



Financing the home energy revolution

renovateamerica

March 26, 2012

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

RE: RIN 2590-AA53 Mortgage Assets Affected by PACE Programs; Comments on Advanced Notice of Proposed Rulemaking and EIS Scoping Comments

Dear Mr. Pollard:

We write this letter concerning the Advance Notice of Proposed Rulemaking (“Notice”) addressing whether and under what conditions the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) (collectively, the “Enterprises”) will purchase mortgages for properties participating in Property Assessed Clean Energy (“PACE”) programs.<sup>1</sup> 77 Fed. Reg. 3958 (Jan. 26, 2012).

Renovate America, Inc. provides PACE financing services to eighteen cities in California. In our May 26, 2010 meeting with FHFA, we expressed our alignment with the view that standardization, risk management and underwriting discipline were needed to make PACE programs successful for all stakeholders and have enforced such views in the cities where we provide PACE financing services. We continue to believe this is the case: ***with the appropriate standards and oversight by FHFA and the Enterprises, the lending and housing industries would benefit to have a new PACE based financing product to promote energy and water improvement measures.*** While lending products exist today (Fannie Mae Energy Efficiency Mortgage, Freddie Mac Energy Efficiency Mortgage) and others have been introduced over the last 40+ years, none have had the positive impact on the lending and housing industries that a PACE based product can deliver.

The concept of PACE was named one of the top 20 ideas that could change the world by Scientific American magazine and one of the top 10 breakthrough ideas for 2010 in the Harvard business Review. Twenty-seven state Legislatures authorized the establishment of PACE program. The White House embraced the concept and made it part of the “Recovery Through Retrofit” program.

We hope you will reach the same conclusion through the answers we have provided to the questions raised in the Notice in Exhibit A. We welcome continued dialogue and implementation of a PACE solution which in addition to promoting job growth, energy independence, improvement in the environment, would also **reduce** the risk of repayment of mortgages and therefore improve the credit and marketability of mortgage backed securities.

Very truly yours,

John Paul (JP) McNeill  
Chief Executive Officer  
Renovate America, Inc.

*Exhibit A*  
*Questions and Answers*

**Question 1: Are conditions and restrictions relating to FHFA-regulated entities' dealings in mortgages on properties participating in PACE programs necessary? If so, what specific conditions and/or restrictions may be appropriate?**

The conditions and restrictions should be the same as any other taxes due on the parcel and included in the PITI (principal, interest, taxes, and insurance) calculation. In other words, the annual assessment should be factored against income, which is arguably a far better way of predicting the property owners ability to repay as taxes are included in PITI while energy costs are not, even though energy costs are the equivalent of approximately one-quarter of the total principal and interest payment of mortgages in aggregate in the United States.

While principal, interest, taxes and insurance are included when determining a property's ability to repay the mortgage, the cost of energy to live in the property is not included. However, the cost of energy is significant and equal about one-quarter of total principal and interest payment of mortgages.

Total outstanding mortgages	\$10,000,000,000,000
Average Interest Rate	5.5%
Annual Mortgage Payments	\$840,000,000,000
2010 Residential Spend on Electricity and Natural Gas (According to the U.S. Energy Information Administration)	\$228,000,000,000
As a % of total mortgage payments	27%

**Question 2: How does the lien-priming feature of first-lien PACE obligations affect the financial risks borne by holders of mortgages affected by PACE obligations or investors in mortgage-backed securities based on such mortgages? To the extent that the lien-priming feature of first-lien PACE obligations increases any financial risk borne by holders of mortgages affected by PACE obligations or investors in mortgage-backed securities based on such mortgages, how and at what cost could such parties insulate themselves from such increased risk?**

A lien-priming feature can increase or decrease the financial risks borne by the holders of mortgages. If the lien-priming feature increases the value of the property and decreases the operating costs of the property, the lien-priming feature would decrease the financial risks borne by the holders of mortgages or by the investors in mortgage backed securities.

We believe Fannie Mae and Freddie Mac both agree energy efficiency, renewable energy and water efficiency measures improve the value of the home and decrease operating costs. This belief is borne by both Enterprises offering Energy Efficiency Mortgages and providing favorable terms above and beyond the standard conforming mortgages. Additionally, The Federal Housing Administration (FHA) offers an Energy Efficient Mortgage that allows the incremental cost of energy-efficient, cost-effective upgrades to be added directly to the mortgage.

