Appraisal Institute®

Professionals Providing Real Estate Solutions

September 8, 2015

The Honorable Julian Castro
Secretary
U.S. Department of Housing, and Urban Development
451 7th Street SW
Washington, DC 20410

Dear Secretary Castro:

On behalf of the nearly 22,000 members of the largest organization of professional appraisers, we congratulate the Department of Housing, and Urban Development ("HUD") on the new initiative to allow borrowers to use Single Family FHA financing for properties with existing Property Assessed Clean Energy ("PACE") loans. We understand guidance on this initiative is forthcoming, but wanted to share some thoughts we have on how the guidance should address appraisals of properties with PACE liens.

We believe risk management can, and should be enhanced by a thorough and credible appraisal process, and we encourage FHA to integrate such requirements in any plan involving PACE or loans backing properties with green or energy efficient features.

The existence of a PACE loan is comparable with situations that involve a special assessment for sewer or water. The special assessment can pass to the new buyer or be paid off by the seller. The sale price paid is negotiated based on who assumes the special assessment.

From a valuation perspective, it is important to understand whether a seller paid assessment influenced the sales price. This is best understood by comparing sales with a PACE Loan or Special Assessment to a sale without one. This comparison quickly reveals if the Assessment affected the price paid.

This is likely a form of sales or seller concession, and if so, recognized appraisal methodology would deduct this concession dollar for dollar under a "cash equivalency" basis, or if the market suggests the amount is less than market based on a paired sales analysis, the market-derived adjustment would be applied.

The example found in Table 1 below illustrates how the appraisal industry analyzes this type of situation. The appraiser would consider the PACE loan as a concession paid by the seller. As a result, the appraiser would deduct $10,000 from Sale 2's price because its price was increased by $10,000 ($185,000 - $175,000 = $10,000) because of the Pace Loan. It should be noted that there are no absolutes, and every situation is different, since every real estate market is different. However, this is likely to be a common scenario. This scenario is a typical occurrence in the City of Cape Coral, FL where some properties have special water and sewer assessments up to $16,000. Appraisers use the paired sales analysis shown below to develop adjustments.

Table 1

	Sale 1	**Sale 2**
Sale Price	$175,000	$185,000
Concessions	None- No PACE or Utility Loan	Seller paid $10,000 PACE Loan or utility payment
Financing	Conventional mortgage	Conventional Mortgage
Date of contract	7/2/2011	7/31/2011
Energy Efficiency	Good – HERS 55	Good- HERS 58

Of course, the positive impacts of the any fixed improvements or features of the property would also be analyzed by an appraiser. This includes cost and income considerations as discussed above in the description of appraiser considerations and the three approaches to value.

It is here – the application of the income capitalization approach - where we believe FHFA, Fannie Mae and Freddie Mac could provide strong direction to lenders, encouraging analysis by appraisers, mitigating risks to the Enterprises, and potentially resolving several areas of concern with regard to the PACE program, particularly as it relates to solar integration.

As the leading provider of valuation education, the Appraisal Institute would be happy to partner with FHA on education or a webinar on this subject. Should you have any questions or need additional information, please contact Bill Garber, Director of Government and External Relations, Appraisal Institute, at 202-298-5586 or bgarber@appraisalinstitute.org, or Brian Rodgers, Manager of Federal Affairs, Appraisal Institute, at 202-298-5597 or brodgers@appraisalinstitute.org.

Sincerely,

Appraisal Institute