July 28, 2010

Edward DeMarco
Acting Director
Federal Housing Finance Agency
1700 G Street, NW
Washington, DC 20552

Dear Acting Director DeMarco:

As national organizations representing cities, counties, towns, and municipal governments, we are writing to respond to safety and soundness concerns cited by FHFA regarding mortgages on homes participating in local Property-Assessed Clean Energy (PACE) programs. We respectfully urge your cooperation in coming to a solution that respects municipal government's traditional authority to utilize the tax code in the public interest and that satisfies safety and soundness concerns of the secondary mortgage market.

As you know, the health and vitality of local economies are critical for reversing the national economic downturn. Despite sizable budget shortfalls, state and local governments, in partnership with the federal government, are working to maintain and improve efficiencies in federal programs that support the services that citizens expect governments to deliver. A further challenge, however, is that traditional mechanisms for local finance and revenue, such as sales and property taxes and bond financing, remain difficult to access. As a result, local governments are developing innovative financing programs, such as PACE, that will help neighborhoods realize community and economic development goals even in challenging fiscal periods. Unfortunately, rather than incent original solutions such as this, FHFA's determination that energy retrofit lending programs such as PACE present significant safety and soundness concerns effectively closes an important avenue for financing improvements that would deliver financial and environmental benefits long into the future.

Moreover, the report "Recovery Through Retrofit," issued with local and state input by the Administration's Middle Class Task Force and Council on Environmental Quality, suggests that energy retrofit lending programs, like PACE, are important for the national economic recovery agenda. We are puzzled that your agency would make a determination that is out of step with our nation's economic recovery agenda and disregards the traditional authority of local governments to utilize the tax code in the best interest of its citizens.

In response to the specific concern about the hypothetical risk to the secondary mortgage market involved with PACE homes, as local leaders responsible for investing hundreds of billions in public funds annually, we know well that risk is an inherent part of any investment. Like you, local governments constantly seek to minimize that risk; in our case, to the taxpayer. We believe that the standards and best practices called for in the Administration's "Recovery Through Retrofit" report are sufficient to minimize any potential risk posed by the PACE program to both the public and private investments in a PACE home.

Twenty three states have already passed legislation enabling cities and counties to pursue PACE programs. We encourage you to recommit to working with local and state governments, Congress, and the Administration on a viable solution that will allow existing PACE programs to continue and encourage additional programs throughout the country.

Sincerely,

Larry Naake
Executive Director
National Association of Counties

Donald Borut
Executive Director
National League of Cities

Tom Cochran
CEO and Executive Director
The United States Conference of Mayors