In terms of quantifying the impact of different energy efficiency and renewable energy measures, the Appraisal Institute published a report entitled *Evidence of Rational Market Valuations for Home Energy Efficiency* written by Nevin and Watson. According to the study, residential real estate markets assign to energy-efficient homes an incremental value that reflects the discounted value of annual fuel savings. The capitalization rate used by homeowners was expected to be 4% to 10%, reflecting the range of after-tax mortgage interest rates during the 1990s and resulting in an incremental home value of \$10 to around \$25 for every \$1 reduction in annual fuel bills.

The Lawrence Berkeley National Laboratory published a report in April 2011, *An Analysis of the Effects of Residential Photovoltaic Energy Systems on Home sales Prices in California*, which evaluated 72,000 homes in which they determined that the average home price increased by \$5.50/watt. The cost of installing solar PV system on residential properties in California in 2011 averaged about \$6.45/watt. Thus, a \$20,000 system would increase the value of the home by \$17,000. In addition to increasing the value of the property, the system would save the property owner approximately \$1,200 in the first year and a total of \$33,000 over 20 years.

According to the U.S. Department of Energy's Energy Star Calculator, the incremental cost of \$1,000 to add a 3 ton system SEER 14.5 Qualified Central Air conditioning as compared to adding a SEER 13 unit would save the property owner \$200/year. Thus, the incremental cost of upgrading to a SEER 14.5 unit of \$1,000 would increase the value of the property \$2,000 and would save the homeowner \$4,200 over 15 years.

While in aggregate, the data supports the case that energy efficiency and renewable energy products lower operating costs of the property and increase the value of the property, on an individual basis you may have a scenario in which the holder of an individual mortgage may come out of pocket to pay for delinquent taxes or who may not recover their principal amount. In such circumstances, a reserve or insurance can be charged to all PACE participants to cover delinquent payments and/or the recovery of principal. This is similar to the guarantee fee charged by the Enterprises today for conforming loans.

In such a scenario, where there would exist a reserve fund (managed by Fannie Mae or Freddie Mac) to cover potential individual loan situations, and where the entire industry benefits lower operating costs of the property and increase the value of the property, a regulated PACE product would have a positive impact on the holders of mortgages and the investors in mortgage backed securities.

Additional data specific to PACE program also supports that the mortgage industry is benefiting from PACE. For example, data provided by Sonoma County, CA, supports that those properties who have PACE have fewer tax and mortgage delinquencies than the general public. For example, in 2009-10 and 2010-11 fiscal year, Total Secured tax delinquencies in Sonoma County were 3.3% and 2.3%, respectively. PACE assessment delinquencies were 1.2% and 1.8%, respectively. As compared, then, the delinquency rate of properties with a PACE assessment is much lower in comparison with county-wide delinquencies.

Also, Sonoma County took the initiative to review 1,459 assessment placed on properties in Sonoma County. Only 16 properties showed recorded documents demonstrating mortgage defaults, an average of 1.1%. During the same timeframe (2009 to 2011), the average mortgage delinquency in Sonoma County varied from 8% to over 10%. As compared, then, the default rate of properties with a PACE assessment was much lower in comparison with overall properties.

The low delinquency and default rates on properties with are extremely low, possibly reflecting a self-selecting group of participants (i.e. property owners committed to bettering and retaining their properties) or decreased exposure to the other financial stresses of home ownership because of the improved, more efficient improvements. Nevertheless, the data shows an improvement to the housing and mortgage industries.

**Question 3: How does the lien-priming feature of first-lien PACE obligations affect any financial risk that is borne by holders of mortgages affected by PACE obligations or investors in mortgage-backed securities based on such mortgages and that relates to any of the following:**

- a) The total amount of debt secured by the subject property relative to the value of the subject property (i.e., Combined Loan to Value Ratio for the property or other measures of leverage);**

While in aggregate, the data shows the mortgage and housing sector to benefit from energy efficiency and renewable energy improvements regardless of the amount of private debt on the property, in order to minimize the risk from any individual mortgage holder, the property must have a minimum of 10% equity. This is even more conservative than the 5% minimum equity requirements and 0% equity requirements provided by the Enterprise Energy Efficiency Mortgages and the Power Saver Mortgage provided by FHA.

