July 10, 2017

Jim Gray
Duty to Serve Program Manager
Federal Housing Finance Agency
400 Seventh Street SW
Room 10276
Washington, DC 20219

Re: Comments on Fannie Mae's and Freddie Mac's Proposed Underserved Markets Plans

Dear Jim,

The undersigned members of the Housing, Health and Energy Working Group of the Green Affordable Housing Coalition (GAHC) appreciate the opportunity to comment in response to Fannie Mae and Freddie Mac's Underserved Markets Plans. We are pleased to see the Fannie Mae and Freddie Mac, the government sponsored enterprises (GSEs), actively working to encourage lending activities that support energy and water efficiency. We appreciate the efforts as well by the Federal Housing Finance Agency (FHFA) to make this Duty to Serve (DTS) process successful.

Our comments focus on the subject of energy and water efficiency in the plans, Sections G and H for Fannie Mae and Activities 6 and 7 for Freddie Mac. FHFA in the Final Rule (12 CFR §1282.34(d)(2)) which identify improving energy and water efficiency as a meaningful pathway to preserve affordable housing. We strongly agree with that policy and look forward to working with FHFA, the GSEs, and other stakeholders to implement effective plans.

Our recommendations for improving the Plans, with additional detail below, are:

- **A.** Implement research in parallel with testing new pilots and products
- **B.** Enhance consumer research
- **C.** Improve the GSEs' ability to track loans with energy and water efficiency elements
- **D.** Utilize and analyze data on all of GSE activity related to energy and water efficiency, not just Duty to Serve eligible loans
- **E.** Experiment and test simpler product terms in single family activities
- **F.** Pilot new approaches for existing first-lien homeowners to install high-efficiency heating, cooling, and hot water heating systems at replacement
- **G.** Leverage single-family and multifamily energy and water efficiency programs from utilities and others
- **H.** DTS plans should connect to products and tests beyond DTS borrowers
- **I.** Set more ambitious goals for single-family and multifamily
- **J.** Achieve greater consistency in multifamily reports and assessments
- **K.** Align incentives for market-rate and subsidized multifamily housing

L. Add incentives or rewards for high efficiency manufactured homes

M. Explore ways to standardize energy data and include energy and water efficiency in home appraisals

II. About the Green Affordable Housing Coalition

The Green Affordable Housing Coalition (GAHC) is a national action network that fosters collaboration and advocates for the development and preservation of green affordable housing. GAHC provides members with an opportunity to share best practices and the latest research, discuss potential policy solutions, coordinate outreach and advocacy efforts, and network with organizations with a shared mission. The Housing, Health and Energy Working Group is a subgroup of the Green Affordable Housing Coalition focused on engaging the housing, health and energy sectors in collaboration to advance green, healthy affordable housing.

III. Comments on objectives to finance improvements on single-family and multifamily properties that reduce energy and water consumption

A. Implement research in parallel with testing new pilots and products

Both Enterprises in their Draft Plans, Objective 1 and 2 for Fannie Mae and Objective A for Freddie Mac, appear to contemplate a significant period of research before they expect to specify and implement new products or product features. We urge the Enterprises to expand their plans to describe a robust set of product concepts that could be tested in the market, even if some of the concepts may not come to fruition. Many specific, well-grounded concepts are available to be implemented now with a reasonable basis to expect good outcomes. Small-scale pilot programs could allow for market-based results while also limiting the GSEs risk exposure.

We recommend the Enterprises' Underserved Markets Plans prioritize and specify immediate market interventions for Duty to Serve (DTS) borrowers with tests and pilots of new products (or product terms or features) that support financing of energy and water efficiency improvements.

B. Enhance consumer research

Consumer research listed in Fannie Mae's Objective 2 should focus on not only deriving consumer insights but also consumers' financing needs, future trends, business models, and opportunities. Should either GSE incorporate consumer research into its plans, it should have this broader focus.

C. Improve the GSEs' ability to track loans with energy efficiency elements

We support the high value of the research objectives identified in the Objectives A, B and D in the Freddie Mac Plan and Objectives 2 and 4 in the Fannie Mae Plan. Research is vital, so support and DTS credit for research activities is appropriate. In particular, it is important for the GSEs to improve their ability to track and substantiate how different energy- and water-usage attributes of a home factor into valuation and to understand how these factors change over time.

