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## PROPERTY ASSESSED CLEAN ENERGY PROGRAM

**REQUESTED ACTION:** Urge the Federal Housing Finance Agency (FHFA) to withdraw its objections to residential Property Assessed Clean Energy (PACE) programs. Support legislation that would prevent federal housing regulators from adopting policies that contravene established state and local PACE laws.

**BACKGROUND:** PACE is a cost-effective program that enables local governments to finance renewable energy and energy-efficiency projects on privately owned residential and commercial property. Under PACE, property owners can elect to have up to 100 percent of the cost of clean energy improvements added to their property tax bill as an assessment or special tax. The assessment is secured by a lien on the property and is not an obligation of the individual property owner. Rather, the assessment remains with the property until it is paid. It should be noted that participation in these programs is purely voluntary.

PACE programs have been proven to generate tremendous economic benefits without federal tax subsidies, mandates, or expansion of any federal programs. In fact, \$10 million in private capital market spending, on average, creates 150 new jobs, generates \$25 million in gross economic output, and produces \$2.5 million in combined federal, state, and local tax revenue.

Despite the program's clear environmental and economic benefits, FHFA - which oversees Fannie Mae and Freddie Mac - issued orders in 2010 that effectively shut down residential PACE programs across the country. In halting implementation of PACE, FHFA expressed a series of concerns with the program. In the Agency's view, first liens established by PACE assessments pose risk management challenges for existing mortgage lenders.

In an effort to address FHFA's concerns, the state of California in 2014 established a loan loss reserve fund that can be drawn on to ensure that PACE assessments are paid off in the event of a mortgage default. PACE programs enrolling in the reserve fund are also required to meet basic structural criteria, comply with certain underwriting standards, and pay an annual premium. There are currently 27 counties across California that offer PACE commercial and/or residential financing. These programs have enabled businesses and homeowners to safely and effectively finance energy efficiency, renewable energy, and water efficiency upgrades.

These thoughtful reforms have effectively minimized, if not eliminated, any financial risk to Fannie Mae and Freddie Mac. However, FHFA continues to have concerns with California's loan loss reserve program. Although reports have surfaced that the FHFA may be open to further discussions, the Agency has not changed its public position regarding residential PACE programs.

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