In Riverside County, CA where we offer PACE financing, on average properties had 40% equity on the 111 approved residential PACE applications.

- b) The amount of funds available to pay for energy-related home improvement projects after the subtraction of administrative fees or any other program expenses charged or deducted before funds become available to pay for an actual PACE-funded project (FHFA understands such fees and expenses can consume up to 10% or more of the funds a borrower could be obligated to repay under some PACE programs);**

Administrative fees and other program expenses charged account for a one-time deduction of approximately 6%. We expect this fee to drop to as low as 1%.

- c) The timing and nature of advancements in energy-efficiency technology;**

The building code today is based on fairly low energy efficiency minimum requirements. Thus, most products available in the market today would have a substantial impact on lowering energy costs, thereby improving cash flows and the value of the property.

- d) The timing and nature of changes in potential homebuyers' preferences regarding particular kinds of energy efficiency projects;**

Most property owners do not proactively look for energy efficient upgrades. Rather, only when something is wrong with their existing property will they look for a solution. For example, 90% of people will replace their air-conditioning system when it breaks. According to the JP Morgan's 2010 HVAC Review and Outlook, unfortunately, 75% of HVAC purchases do not currently meet minimum Energy Star efficiency guidelines. PACE would assist in changing this so that, instead of property owners selecting products which are inefficient and are a drain on cash flow for the property owner, they are able to finance energy efficient models which improve cash flow for the property owner and increase the value of the home. Whether the product line being financed is HVAC, windows, roofs, solar PV or other improvements, the net result is the same. Models exist today across all different home energy product categories which can improve cash flow and property value to homeowners.

**e) The timing, direction, and magnitude of changes in energy prices; and,**

According to the U.S. Energy Information Administration, from 1973 to 2008 electricity has increased on average 4.55% per year and natural gas prices have increased 7.02%. With the rising costs to maintain and grow the utility grid, costs are anticipated to increase at a higher rate than historical averages. Energy efficient and renewable energy products will improve cash flows for property owners.

**f) The timing, direction, and magnitude of changes of property values, including the possibility of downward adjustments in value?**

Downward adjustments in property values are impacted by many things, including unemployment and energy costs. PACE is a positive contributor to both employment and energy. Therefore, appropriate standards and oversight by the FHFA will help stabilize property values.

**Question 4: To the extent that the lien-priming feature of first-lien PACE obligations increases any financial risk that is borne by holders of mortgages affected by PACE obligations or investors in mortgage-backed securities based on such mortgages and that relates to any of the following, how and at what cost could such parties insulate themselves from that increase in risk:**

**a) The total amount of debt secured by the subject property relative to the value of the subject property (i.e., Combined Loan to Value Ratio for the property or other measures of leverage);**

Please see responses to Questions 2 and 3 a).

**b) The amount of funds available to pay for energy-related home improvement projects after the subtraction of administrative fees or any other programs expenses charged deducted before funds become available to pay for an actual PACE funded project (FHFA understands such fees and expenses can consume up to 10% or more of the funds a borrower could be obligated to repay under some PACE programs);**

Please see responses to Questions 2 and 3 b).

**c) The timing and nature of advancements in energy-efficiency technology;**

Please see responses to Questions 2 and 3 c).

**d) The timing and nature of changes in potential homebuyer preferences regarding particular kinds of energy efficiency projects;**

Please see responses to Questions 2 and 3 d).

**e) The timing, direction, and magnitude of changes in energy prices; and,**

Please see responses to Questions 2 and 3 e).

**f) The timing, direction, and magnitude of changes of property values, including the possibility of downward adjustments in value?**

Please see responses to Questions 2 and 3 f).

