revenue stream. The former also creates a stream of cash, but only in the form of reduced expenses. Banks will finance a project that produces a revenue stream. Experience has shown that banks are much less inclined – if at all – to finance a stream of savings; the terms of financing for an EE project then become insufficiently favorable to allow for any significant scaling up of EE investments in homes.

PACE financing provides me a way to pay for EE investments without using my own money or borrowing from a private lender. And given that such investments create numerous public benefits – e.g., less wasted energy, subsequent reduced mal-effects of energy production, direct, indirect, and induced job creation, and increased property values – it makes sense that public debt acquired via PACE is the best means for achieving these benefits.

The repayment structure of PACE financing – with repayments tied to the property via the property tax bill – nicely allows any years of repayment obligations to be passed on to subsequent owners should I, as the homeowner who opted into the PACE program, sell the home before the bond is fully repaid.

The first lien position of a PACE bond repayment obligation facilitates an extremely low cost of capital which increases the attractiveness of the investment, thus yielding greater public benefits through greater homeowner participation rates in PACE programs. The requirement for non-acceleration of the PACE bond payment in the event of foreclosure makes the downside of foreclosure to mortgage holders negligible. At the same time, reduced utility bills reduce the chance of foreclosure. In addition, a property's increased value resulting from the EE investment would much more than offset the year – or two, at most – of any delinquent bond payments. The numerous other risk-mitigations embedded within best-in-class PACE programs protect key all the other key stakeholders, from local governments and taxpayers to PACE bond holders, mortgage holders, and homeowners.

With PACE, local economies, the homeowner, and the environment all stand to benefit. PACE is a perfect example of people coming together collectively to finance worthwhile projects that, for many individuals, do not make economic sense to take on one's self. By acting together, local communities can overcome the challenges to realizing the promise of energy efficiency. In fact, PACE programs are a perfect example of precisely why we enjoy and cherish the opportunity to self-govern – so that we as citizens can join together to accomplish a common good.