Analysis of energy and water efficiency in the homes covered by GSEs loan purchases should create an ongoing ability to track, not just a one-time investigation. The GSEs should develop and test out systematic methods for estimating a home's energy and water efficiency attributes and tracking this information with the associated loans. The GSEs should implement a portfolio based approach for this data collection and tracking effort, based on a proportion of the loan volume and increase that share of the portfolio every year.

D. Utilize and analyze data on all GSE activity related to energy efficiency, not just Duty to Serve eligible loans

The GSEs should conduct research about energy and water use continually and across their portfolios generally, not limited to DTS-eligible transactions. The GSEs have a strong interest in improving energy and water efficiency in the properties securing their portfolio of loans. We recommend Fannie Mae and Freddie Mac engage in this process beyond simply DTS. Research should inform product management, product development, and risk management across their portfolios.

The GSEs research plans should expressly contemplate gathering information outside the conventional loan documents. We encourage the Enterprises to seek information from other sources for purposes of analysis, reporting, and other uses e.g., Home Energy Rating System (HERS), rating, U.S. DOE's Home Energy Score, LEED, individual states' home energy labeling programs (such as the Missouri Home Energy Certification Program, which utilizes HERS, Home Energy Score, and a local utility Columbia Water & Light's Efficiency Score), and other criteria approved by the FHFA final rule.

FHFA or an external third party could coordinate research work with the GSEs when the findings would be improved by a larger pool of loans and loan–related data. This would strengthen the GSEs' plans for research and reporting on energy and water features of properties securing Enterprise loans. We encourage FHFA to explore options for such studies to harness the information residing with both Fannie Mae and Freddie Mac and potentially additional willing data partners such as FHA or even private mortgage lenders, insurers, service providers, or large investors.

E. Experiment with and test simpler product terms in single family activities

Rather than focus exclusively on existing lending products designed to fund significant home renovations (like Fannie Mae's Homestyle Energy loan) as discussed in Fannie Mae's Objectives 5 and 6 and Freddie Mac's Objective C, we encourage the GSEs to also explore simpler product terms that allow a limited amount of additional financing for limited eligible repairs and improvements at the time of a conventional purchase mortgage loan or refinancing. We recognize that usage of existing single family products is low, which may account for the low goals. By exploring how to improve the existing single family products, the GSEs could see borrower demand increase.

The GSEs should consider pilots or tests within the context of the conventional purchase and refinancing transaction to identify and enable certain energy and water related improvements. That is, a DTS-eligible customer already seeking a routine purchase or refinancing loan could be offered small additional proceeds to make certain needed energy or water repairs or improvements. The resulting transaction (i) does not require low to moderate income homeowners to increase down payments or otherwise use cash beyond that needed for a routine purchase or refinancing transaction, and (ii) does not require a substantially different origination path or loan processing than a conventional purchase or refinancing transaction.

In order to fulfill these practical requirements, it might be necessary to significantly limit the eligible improvements to a pre-figured list. A list of eligible measures (such as adding ceiling insulation and air sealing of the home) can be evaluated in the market to assure the measures add to, or protect, the property value as well as reduce utility expenses. One option is to limit improvements to those measures supported by a local utility program or a State Energy Office residential energy efficiency financing program, or generated by a standard assessment such as the Home Energy Score.

We recognize the apparent tension between fulfilling the target 15% energy savings and a limited list of repairs and improvements that can be funded without the added terms and conditions of the typical renovation loan. The results of weatherization programs are instructive. Such programs often achieve 10% to 15% savings in homes at a cost of $3,000 to $5,000 per house.[1]

For the purpose of possible small-scale limited pilots to obtain market-based results, the GSEs could consider the following concept: At the time of a conventional purchase or refinancing, offer DTS-eligible borrowers the option to obtain up to a set maximum amount of additional proceeds, only for use to make certain specified energy or water repairs and improvements, such as weatherization, air sealing, duct sealing, insulation, and the like. Implement the program in conjunction with a utility program that has operational controls already in place (a list of utilities and state energy offices with similar programs can be found on the EPA website at https://www.epa.gov/energy/clean-energy-programs#efficiency or NASEO's State Energy Financing Program tracking page: http://naseo.org/state-energy-financing-programs).