**Question 5: What alternatives to first lien PACE loans (e.g., self-financing, bank financing, leasing, contractor financing, utility company “on-bill” financing, grants, and other government benefits) are available for financing home-improvement projects relating to energy efficiency? On what terms? Which do and which do not share the lien-priming feature of first-lien PACE obligations? What are the relative advantages and disadvantages of each, from the perspective of (i) The current and any future homeowner-borrower, (ii) the holder of an interest in any mortgage on the subject property, and (iii) the environment?**

Why does Fannie Mae and Freddie Mac offer Energy Efficient Mortgages? Why is the FHA introducing PowerSaver? The overarching reason is that standard financing products (bank financing, leasing, contractor financing and on-bill financing) have not succeeded in encouraging the adoption of energy efficient measures. And while government tax credits have increased the adoption of energy efficient products, the vast majority of homeowners purchase inefficient products. (See JP Morgan industry reference above). PACE financing gives consumers and contractors another financing option to assist the housing industry to promote energy efficiency and renewable energy improvements, which even though it has a lien-priming feature, if implemented with standards and oversight will deliver a net benefit to the mortgage industry. While PACE financing terms are similar to other products, the biggest advantage to PACE financing over alternative options is a better consumer experience.

Today, in markets where PACE does not exist, homeowners can go out and purchase whatever product they want, have anyone install the product and avoid the permitting and inspection process. In other words, a property owner can have a non-licensed person install a SEER 13 HVAC system without any permits. The net result is that the consumer, the home and the community all are negatively impacted.

PACE raises the bar. Only efficient and certified products, often U.S. Department of Energy, Energy Star products, are financeable. Only contractors who are licensed and in good standing with the state contractor’s license board are eligible to install those products. Products must go through the permitting and inspection process. As a result, the consumer, the home and the community are all positively impacted.

**Question 6: How does the effect on the value of the underlying property of an energy-related home-improvement project financed through a first-lien PACE program compare to the effect on the value of the underlying property that would flow from the same project if financed in any other manner?**

The effect of the value of the underlying property is the same whether it is purchased or financed through any other manner. The point however, is why are so few properties selecting energy efficient product models? The answer, we believe, is that the existing financing choices do not create a consumer experience which results in energy efficient product models being deployed on our 131 million residential housing units, which spend \$228 Billion in electricity and natural gas each year.

PACE creates a consumer experience which will result in more homes being outfitted with energy efficient and renewable energy product models which improve cash flows and property values, which in turn have a positive impact on the holders of mortgages.

**Question 7: How does the effect on the environment of an energy-related home-improvement project financed through a first-lien PACE program compare to the effect on the environment that would flow from the same project if financed in any other manner?**

Please see response to Question 6. The environmental impact does not change based on the financing option selected. What changes is the number of people who select energy efficiency related home-improvement products.

**Question 8: Do first-lien PACE programs cause the completion of energy-related home improvement projects that would not otherwise have been completed, as opposed to changing the method of financing for projects that would have been completed anyway? What, if any, objective evidence exists on this point?**

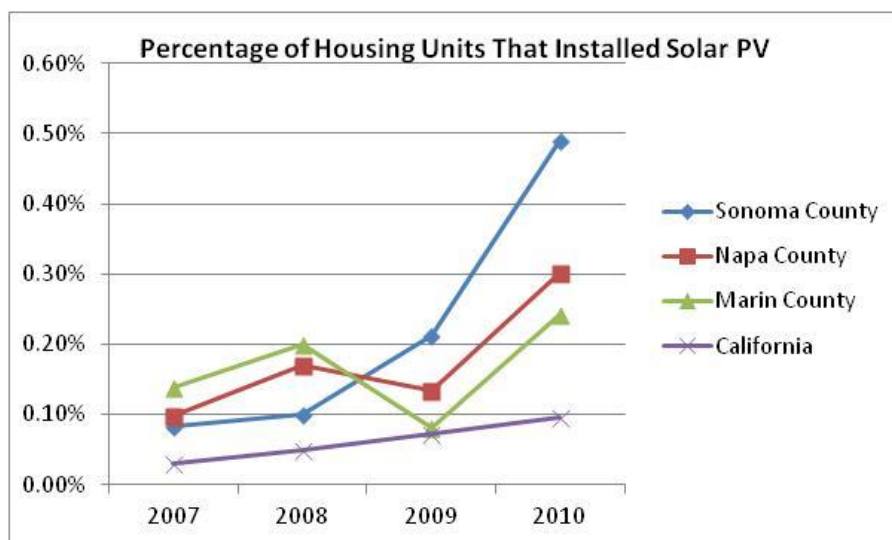
PACE programs do change the number of projects being completed; however, objective evidence is only available with regards to certain product lines (Solar PV systems) and only available in markets which utilized PACE financing over a period of time (Sonoma County, CA).

