Statement for the Record

by

Freddie Mac

Before the

Congress of the United States

House of Representatives

Committee on Financial Services

Hearing on

H.R. 6078, the Green Resources for Energy Efficient Neighborhoods Act of 2008

June 11, 2008

Washington, D.C.

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Thank you for the opportunity to submit our comments for the hearing record on H.R. 6078, the Green Resources for Energy Efficient Neighborhoods Act of 2008 ("GREEN Act"). We support the goals underlying the GREEN Act of encouraging energy efficiency, conservation and the development of renewable energy sources for housing and other buildings. Freddie Mac has incorporated energy-efficient and "green" practices into our day-to-day business operations and, for almost two decades, has included consideration of energy-efficient features in our mortgage underwriting criteria.

We support providing education and incentives to foster the wider adoption of energy-efficient standards and housing features with the ultimate goal of increasing the level of energy-efficient housing stock. Freddie Mac also believes strongly in protecting and preserving the environment. Earlier this year, our "green" practices were recognized by the Fairfax County Board of Supervisors, which awarded us its 2007 Environmental Excellence Award.

While we are committed to energy-efficient practices, we are concerned that certain provisions of the GREEN Act could unduly draw our resources and attention away from fulfilling our mission to provide liquidity, stability and affordability to the entire conventional, conforming residential mortgage market. In addition, Freddie Mac does not have the ability, expertise or resources to drive the creation of more energy-efficient housing stock or to undertake the new and wide-ranging energy reduction strategy proposed in the GREEN Act.

Our Commitment to Energy-Efficient Mortgages

Since 1989, Freddie Mac's Single-Family Seller/Servicer Guide has allowed lenders to consider energy-efficiency when qualifying borrowers for mortgages (see Attachment A). We have provided greater flexibility for energy-efficient properties by allowing lenders to use higher housing expense-to-income ratios and higher debt payment-to-income ratios if the underlying property is energy-efficient or if the property contains energy-efficient features that will result in lower utility charges for the borrower. We interpret energy-efficient features broadly to include the types of low-cost modifications such as caulking and weather-stripping that, in some cases, may be the only affordable energy-efficient options for lower-income borrowers. We believe the flexible underwriting standards we provide for energy-efficient mortgages allows for the appropriate consideration of a property's energy efficiency features and the associated effect on the borrower's ability to repay the mortgage.

The GREEN Act

We are primarily concerned with Section 6 of the GREEN Act, which includes provisions that would:

- amend our statutory purposes to include the promotion of energy-efficient and location-efficient mortgages;
- create separate new enforceable energy-efficient and location-efficient housing goals; and
- require Freddie Mac to establish a plan to lower aggregate home energy use for the mortgages we purchase.

Each of these provisions could have a negative effect on our mission to provide liquidity, stability and affordability to the residential mortgage market. We believe the energy reduction plan proposed by the GREEN Act is infeasible for us to accomplish.

Implications for Our Mission

The GREEN Act would amend Freddie Mac's charter to include as a statutory purpose the promotion and facilitation of energy-efficient and location-efficient mortgages. The GREEN Act also would require our regulator to establish two new enforceable annual housing goals for purchases of energy-efficient and location-efficient mortgages and require us to develop a plan for the use and purchase of energy-efficient mortgages in a manner designed to help achieve, for mortgages we purchase, a 50 percent reduction in aggregate home energy use of fossil fuels by the year 2020.

While well intentioned, we believe that the direct promotion of energy-efficient housing is outside the scope of the public purposes for which Freddie Mac was created to fulfill. Freddie Mac's mission is to provide liquidity, stability and affordability to the nation's residential housing finance system in all economic environments. We are fulfilling that mission. Since the housing crisis began in earnest last summer, the conventional conforming mortgage market supported by Freddie Mac and Fannie Mae has remained (together with the government-insured sector) the only well-functioning segment of the market.

We believe that, in some instances, serving the energy-efficient and location-efficient segments of the mortgage market may not be fully compatible with serving the conventional, conforming mortgage market, including the low- and moderate-income segment of the market, which may make it more difficult for us to meet our existing housing goals and compromise our ability to provide liquidity and stability to the conventional, conforming mortgage market.

For example, energy-efficient and location-efficient properties may not be affordable to low- and moderate-income borrowers to the same extent as higher-income borrowers. Low- and moderate-income borrowers are also likely to have less disposable income with which to make energy-efficient improvements and, when they do make improvements, they may settle for less-costly alternatives, which may be less efficient. Accordingly, we are concerned that efforts to expand our purchases of energy-efficient and location-efficient mortgages could unintentionally draw resources away from the low- and moderate-income borrowers that we currently serve and force us to focus disproportionately on higher-income borrowers.

Reduction in Aggregate Home Energy Use

As noted above, the GREEN Act would require Freddie Mac to develop a plan designed to help achieve, for mortgages we purchase, a 50 percent reduction in aggregate home energy use of fossil fuels by the year 2020. The plan may attempt this reduction through the reduced use of such fuels or through the use of renewable energy resources such as wind, solar, geothermal or biomass energy.

Freddie Mac does not have the ability to influence national or local energy policies and, thus, we would be unable to advance the use of such alternative forms of energy. We do not possess expertise in the energy sector, rather, Freddie Mac provides a secondary market for single-family and multifamily residential mortgages and has very limited ability to influence the property characteristics of existing housing stock. For these reasons, we believe it would be impossible for us to develop and fulfill a plan to achieve a 50 percent reduction in aggregate home energy use for the mortgages we purchase.