Following the model established by the successful Fannie Mae and Freddie Mac multifamily programs would suggest additional features to test:

- Offer discounts or rewards in the form of lower financing charges to DTS borrowers who make certain limited energy and water related improvements to their property (such as weatherization, air sealing, duct sealing, insulation, and the like). The challenge with this concept is that DTS eligible borrowers may not

[1] Oak Ridge National Labs, Evaluation of the US Department of Energy Weatherization Innovation Pilot Program (2010–2014), May 2017.

have the added cash to make the improvements, even with incentives provided by local utilities or state energy office programs.

- Share or bear the cost of an energy assessment at the time of home inspection.
- Allow customers making repairs and improvement identified in an energy audit to count some amount of expected savings as income for purposes of fulfilling eligibility requirements.

F. Pilot new approaches for existing first-lien homeowners to install high-efficiency heating, cooling, and hot water heating systems at replacement

Most homeowners with existing Fannie or Freddie first-lien loans will, at some point, face system replacement. It can be an expensive and time-constrained transaction, exceeding the cash reserves of many low to moderate income households. Homeowners typically use credit cards or dealer financing, which are expensive forms of financing. Homeowners therefore frequently opt for the model with the lowest up front cost even if it has substantially higher life-cycle costs. Moreover, many homeowners could benefit from incentives available from local utility programs if they could finance their portion of the cost.

To fill this financing need, the GSEs should each specify one product concept or feature to pilot and test that enables existing first-lien homeowners to install high-efficiency heating, cooling, and hot water heating systems when their existing system requires replacement.

There is substantial program experience to draw upon.

- In Massachusetts, the MassSaves program has organized a network of local and regional lenders to finance such transactions, in cooperation with local and regional utilities, which can act as loan servicers, collecting the loan payments on the utility bill.

- In New York, NYSERDA offers homeowners a small loan for such repairs and improvements, also in conjunction with local utilities to act as loan servicers.

- In the southeast US, the Tennessee Valley Authority (TVA) offered a program that arranged and guaranteed a small loan from a regional lender to customers of rural electric co-ops for the installation of high efficiency heat pumps.

- New Jersey Natural Gas's SAVEGREEN Project® offers rebates and incentives to residential customers who install qualifying, high-efficiency equipment, and up to $15,000 in financing is available, including a 0% APR on-bill repayment program option to help make energy efficiency upgrades more affordable.

- The Connecticut Green Bank is a leader in developing programs and policies that promote fiscally sound investments in energy efficiency and renewables.

- The Nebraska Energy Office's Dollar and Energy Savings Loan Program uses a loan participation approach to offer low-interest energy efficiency financing in partnership with local lenders and credit unions; since the program's establishment in 1990, the program has made over $320 million in loans.

These programs have assisted thousands of low to moderate income homeowners with improvements that deliver substantial energy savings. The results of all these programs are highly instructive. These existing programs also offer the GSEs potential partners with controls and systems in place to help in the implementation of a small-scale test. We encourage the GSEs to work with the entities administering these programs to find ways to test the same concept.

When considering this option, the GSEs should note that in many climates, failure to replace a broken heater, air conditioner, or hot water heater may materially impair property value. And, to the extent program incentives for high efficiency systems are available, an external party would be improving the property and thereby enhancing the security of the GSE's loan.

We strongly encourage the GSEs to devote their product development expertise and resources to find a way to make this concept work. We recognize it presents significant challenges to conventional origination and securitization machinery, but concerted effort by the GSEs could improve existing origination systems and thereby reap substantial benefits.

Several implementation options ae worth exploring:

(a) A first-lien loan that allows a borrower to receive an additional advance up to a pre-defined, specified amount (e.g, $7,000) that would be added to the loan balance secured by the existing instrument.

(b) Reserve funds (e.g., up to $7,000) at origination that may be used within a certain defined period for one of a few defined repairs and improvements, and defer financing charges on the reserved funds until a draw.

(c) Treat a subsequent financing to an existing first-lien borrower as a first-lien financing for purposes of DTS credit. There may be a reasonable basis to conclude that additional financing supported by Fannie Mae or Freddie Mac for the purpose of replacing an essential system in the property securing an existing first-lien Fannie Mae or Freddie Mac loan should be treated as eligible first-lien financing for purposes of DTS credit.

We recognize these concepts will require examination and testing and close participation of the GSEs and FHFA.

G. Leverage single-family and multifamily energy and water efficiency programs from utilities and others

As discussed in the final rule, utilities, state energy offices, and other related parties operate robust programs to support residential energy and water efficiency projects. The programs offer support to homeowners and multifamily building owners for a wide-range of energy and water efficiency projects.