Unfortunately, there is not a lot of data as most programs stopped moving forward with PACE programs as a result of the lender letters published by the FHFA (July 6, 2010) and the Enterprises (August 31, 2010).

Sonoma County, CA

All Solar PV projects in California are tracked by the California Solar Initiative (<http://www.californiasolarstatistics.ca.gov/>). As a result, we can see how PACE impacted Sonoma County, CA – the number of solar PV installations was significantly greater as a result of PACE.

The graph below shows the percentage of housing units who implemented a solar PV system. Prior to 2009, Sonoma County had fewer solar PV installations than the two adjacent counties, Marin County and Napa County. Sonoma County averaged about ½ the number of installations that Marin County averaged in 2008. Sonoma County launched its PACE program in March 2009 and as a result saw the number of solar PV participants increase. In 2009 and 2010, Sonoma County did twice as many solar PV installations as Marin County did. As a result, the impact of PACE was a 4x increase in solar PV systems.



Energy efficient implementations are much more difficult to track because installations of other product lines (HVAC, windows, roofs, insulation, water heaters, etc.) are not tracked by region. What is known is that, of the Sonoma PACE program participants, approximately 50% of the 1,700 homes selected energy efficient products (the other 50% selected solar PV systems).

**Question 9: What consumer protections and disclosures do first-lien PACE programs mandate for participating homeowners? When and how were those protections put into place? How, if at all, do the consumer protections and disclosures that local first-lien PACE programs provide to participating homeowners differ from the consumer protections and disclosures that non-PACE providers of home-improvement financing provide to borrowers? What consumer protection enforcement mechanisms do first-lien PACE programs have?**

PACE programs provide participating homeowners with disclosures similar to other financing products. The property owner is made aware of the conditions under which they agree to repay the amount borrowed. They are provided a 3-day right-to-cancel and truth-in-lending information.

**Question 10: What, if any, protections or disclosures do first-lien PACE programs provide to homeowner borrowers concerning the possibility that a PACE-financed project will cause the value of their home, net of the PACE obligation, to decline? What is the effect on the financial risk borne by the holder of any mortgage interest in a subject property if PACE programs do not provide any such protections or disclosures?**

There are two types of consumer protections/disclosures that PACE programs provide property owners. The first type of consumer protection involves the products and workmanship associated with the contractor industry. Today, in markets where PACE does not exist, a homeowner can go out and purchase whatever product they want, have anyone install the product and avoid the permitting and inspection process. In other words, a property owner can have a non-licensed person install a SEER 13 HVAC system without any permits. The net result is that the consumer, the home and the community all are negatively impacted.

PACE raises the bar. Only efficient and certified products, often U.S. Department of Energy, Energy Star products, are financeable. Only contractors who are licensed and in good standing with the state contractor's license board are eligible to install those products. Products must go through the permitting and inspection process. As a result, the consumer, the home and the community are all positively impacted.

The second type of disclosure is similar to what other energy efficiency financing products provide, and that is the disclosure that such energy efficient, water efficient or renewable energy measures may not deliver the intended results. It is up to the property owner to evaluate which measures and contractors they should select based on their own unique conditions.

Moreover, providing a disclosure that the value of the home, *net* of the PACE lien, might decline would be inappropriate. Why would the installation of a higher efficiency air conditioner and lower utility bills in the summer cause a home's value to decline? Why would weatherizing, adding insulation and installing a higher efficiency furnace with lower heating bills in winter cause a property's value to decline? Property owners are looking for affordable utility bills in the homes they purchase, not the reverse. While some might claim that a solar PV system might be an unwanted addition, in today's environment, the benefit of lower electricity costs seems to outweigh that possibility, as evidenced by the Lawrence Berkeley April 2011 report referenced above, where a survey of 72,000 California homes found an increase in value of \$5.50/watt, not the reverse. Thus,



PACE programs do not provide any disclosure that the home's value, especially net of the PACE lien, may decline as a result.

