



GOVERNOR ARNOLD SCHWARZENEGGER

June 21, 2010

The Vice President
The White House
Washington, DC 20501

Dear Mr. Vice President,

Since I signed Assembly Bill 811 in 2008, which authorized local governments in California to establish Property-Assessed Clean Energy (PACE) programs in their regions, thousands of property owners throughout the state have taken advantage of the opportunity to finance their energy efficiency and renewable energy improvements through a voluntary contractual assessment on their property. At least 19 other states have similar programs, and many more are in the process of establishing PACE programs in their states.

Like any other assessment authorized by a local government, a PACE assessment has a senior lien status to the mortgage. In a lender letter issued September 18, 2009, Fannie Mae acknowledged this senior status, saying that, "Servicers should treat (PACE assessments) as any tax or assessment that may take priority over Fannie Mae's lien." With this understanding, California PACE administrators were working to design their programs in accordance with the Policy Framework for PACE Financing Programs released by your office to ensure that homeowners, lenders and investors were protected as much as possible while still gaining robust participation. It was surprising and dismaying when Fannie Mae and Freddie Mac issued letters on May 5, 2010, indicating that PACE assessments with a senior lien status would not be permissible on any property for which Fannie Mae or Freddie Mac held the mortgage. Because these government-sponsored enterprises not only purchase so many new home mortgages but also influence many other lenders, the new direction on PACE assessments is expected to severely impact this innovative method for financing energy improvements.

In California, multiple cities and counties have directed both their own dwindling general funds and their American Recovery and Reinvestment Act of 2009 (ARRA) Energy Efficiency and Conservation Block Grant funding to establishing PACE programs in an attempt to create jobs, save energy and meet their greenhouse gas emission reduction goals. Also, the California Energy Commission has selected five existing and emerging PACE programs in California to receive slightly more than \$30 million in ARRA State Energy Program funding awarded by the United States Department of Energy. The \$30 million in ARRA funding will leverage a further \$400 million from private financing, utility rebates and other sources. In addition, these five programs will create an estimated 4,353 jobs, save 336 million kilowatt-hours of energy, and reduce greenhouse gas emissions by 187,264 tons. All of these benefits to the environment and the economy are now in jeopardy due to the May 5 letters released by Fannie Mae and Freddie Mac.



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Existing PACE programs have already been affected. Placer County's program, mPOWER Placer, has stopped accepting applications from property owners with a Fannie Mae- or Freddie Mac-owned mortgage, and the City and County of San Francisco has halted its program, GreenFinanceSF, entirely. Meanwhile in Sonoma County, property owners with PACE assessments who have attempted to refinance or sell their properties have found themselves having difficulty finding a lender or being forced to pay off the entirety of the assessment.

To prevent further harm, I ask that you continue to support PACE and work with the government-sponsored enterprises to create clarification to the May 5 letters, allowing existing and Department of Energy-funded PACE programs to create assessments with a senior lien status. This clarification will enable PACE in California to move forward, spurring much-needed job creation and environmental benefits for our state and the nation.

Thank you for your work to champion PACE financing and ensure that ARRA funds are spent efficiently to create jobs and effect real, lasting changes in our nation's energy sector.

Sincerely,

A handwritten signature in black ink, appearing to read "Arnold Schwarzenegger", written in a cursive style.

Arnold Schwarzenegger

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