

July 22, 2010

The Honorable Edward J. DeMarco  
Acting Director  
Federal Housing Finance Agency  
1700 G Street, NW  
4th Floor  
Washington, DC 20552

Dear Acting Director DeMarco:

I am writing on behalf of the members of the American Bankers Association to express our support for the recent actions taken by the Federal Housing Finance Agency with regard to Property Assessed Clean Energy (PACE) loans.

While the ABA and our members are supportive of financing for energy efficiency improvements for residential properties, we share your concerns that the lien structure of PACE loans present significant safety and soundness issues for lenders, risk management issues for lenders, servicers and investors, and credit, sales and foreclosure risks for borrowers.

As you pointed out in your statement of July 6, 2010, most PACE loans establish first liens which are unlike routine tax assessments in both size and duration, and do not have the traditional community benefits associated with other tax assessments. Disrupting the traditional first lien position of home mortgages, especially in a period of great instability in much of the mortgage market, is unwise, especially when alternative approaches are available to encourage lending for energy efficiency improvements.

As currently structured, the underwriting of PACE loans will result in collateral-based lending rather than lending based upon a borrower's ability to repay. Not only does this run counter to the new requirements imposed upon mortgage originators under the just passed Dodd/Frank Act, but it also may lead borrowers to take on too much debt without understanding the benefit and risks associated with the PACE loan, including an inability to meet current obligations, restrictions on their ability to refinance or modify an existing loan, and a potentially greater risk of foreclosure.

Your statement of July 6<sup>th</sup> indicates that FHFA has urged state and local governments to reconsider these programs and has called for a pause in such programs so that concerns can be addressed. We applaud these actions and encourage you to also work with other federal agencies, including the Department of Energy and the Department of Housing and Urban Development, to better coordinate federal efforts. We will also work with you to ensure that members of Congress better understand PACE loans and the implications of such loans. We appreciate the efforts you have made thus far to coordinate understanding of these issues with lenders and secondary market participants and stand ready to work with you to ensure that the

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above mentioned concerns are addressed and that financing for energy efficiency improvements can be done in a way that is safe, sound and financially logical for borrowers, lenders, servicers and investors.

If you have any questions, or would like to discuss these issues in greater detail, please do not hesitate to contact me or ABA Vice President and Sr. Counsel Joseph Pigg at (202)663-5480 or [JPigg@aba.com](mailto:JPigg@aba.com).

Sincerely,

A handwritten signature in black ink that reads "Robert R. Davis". The signature is written in a cursive, flowing style.

Robert R. Davis  
Executive Vice President