**Question 11: What, if any, protections or disclosures do first-lien PACE programs provide to homeowner borrowers concerning the possibility that the utility-cost savings resulting from a PACE-financed project will be less than the cost of servicing the PACE obligation? What is the effect on the financial risk borne by the holder of any mortgage interest in a subject property if first-lien PACE programs do not provide any such protections or disclosures?**

PACE programs provide disclosures that such energy efficient, water efficient or renewable energy measures may not deliver the intended results. Additionally, PACE programs do not provide homeowners with estimated utility cost savings. PACE programs do offer an alternative form of financing for energy efficient, renewable energy and water efficient products. Many of these products are "non-discretionary" in nature, such as your roof, heating and air-conditioning products. The objective is to improve cash flows for the property owner, improve the likelihood of the property paying their mortgage and improve the value of their property. Property owners who use credit card financing or subordinated financing to purchase inefficient energy products don't help the holders of the mortgage nor do they improve property value.

All of the energy efficient products eligible for funding are based on efficiency industry standards, many of which have been adopted by the U.S. Department of Energy.

The risk borne by the holder of the mortgage is that the incremental costs of energy efficient products exceed the energy savings associated with such products; however, this issue decreases over time (after installation) due to the fact that energy rates continue to rise each year. Also, these products have been tested over many years and the energy savings associated with the products meet industry standards. It is highly unlikely that a SEER 16 air conditioner would save less energy than the SEER 13 air conditioner. This is true for all product lines.

**Question 12: What, if any, protections or disclosures do first-lien PACE programs provide to homeowner borrowers concerning the possibility that over the service life of a PACE financed project, the homeowner borrower may face additional costs (such as costs of insuring, maintaining, and repairing equipment) beyond the direct cost of the PACE obligation? What is the effect on the financial risk borne by the holder of any mortgage interest in a subject property if first-lien PACE programs do not provide any such protections or disclosures?**

For the most part, all products eligible to be financed through PACE must be maintained as would any product purchased by the property owner. There are no incremental costs of insuring, maintaining or repairing equipment which are unique to PACE. The U.S. Department of Energy calculates energy savings associated with energy efficient products.

**Question 13: What, if any, protections or disclosures do first-lien PACE programs provide to homeowner borrowers concerning the possibility that subsequent purchasers of the subject property will reduce the amount they would pay to purchase the property by some or all of the amount of any outstanding PACE obligation? What is the effect on the financial risk borne by the holder of any mortgage interest in a subject property if first-lien PACE programs do not provide any such protections or disclosures?**

PACE programs disclose to the homeowner borrowers the possibility that the homeowner borrower will have to pay off the remaining PACE assessment at the time the property is sold or refinanced. As such, the net amount received by the homeowner borrower will be reduced by the amount used to finance the eligible improvement.

**Question 14: How do the credit underwriting standards and processes of PACE programs compare to that of other providers of Home-improvement financing, such as banks? Do they consider, for example: (i) Borrower creditworthiness, including an assessment of total indebtedness in relation to borrower income, consistent with national standards; (ii) total loan-to-value ratio of all secured loans on the property combined, consistent with national standards; and (iii) appraisals of property value, consistent with national standards?**

We have provided the following credit underwriting standards utilized by the PACE Program we manage. Certain eligibility criteria must be satisfied and financing may be approved only if the following criteria are met:

- Property owner(s) must be the property owner(s) of record;
- Property owner(s) must be current on their property taxes for the prior twelve (12) months; Property owner(s) must certify that the property taxes for this property have not been paid late more than once during the prior three (3) years (or since purchase if owned for less than three (3) years);
- Property owners must be current on all property debt from twelve (12) months prior to the application through funding (or since purchase if the property has been owned less than twelve (12) months by the current owner(s)), through funding;
- Property must not have any liens other than lender debt or liens recorded by community facilities districts or similar financing districts;
- Property owner(s) have not declared bankruptcy in the past seven (7) years and the property is not currently an asset in a bankruptcy proceeding;
- Mortgage-related debt on the property must not exceed 90% of the market value of the property (we utilize the same industry leading AVM data sources utilized by banks when the banks provide second mortgages);
- Improvement costs are reasonable in relation to property value. Proposed Improvements must not exceed 10% of the market value of the property; and
- The total annual property tax and assessments, including the contractual assessment, on the property will not exceed 5% of the property's market value, as determined at the time of approval of the contractual assessment.

While we do have different underwriting standards, we also underwrite to the contractor, product and process. As such, unlike a home equity loan, which does not really look at the type of improvement being financed, we ensure that the:

- Products meet certain energy efficient or other minimum requirements;
- Contractor meet certain licensing requirements; and
- Contractors and homeowners go through the permitting and inspection process.