We encourage the GSEs to provide greater specificity in their Plans about how they would seek to work with such existing programs. We offer two specific concepts:

(a) The GSEs should consider overlapping incentives where possible to increase the support delivered to homeowners for specific measures. For example, many utilities and State Energy Offices offer a program along the lines of Home Performance with Energy Star, in which they offer incentives to reduce the out-of-pocket cost for the customer to obtain an energy audit and follow-on incentives if the homeowner or multifamily building owner installs certain measures recommended by the auditor.

The GSEs could offer additional support for the same interventions. For example, a DTS homeowner obtaining a Fannie Mae refinancing loan could obtain a discount if he or she implements improvements through the Home Performance with Energy Star program, or could finance as part of the refinancing of out-of-pocket costs of the project (limited to eligible measures identified in the audit).

(b) The GSEs should clarify the flexibility provided in the final rule to rely upon project eligibility for utility incentives to satisfy DTS energy savings and cost neutrality requirements.

Our reading of the final rule commentary is that the GSEs have additional flexibility to support financing of projects that are eligible for utility program incentives. For example, if a utility or state program provides incentives for the installation of a heat-pump water heater, Fannie Mae or Freddie Mac may support financing of the cost to install the heat-pump water heater as an eligible measure without independently substantiating that the measure is cost-effective based on expected energy savings.

Relying on recommended list of eligible measures may also help the GSEs avoid certain difficult fact patterns. For example, in the case of a customer replacing essential equipment (like an air conditioner or heater) with a high efficiency model, the local program may require a calculation using the cost premium for the high efficiency model (not the total cost of installation), and comparing it to a baseline model. These are calculations at a level of detail that the GSEs and lenders should not be expected to delve into. Another option to simplify this process is to make Energy Star rated equipment eligible.

H. DTS plans should connect to products and tests beyond DTS borrowers

For both single-family and multifamily, even though DTS credit will only occur for supporting financing to DTS eligible borrowers, the GSEs' DTS plans should describe products and tests that reach a broader set of borrowers and prospective borrowers, not limited to DTS eligible borrowers. Determining which loans are eligible for DTS credit should occur separately from eligibility for a loan or pilot.

Our comment is based largely on the positive experience of the Fannie Mae and Freddie Mac multifamily green initiatives, product improvements implemented separately from the DTS rule, grounded in findings that more efficient properties produce better outcomes for the GSEs and all stakeholders. It would not make sense to limit eligibility for the MF Green Rewards and Green Advantage products to DTS-eligible customers, because these programs already serve more broadly. Instead, the GSEs should identify the subset of transactions that meet the DTS criteria.

Similarly, it may make sense for the Enterprises to implement and test new products and features with a broad set of homeowners in order to identify effective ways to achieve beneficial energy and water improvements in single-family homes.

Applying the point more generally, Fannie Mae and Freddie Mac should also make clear they will use their available authority to explore options. We understand, for example, that the GSEs may have the flexibility to purchase, for purposes of research and product development, subordinate-lien loans. The GSEs may find opportunities to work with a partner, such as lenders originating loans in the MassSaves or NYSERDA programs, which could provide valuable insights.

Prior to the Duty to Serve rulemaking, Fannie Mae and Freddie Mac's multifamily businesses began to examine how energy and water efficiency could be better addressed in their loan products. They found the concept at the heart of the DTS rule, that making energy efficiency and water repairs and improvements will deliver reduced energy expenses, better properties, and better loans, values that accrue to the benefit of the GSEs, owners, and residents. The GSEs have implemented loan products that address the problem and provide solutions. They are in a position to incrementally work toward better products as the markets change.

The commitment to correct loan products to account for the values of energy and water pre-dates and is separate from DTS. Duty to Serve, then, for the MF business becomes about finding ways to measure performance and setting benchmarks and goals.

In the context of this rulemaking, the plans must focus on the narrow terms FHFA has identified for DTS credit. But the GSEs should acknowledge the value of supporting energy and water related improvements is substantial and offers potential benefits across all Fannie Mae and Freddie Mac activities.

