

March 23, 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,

New York City Energy Efficiency Corporation (NYCEEC) urges the Federal Housing Finance Agency (FHFA) to allow Property Assessed Clean Energy (PACE) programs to move forward. Our public and private sector partners care deeply about innovative clean energy financing programs and the significant benefits they will bring to New York City and New York State.

NYCEEC is an independent, non-profit financial corporation established by New York City to assist the City in implementing its Greener, Greater Buildings Plan. NYCEEC's mission is to support the City's energy and climate action goals by catalyzing an energy efficiency retrofit financing market for private building owners. To achieve its mission, NYCEEC is partnering with lenders, community development financial institutions, energy services companies and other organizations to provide financing products for energy efficiency and clean heat improvements in buildings throughout the five boroughs of New York City. NYCEEC is focusing initially on energy efficiency financing strategies for large commercial and multifamily buildings. A PACE residential program in New York City would provide an important strategy to deliver the benefits of energy efficiency and clean energy to smaller residential properties.

Reducing energy consumption in existing buildings is critical to New York City's future and a central feature of plans for smart growth and sustainable development. Whereas nationally, approximately 40 percent of carbon emissions stem from energy used in buildings, in New York City the figure is almost twice as high—approximately 75 percent of New York City's carbon emissions stem from energy used in buildings. For this reason, energy improvements to the city's existing buildings have been, and will continue to be, a central focus for New York City's leaders.

Evidence from existing PACE programs shows that PACE would be a key element to help New Yorkers reduce their energy consumption and saves homeowners and businesses money on their energy bills. At the same time, PACE creates much-needed local jobs, reduces our dependence on coal and other fossil fuels, and cuts pollution that harms our health and environment—all while reducing risks to existing mortgage lenders. Data from currently operating PACE programs show existing lender default rates for mortgages secured by properties which have taken on PACE assessments to be far below average mortgage default rates in those communities. Moreover, structuring future PACE programs to incorporate the safeguards

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 revive these critical programs and the protections PACE provides to homeowners and businesses as well as existing mortgage lenders.

PACE provides significant economic and public health benefits at very low risk

PACE financing boosts local economic growth and creates local jobs. According to a recent independent study, \$4 million of total PACE-financed energy project spending, spread evenly across four cities, would generate: \$10 million in gross economic output; \$1 million in combined Federal, State and Local tax revenue; and 60 jobs.¹ On a broader scale, if just one percent of America's 75 million single family homeowners were to invest in PACE-financed energy upgrades (with an average project size of \$20,000), the economic impact would be \$15 billion in gross economic output, \$4 billion in combined federal, state, and local tax revenue, and 226,000 jobs.² 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, energy efficiency improvements are one of the cheapest, easiest ways to limit power plant pollution and reduce our dependence on coal and other fossil fuels, while saving homeowners and businesses money. Renewable energy upgrades also can help prevent pollution that harms our health and environment and give property owners more reliable clean energy options. Importantly, PACE can provide these benefits with minimal risk to existing mortgage lenders. In fact, early data from active programs indicates that PACE actually reduces existing lenders' default risk--out of more than 2,500 properties with active PACE liens, the number of existing lender defaults is far lower than the average mortgage default rate in those jurisdictions.

In addition, PACE can further reduce risk to existing lenders by improving the value of their properties. 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

¹ ECONorthwest, Economic Impact Analysis of Property Assessed Clean Energy Programs (PACE), April 2011, available at <http://pacenow.org/blog/wp-content/uploads/PACE-Econometric-Study-by-ECONorthwest-for-PACENow-5-4-11.pdf>, (accessed on February 28, 2012).

² Mark Muro and Devashree Saha, Bring Residential PACE Back to Life, Brookings Institution, February 22, 2012), available at http://www.brookings.edu/opinions/2011/0830_clean_energy_muro_saha.aspx, (accessed on February 28, 2012).

price premium.³ Another 2011 study indicated that homes with EnergyStar ratings showed purchase prices to be nearly \$9.00 higher per square foot than prices for non-energy efficient homes.⁴ 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.⁵

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

Strong underwriting guidelines for PACE programs are currently included in the bi-partisan PACE Assessment Protection Act (H.R. 2599). The guidelines were designed with the objective of minimizing risks to lenders and consumers and include measures such as ensuring minimum equity in the home, capping PACE liens at 10% of the total home cost, and ensuring a savings-to-investment ratio greater than one. Rather than cite the lack of national standards as a reason to oppose PACE, the FHFA should play a key role in ensuring the safety and soundness of PACE financing by adopting these 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 an important strategy that can help drive our national economic recovery and energy independence. Here in New York City, PACE could play a critical role in advancing small-scale residential energy retrofits. Because of PACE's role in creating jobs, spurring local economic development, giving property owners and our communities more control over their energy costs, and protecting our public health and environment, the FHFA should take action immediately to reverse the July 2010 directive and allow PACE programs to proceed.

Signed,

Susan Leeds
Chief Executive Officer
New York City Energy Efficiency Corporation

³ 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).

⁴ 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).

⁵ 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).