

Yesterday, the Federal Housing Finance Administration, the agency that regulates [bankrupt mortgage insurers](#) Fannie Mae and Freddie Mac, [issued a letter](#) effectively destroying the promising energy efficiency and renewable energy financing program called Property Assessed Clean Energy (PACE). I [blogged about Fannie and Freddie's lender letters](#) on the PACE program a few weeks ago. PACE operates as a traditional local government assessment on properties: governments raise money from the bond market, use the capital to finance energy efficiency retrofits in buildings that pay for themselves with reduced energy bills, and repay the bondholders through property tax assessments that cover a period of time equal to the life of the property improvement.

FHFA's letter urges state and local governments "to reconsider these programs and continues to call for a pause in such programs so concerns can be addressed." The agency also directs Fannie and Freddie to protect themselves from properties with PACE assessments, imposing conditions that make PACE assessments either too expensive or impossible to obtain.

Why? FHFA describes these tax assessments as "loans" that are "unlike routine tax assessments and pose unusual and difficult risk management challenges." But the agency couldn't be more wrong. PACE operates exactly like traditional local government tax assessments and poses minimal risk to lenders. For example, in the event of a foreclosure, only the delinquent PACE payments get repaid ahead of the mortgage and not the entire value of the assessment. A typical delinquency period might be 18 months, equivalent to \$1500 on a \$20,000 PACE assessment over 20 years. Furthermore, most PACE properties will likely see an increase in value given the enhanced marketability of a more energy efficient and renewable energy-equipped building.

FHFA also claims that PACE programs "do not have the traditional community benefits associated with taxing initiatives." But how much more of a benefit could a community get than reducing its dependence on imported energy and decreasing hazardous air pollution and greenhouse gas emissions from fossil fuel power plants?

The [New York Times](#) and the [San Francisco Chronicle](#) have already run stories decrying federal regulators' position on PACE. Most likely there will be further negotiations with FHFA, but the line is now drawn. Perhaps a lawsuit will be necessary to undue this damage, as the FHFA decision threatens to undermine state sovereignty to grant local governments power to legislate in the public good.