In 2005, the Environmental Protection Agency, Department of Energy and Department of Housing and Urban Development announced a joint Partnership for Home Energy

Efficiency (PHEE). The PHEE's primary objective is to draw upon the collective resources and expertise of the three government agencies and to develop and execute a plan to reduce average U.S. home energy use by 10 percent by 2015.[1] In contrast, as a mortgage finance company, Freddie Mac has neither the expertise nor the resources of the PHEE and, as a result, is ill-suited to plan for and accomplish the 50 percent reduction in aggregate home energy use as proposed in the GREEN Act.

As with meeting new location-efficient and energy-efficient mortgage goals, developing an energy reduction plan is highly dependent on circumstances outside our control. Borrower and homeowner needs and desires, local zoning laws and land use patterns, national and local energy policies, development of renewable and more efficient energy sources, and certain geographic considerations all influence the level of energy-efficient housing stock. In addition, it is our understanding that the high costs of energy-efficient retrofitting unfortunately could make it very difficult to achieve large-scale energy reductions in the near future, at least with respect to existing housing stock. According to *Environmental Building News*, energy savings of 50 percent would require substantial rehabilitation and retrofitting, which would be difficult to perform for less than $50,000 per unit.[2] In part, because of these high costs, it is our understanding that most energy-

[1] *Partnerships for Home Energy Efficiency: 2006 Annual Report*, Environmental Protection Agency, Department of Energy and Department of Housing and Urban Development (September 2007).

[2] *The Challenge of Existing Homes: Retrofitting for Dramatic Energy Savings*, Environmental Building News (July 2007).

efficient investments are made only when replacement is necessary and not in response to energy concerns.[3]

For all of these reasons, while we support the creation of incentives for originators, developers and homeowners to increase the level of energy-efficient housing stock, we are concerned that Freddie Mac would not be able to develop the ambitious home energy reduction plan required by the GREEN Act.

Education and Incentives

As a mortgage investor, Freddie Mac's energy-efficient efforts are largely dependent on the cooperation of primary market originators and homeowners as well as the nature and characteristics of the nation's housing stock. As a result, we support educating market participants and providing incentives for developers, borrowers and homeowners to invest in energy-efficient properties or energy-efficient modifications. In addition, we would support the "extra" housing goals credit provided in Section 4 of the GREEN Act, should Congress choose to provide such an incentive.

[3] *The Relationship Between Home Energy Costs And Energy-Related Remodeling Activity*, Becky Russell, Harvard University Joint Center for Housing Studies (June 2006).

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Attachment A

Excerpts from Freddie Mac Single-Family Seller/Servicer Guide, Volume 1:

Section 37.15: Monthly housing expense-to-income ratio

If the property is energy-efficient or contains energy-efficient items (see Section 44.15(q)), higher housing expense-to-income and debt payment-to-income ratios may be appropriate. In its underwriting analysis, the Seller should consider the impact utility charges have on the Borrower's ability to meet the monthly housing expense and properly maintain the property. An energy-efficient property results in lower utility charges, allowing the owner to apply more income to housing expense. If higher ratios are used, the Seller must provide in the Mortgage file the calculation and source documentation used to derive the dollar offset allowed due to lower utility charges. Source documentation may be:

- The appraisal report indicating the energy efficiency of the property, or
- Form 70A, Energy Addendum (Residential Appraisal Report), or
- An established home energy rating system (HERS)

Section 37.16: Monthly debt payment-to-income ratio

Evaluating debt ratios

Higher qualifying ratios may be appropriate in some cases. Examples of conditions that could justify a higher housing expense-to-income or debt payment-to-income ratio are:

1. An energy-efficient property that reduces energy costs (see Section 37.15)
2. The Borrower's probability for increased earnings based on education, job training or time employed or practiced in a profession
3. Rent paid by Related Persons living in the house
4. The existence of verified income that is not included within the definition of "stable monthly income" in Section 37.13 when there is an expectation that future expenses will be lower (such as child-support income that is scheduled to cease in one year when a child

becomes an adult. In this case, the expectation would be that either future household expenses will be lower or that additional income will be provided by the new adult.)

5. The Borrower's demonstrated ability to carry a higher housing expense or higher debt level while maintaining a good credit history

Section 44.15(q): Property description and analysis

Energy-efficient properties

An energy-efficient property uses cost-effective design, construction, materials, equipment and site orientation to conserve energy, consistent with the climate of the area in which the property is located. Items that contribute to the energy efficiency of a property include, but are not limited to, the following:

1. Insulation with adequate R-values installed in ceilings, exterior walls and roofs; around hot water heaters; under floors that cover unheated areas; and surrounding ducts and pipes that are not air-conditioned
2. Caulking and weatherstripping
3. Double- or triple-paned windows
4. Window shading or landscaping for solar control
5. Storm doors and windows
6. Automatic setback thermostats
7. Heating, cooling and lighting systems and appliances designed to be energy-efficient
8. Solar systems for water heating, space heating and cooling
9. Wood-fired heating systems (using outside combustion air)
10. Building designs that minimize energy use, such as reduced window areas and earth sheltering

The appraisal report must list the energy-efficient items in the subject property and note their contribution to the value for the Mortgage to receive the special underwriting consideration allowed under Section 37.16. (See Section 44.13(a) for addendum requirements.)