



Federal Housing Finance Agency

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May 18, 2010

Honorable Arnold Schwarzenegger
Governor
State of California
State Capitol
Sacramento, California 95814

Dear Governor Schwarzenegger:

On behalf of the Federal Housing Finance Agency (FHFA), I am responding to your letter regarding energy loan tax assessment programs in the State of California and lender letters from Fannie Mae and Freddie Mac (the Enterprises) issued on May 5, 2010.

FHFA has indicated its support for programs that encourage energy efficiency and, where beneficial, energy retrofits. The Enterprises have had and are currently reviewing mortgage products that would support energy efficiency. FHFA has been active in seeking views and input from California jurisdictions. In addition, FHFA has contacted and has been contacted by representatives from other states and localities on energy retrofit programs.

FHFA has expressed concerns, as have Fannie Mae, Freddie Mac and banking regulators, in three key areas

- the absence of consistent and complete underwriting guidelines that protect homeowners, lenders and potential investors;
- the need for national energy retrofit standards and metrics for energy loan programs; and,
- risks posed by the first lien status permitted in several state programs.

The Council on Environmental Quality issued a paper in October 2009 supporting PACE programs, but indicating that pilot programs should be used, that standards should be set forth and that no harm should occur to homeowners or lenders. FHFA has worked diligently with the Department of Energy, the Department of Housing and Urban Development, other federal agencies and with various state officials to address these matters. To date, these efforts have not produced a comprehensive set of guidances to protect homeowners and lenders. We continue to work with all interested parties.

To your immediate inquiry, FHFA is working with Fannie Mae and Freddie Mac on replying to concerns expressed in your letter. I expect the Enterprises will provide a further statement in the near term.

I have spoken with your Office on this matter and will keep them informed. My direct number is (202) 414 3788.

With all best wishes, I am

Sincerely,

A handwritten signature in cursive script that reads "Alfred M. Pollard". The signature is written in black ink and is positioned above the printed name.

Alfred M. Pollard

cc: Brian Turner