



Written Testimony Submitted for the Record
Hearing on H.R. 6078
Green Resources for Energy Efficient Neighborhoods Act of 2008
U.S. House Committee on Financial Services
June 11, 2008

Fannie Mae appreciates the opportunity to provide written testimony regarding H.R. 6078, the Green Resources for Energy Efficient Neighborhoods Act of 2008. We commend Representative Perlmutter, Chairman Frank, and members of the Committee who have diligently worked to craft legislation to promote the important goal of greater energy efficiency in the residential housing market.

H.R. 6078 contains provisions adding new requirements for the government sponsored enterprises (“GSEs”), Fannie Mae and Freddie Mac, to purchase energy-efficient and location-efficient mortgages beginning in 2012, increasing in 2017, and once again in 2022. In addition, the legislation allows housing goals bonus credit for energy-efficient mortgage purchases that meet certain standards outlined in the bill.

H.R. 6078 would also require the GSEs to develop and submit a plan to achieve, through the deployment and purchase of energy-efficient mortgages, a 50 percent reduction in the aggregate use of fossil fuels in single-family homes financed by the GSEs. The GSEs would also be required to report to Congress, on an annual basis, on their compliance with the new housing goals outlined in the legislation.

The bill calls for these new goals to begin in 2012, with the initial targets to be set at 5% of all mortgage purchases for energy-efficient mortgages and 3% for location-efficient mortgages. These goals would be ramped up every five years so that these mortgages would constitute a larger portion of the GSE’s purchases over time. By 2022, energy-efficient mortgages would be required to be 25% of Fannie Mae’s mortgage purchases, and location-efficient mortgages would be required to be 10% of such purchases.

Fannie Mae has a history of working with our partners on energy-efficient and location-efficient mortgages. Since the 1980’s, Fannie Mae has offered to lenders products designed to promote household energy conservation. Hence, we have significant experience in this regard and welcome the opportunity to provide our views on this issue.

Fannie Mae supports the intent of the legislation to reduce the nation’s household energy consumption; however, we have significant concerns that the bill would use new housing goals requirements on the GSEs as a means to do so. We do not believe that mandating new goals on

the GSEs for energy-efficient and location-efficient mortgage purchases, as contemplated by the legislation, would be an effective way to achieve either a meaningful increase in these products in the marketplace or serious reductions in household energy usage. Our experience with these mortgage products in the past indicates that there are a number of challenges with the approach envisioned by H.R. 6078.

By way of background, for many years Fannie Mae has been involved in a number of efforts to develop and market “green” mortgages. Two mortgage products we have offered to lenders include standard single-family mortgages that relied on underwriting adjustments, such as those envisioned in H.R. 6078, to increase purchasing power of borrowers who pursue energy efficiency — the Energy-Efficient Mortgage and what we have called Smart Commute or the Transit-Oriented Mortgage.

We designed these mortgages to incent homebuyers to choose energy-efficient homes, or to upgrade inefficient homes with energy-related improvements, by allowing anticipated energy savings to be included in the borrower’s qualifying income and through permitting the present value of the energy savings to be recognized in the property valuation. Similarly, in the case of the Transit-Oriented Mortgage, homebuyers who choose homes near public transit are rewarded by adding the assumed transportation savings to borrower income for qualification. The idea was that, through both efforts, borrowers could qualify for a larger mortgage that would allow them to afford a better, more energy-efficient home or a home in a higher density community with access to public transportation, while also producing cost savings for them and their families over the long run.

Despite our significant efforts marketing these products, they have not been widely utilized in recent years, and our experience has identified several challenges in the marketplace. Perhaps the most significant lesson we have learned is that the mortgage finance products alone do not create demand or induce energy-saving behavior.

- **Lack of Demand:** Consumer demand for these products has been slow to develop and remains somewhat limited. While some improvement has been seen recently, overall the lack of consumer interest remains a challenge. Homebuyers have yet to fully translate expected long-term energy savings into prices they are willing to pay for homes. In addition, homeowners can and do make energy-related improvements to their homes without the use of a specific energy-related mortgage product. Home equity lines of credit and renovation refinance mortgages that permit borrowers to obtain a loan based on the “as completed” value of a property are also widely available and do not entail any special energy rating requirements for borrowers. Indeed, Fannie Mae provides financing for many energy-efficient homes, but the fact is, for the vast majority of these properties, borrowers do not need, or seek out, a special energy-efficient mortgage product to finance them. Instead, they simply leverage our standard mortgage product offerings.
- **Marginal Added Value to the Consumer:** In the case of the Energy Efficient Mortgage and Smart Commute, adjustments to income to increase buying power have not been very effective, given the development and use of more sophisticated automated underwriting models (such as Fannie Mae’s Desktop UnderwriterTM) that have made debt-to-income ratios less rigid in the overall borrower mortgage qualification process. In addition, repeat

buyers and refinance customers, who are more likely to be focused on maintenance costs and energy efficiency than first-time buyers, have not exhibited a need for the “boost” in buying power to qualify for a larger mortgage.