I. Set more ambitious goals for single-family and multifamily

Fannie Mae's draft plan in Objective 6 states that it will purchase at least 25 loans that reduce usage by 15% in year 1, with 25% increase annually. While we wish to recognize and acknowledge the excellent leadership of both GSEs in implementing market-leading products, the goals for the planning period should be more ambitious. The Enterprises should implement a portfolio based approach, based on a proportion of the loan volume and increase that share of the portfolio every year. DTS plans should also track energy and water estimates and savings in properties.

Freddie Mac should set similar specific goals for its multifamily program. Freddie Mac's draft plan does not include specific measures that would indicate progress to DTS objectives. Freddie Mac's plan should be revised to include such goals, drawing on the detail set forth below.

J. Achieve greater consistency in multifamily reports and assessments.

For multifamily housing, Fannie Mae and Freddie Mac should consider for their plans an objective to achieve greater market consistency in the energy and water attributes of the property condition reports or assessments required of property owners in connection with purchase and refinancing loans.

The property condition report or assessment identifies the repairs and improvements an owner and lender should expect during the term of a loan. Both Fannie Mae and Freddie Mac use the property condition report to identify needed repairs and improvements in purchase and refinancing. Both GSEs use a property condition report, along with an energy audit, to identify repairs and improvements eligible for financing with their Green Advantage and Green Rewards financing products.

Greater standardization in the requirements associated with the property condition report would benefit a range of market participants.

We encourage both GSEs to use their strong leadership capabilities to confer with a wide range of affordable housing finance participants, including CDFIs, state housing finance agencies, energy assessors and auditors, relevant federal agencies, developers, and equipment manufacturers. One question to examine is whether common requirements across the industry for the energy and water elements of the property condition report would be beneficial. While we support the use of a reliable energy audit, a question to explore is whether a less intensive and less costly assessment for certain types of properties could produce reliable recommendations for less intensive repairs and improvements projects that still fulfill requirements.

K. Align incentives for market-rate and subsidized multifamily housing

Stakeholders, both housing practitioners and energy focused groups, working to create more energy and water efficient multifamily housing observe a tension between two related goals:

1) Increase the overall volume of lending for energy and water efficiency in multifamily, regardless of the tenancy served. This requires economies of scale and some amount of standardization. Advocates for this goal fear that an emphasis on particular subcategories will trade off with overall volume.
2) Ensure that low-income residents in subsidized affordable housing benefit from energy and water efficiency improvements. Preservation of affordable housing is often complicated, requiring customized transactions that add an additional layer of difficulty that can resist standardization crafted for market-rate properties. Advocates for this second goal fear that a focus on total volume will leave affordable housing behind.

We therefore propose a combined objective to address this tension. Each GSE should identify an achievable percentage (by units) of its total volume of energy and water efficiency loans that would be targeted to subsidized affordable housing. Overall points would be based on total volume achieved as long as the enterprise meets the targeted affordable percentage. Total points would be reduced (or potentially increased) by the extent to which the enterprise missed (or surpassed) the percentage of targeted affordable units.

L. Add incentives or rewards for high efficiency manufactured homes

The GSEs should consider adding to their DTS plans incentives or rewards for borrowers purchasing high efficiency manufactured houses and to manufactured home park owners (obtaining multifamily financing) who make high-efficiency manufactured houses available to residents. We note certain transactions may be eligible as conventional SF properties (as per footnote 74 in final rule). Greater clarity would be helpful. The GSEs could also consider a pilot that tests functionality, performance, and cost of energy-efficient manufactured facades to apply to existing homes.

M. Explore ways to standardize energy data and include energy and water efficiency in home appraisals

The Enterprises should explore ways to automate collection and use of energy and water data and make energy and water efficiency part of home appraisals. They could look to their own reports, Appraisal Guidance and Lender’s Guides as areas for improvement. Additionally, the GSEs should work with green building programs to utilize certification standards to help make progress in this area.

IV. Conclusion

The recommendations offered here aim to strengthen the efforts of the GSEs to support energy and water efficiency as a way to preserve affordable housing.

We would be happy to work with FHFA and GSE staff further in the implementation process, so we ask that you direct questions on these comments to Rebekah King, Policy Associate, at the National Housing Conference (rking@nhc.org).

Sincerely,

American Council for an Energy-Efficient Economy

Enterprise Community Partners

Green and Healthy Homes Initiative

National Association of State Energy Officials

National Housing Conference

National Housing Trust

Natural Resources Defense Council

Rocky Mountain Institute

Stewards of Affordable Housing for the Future

U.S. Green Building Council