These underwriting standards are an improvement over other financing options with the goal of improving cash flows and value in the home.

**Question 15: What factors do first-lien PACE programs consider in determining whether to provide PACE financing to a particular homeowner-borrower seeking funding for a particular project eligible for PACE financing? What analytic tools presently exist to make that determination? How, if at all, have the methodologies, metrics, and assumptions incorporated into such tools been tested and validated?**

Please see response to Question 14.

In addition, the tools we used to determine what products are eligible are the standards provided by the energy efficiency industry, often utilizing U.S. Department of Energy, Energy Star energy efficiency standards when available. These products have been tested over many years and the energy savings associated with the products meet industry standards. It is highly unlikely that a SEER 16 air conditioner would save less energy than the SEER 13 air conditioner. This is true for all product lines.

**Question 16: What factors and information do first-lien PACE programs gather and consider in determining whether a homeowner-borrower will have sufficient income or cash flow to service the PACE obligation in addition to the homeowner-borrower's preexisting financial obligation? What analytic tools presently exist to make that determination? How, if at all, have the methodologies, metrics, and assumptions incorporated into such tools been tested and validated?**

Please see responses to Questions 2 and 14. Also, as discussed in the response to Question 1, homeowners already spend the equivalent of 25% of their mortgage payments on utility bills. With the PACE lien, at least to start, the payments should generally be offset by utility bill savings, so there is little or no increase in their overall expenses. Over time, the savings should increase as the utility rates increase, and the PACE lien has the potential to increase the homeowner's income or cash flow, not the reverse.

Additionally, and perhaps most importantly, evidence provided by the leading PACE programs indicate that PACE Program participants are less likely to default on their homes than local and nationwide averages show for non-participants. Statistics from the PACE programs in Boulder County, CO, Sonoma County and Palm Desert, CA, and Babylon, NY, show that PACE presents minimal risk: there are fewer than 30 known defaults out of nearly 3,200 upgraded properties, substantially fewer than the rate of default for non-PACE property-owners in the same districts. In Boulder County, there have been seven properties that have experienced defaults or foreclosure out of 621 PACE participant homes, or 1.14%, which is much lower than the national average. Thus, the FHFA's stated "safety and soundness concerns" cannot be supported by the actual, historical evidence provided by these PACE programs.

**Question 17: What specific alternatives to FHFA's existing statements about PACE should FHFA consider? For each alternative, as compared to the Proposed Action, what positive or negative environmental effects would result and how would the level of financial risk borne by holders of any interest in a mortgage on PACE affected properties change?**

FHFA should consider a staged review of PACE financings.

There have only been approximately 3,000 properties out of 13.6 million properties in the United States that have participated in PACE. Even in the most successful markets, such as Sonoma County, CA, over a three year period, less than 0.8% of the housing units have utilized PACE financing.

For the little results we have seen, it appears that PACE participant homes have a lower default rate than the average in Sonoma County, CA.

The FHFA should consider continuing to gather data on whether first-lien PACE programs can:

- a) Improve homeowners cash flows (by measuring delinquencies relative to the rest of the market);
- b) Increase the adoption of energy efficient, renewable energy and water efficient measures;
- c) Create jobs;
- d) Measure energy savings by product line; and
- e) Measure reductions in greenhouse gasses.

To mitigate any individual PACE financing's risk, FHFA can ask each PACE program to create a reserve fund to cover any delinquent property tax assessment payments so that banks do not have to make advances for such delinquencies.

As there are presently so few PACE programs and PACE financings, the financial risk of any continued program would not impact the financial risk; rather it would enable the FHFA and the Enterprises to evaluate a new product to quantify how a first lien financial product (PACE) can have a positive impact on the mortgage industry and the housing sector.

The FHFA has an opportunity to support a financing product which will not only have a positive impact on the mortgage and housing sector, but also lessen our dependence on energy, lower greenhouse gasses and create an economic engine to promote the recovery of the economy. Let's not try to block something that may look like its "bad" because of its senior lien position; rather, let's see if it can accomplish what the lending industry has long sought to accomplish – a financing product which will improve the value of homes, not to mention assist in major national and world-wide issues facing us today in energy and the environment.