- **Industry Readiness:** While there has been innovation over the years promoting energy conservation in the home-building and home-improvement sector, we believe there is still significant work to be done. Particularly in recent years, while there has been more interest in green housing, knowledge gaps remain, best practices are still being developed, and widespread acceptance is lacking beyond isolated geographic pockets. More progress needs to be made on a variety of fronts before a robust mortgage market in green mortgage products can develop.

We are also concerned about adding additional goals to our regulatory regime. Fannie Mae currently manages seven different housing goals and subgoals, and Congress is considering adding several more in the overhaul of GSE regulation. Adding two more goals that potentially compete with the current goals is overly burdensome and unmanageable. Not only would these goals provide significant challenges for the GSEs, but also, given our experiences with energy-efficient mortgages and location-efficient mortgages, they would do little to achieve the important objectives set out by the legislation.

- **The Market is Not Yet Developed:** Fannie Mae’s experience shows that the primary market does not currently produce the sheer number of energy-efficient and location-efficient mortgages required to meet the goal levels. Fannie Mae estimates that the market would have to produce nearly 500,000 total mortgages that are energy-efficient and location-efficient in order for both GSEs to meet the requirements set forth in 2012. In years with large refinance activity (as we saw as late as 2003), this number would be significantly greater (perhaps double or more) and even more difficult to reach.¹ In contrast, our experience is that, notwithstanding our best efforts to market these products, volume was extremely low. From 2005-2007, Fannie Mae’s energy-efficient and location-efficient mortgage volumes have averaged approximately 61 and 19 loans, respectively, on an annual basis. It is hard to imagine that the market for these niche product options will expand enough by 2012 to make the goals contemplated in this bill achievable. Fannie Mae will, of course, continue to analyze market opportunities in this area.
- **New Goals Would Conflict with Other Mission Requirements:** The new goals would potentially compete with existing housing goals if the qualifying energy-efficient and location-efficient loans did not also meet or exceed each of the other specified goals. For example, if more than 56% of the energy-efficient mortgages purchased by Fannie Mae did not serve low- and moderate-income households; increased participation in the energy-efficient mortgage market would make it harder to meet the current low- and moderate-income housing goal.

¹ This assumes that energy-efficient and location-efficient goals are set at 5% and 3% of mortgage purchases, respectively in 2012. In 2007, Fannie Mae purchased nearly 3 million owner-occupied, one unit mortgages. In order to meet each goal, Fannie Mae would have to purchase 150,000 energy-efficient mortgages and 90,000 location-efficient mortgages. This also assumes that Freddie Mac would need to purchase the same (150,000+90,000+150,000+90,000=nearly 500,000.)

Moreover, there are policy questions that should be addressed satisfactorily before the GSEs endeavor to meet increasing goals, such as whether adding additional debt to individual households, even in the cause of energy conservation, is prudent housing policy, and whether additional debt will affect mortgage performance on a large scale.

Addressing the challenges encountered in the past will require a comprehensive approach that bolsters the industry's ability to innovate in the creation of green housing, leverages energy-related monetary incentives to reward homebuyers and homeowners, and lowers the cost of building green housing. We applaud the Committee's efforts to tackle these challenges. Nonetheless, Fannie Mae's experience shows that specialty mortgage products alone cannot successfully induce demand for energy-efficient housing.

What needs to be done to advance household energy efficiency? Clearly, there is a greater need for more consumer education on the long-term benefits of home energy efficiency. Also necessary is further investment on the supply side to develop affordable, cost-effective technologies and to deliver those technologies on a broad scale. Federal support for continued research into reducing the upfront costs of building energy-efficient homes is critical. In addition, further analysis and research into new technologies to address rising energy costs should be explored. We are encouraged that H.R. 6078 has addressed some of these issues through provisions such as requiring the Department of Housing and Urban Development to spearhead an energy-efficient mortgage education and outreach campaign.

Likewise, the bill provides housing goals bonus credit for the purchase of energy-efficient mortgages; this approach, we believe, is the more appropriate and realistic manner to address this issue as it pertains to the GSEs, given the nascent nature of the market's development.

Fannie Mae thanks the Committee for the opportunity to provide its views regarding the Green Resources for Energy Efficient Neighborhoods Act. We are currently examining this issue anew, given rising energy costs and the increased focus on the issue by policy makers. We support the goal of contributing creative solutions to the energy challenges facing the nation, particularly in the residential sector. We look forward to continuing to work with the Committee on efforts to improve residential energy efficiency and expand green housing initiatives and practices.