From: Timothy McWhirter <timothy.mcwhirter@montgomerycollege.edu>
Sent: Friday, March 23, 2012 7:49 PM
To: !FHFA REG-COMMENTS
Subject: RIN 2590-AA53 - Please restore PACE programs

Mr. Alfred Pollard
General Counsel
Federal Housing Finance Agency
400 7th 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:

Many of the comments you will receive will focus on the benefits of PACE programs. The web address below will take you to a report that describe a way to use the process of securitization to remove the risk of the senior lien status of PACE assessments and finance projects in manner that is more secure than the energy efficiency mortgages presently supported by Fannie Mae and Freddie Mac. It demonstrates how Fannie Mae and Freddie Mac could support PACE programs and decrease the risk of their investments in the process. I will summarize this report here.

The financial risk posed by the senior lien status of PACE assessments is the primary concern outlined by the Federal Housing Finance Agency (FHFA) in their July 6th, 2010 statement on PACE programs. This risk can be hedged if the same investor or investors own both the mortgage and the financing for the PACE assessment on the property.

On August 31, 2010, Freddie Mac started allowing certain property owners to refinance their mortgage and roll their PACE assessment into their new mortgage. Freddie Mac and Fannie Mae also offer energy efficiency mortgages that allow property owners to use their mortgage to finance energy efficiency improvements. These programs allow the same investor or investors to own the financing for the property and the improvements to the property.

However, using a mortgage rather than a PACE assessment to finance energy efficiency improvements increases the credit and prepayment risk for the investor. Mortgage default rates are generally higher than tax default rates and PACE assessments can be setup so that they cannot be accelerated. It is therefore in the investor's interest to combine a mortgage and the financing for the PACE assessment on the property in a manner that maintains the PACE repayment method.

If securities were created that included the mortgage and a small municipal bond based on the revenue generated by the PACE assessment on the property, these mortgage/bond securities, or hedged PACE mortgage-backed securities (HPMSs), would hedge the risk posed by the senior lien status of PACE assessments. They would also have less credit and prepayment risk than the energy efficiency mortgages sponsored by Fannie Mae and Freddie Mac.

When PACE liens are placed on properties or at refinancing, property owners and

PACE program administrators could create HPMSs and sell them to Fannie Mae, Freddie Mac or private investors. HPMSs could then be taken through the securitization process and sold on the secondary mortgage market. This approach would enable residential PACE programs to operate in a manner that removes the financial risk of the senior lien status of PACE assessments.

If Fannie Mae and Freddie Mac supported PACE programs as outlined, it would improve the security of their investments and provide a substantive contribution to our country's economic recovery at a time when it is desperately needed.

http://montgomerycollegesustainability.files.wordpress.com/2012/03/hedged-pace-mortgage-backed-securities-proposal-fhfa.pdf

Sincerely,

Tim

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