
TO: Freddie Mac Sellers and Servicers

August 20, 2014

SUBJECT: MORTGAGES SECURED BY PROPERTIES WITH AN OUTSTANDING PROPERTY ASSESSED CLEAN ENERGY (PACE) OR PACE-LIKE OBLIGATION INELIGIBLE FOR PURCHASE

Several California counties have announced energy retrofit programs that permit the imposition of a First Lien priority to secure energy efficient home improvements.

Since 2010, the Federal Housing Finance Agency has indicated that energy retrofit programs, such as PACE programs, which permit the imposition of a First Lien priority, “pose unusual and difficult risk management challenges for lenders, servicers and mortgage securities investors,” and change customary lender priorities.

The purpose of this Industry Letter is to remind Seller/Servicers that Freddie Mac will not purchase either purchase transaction or refinance Mortgages subject to PACE or PACE-like obligations that provide for First Lien priority. The only exception is a Freddie Mac Relief Refinance MortgageSM – Open Access originated in accordance with the requirements of *Single-Family Seller/Servicer Guide* (“Guide”) Section 24.9, *Requirements for Refinance of Mortgages Secured by Properties Subject to an Energy Retrofit Loan*, where the Mortgage being refinanced has a Freddie Mac Settlement Date before July 6, 2010 and the PACE or PACE-like obligation was originated before July 6, 2010.

Further, and as provided in Guide Bulletins 2010-20 and 2011-2, and as Seller/Servicers were reminded in Bulletin 2013-23, Seller/Servicers are responsible for monitoring State and local laws to determine whether a jurisdiction has a PACE program that provides for First Lien priority. In States or localities that have PACE and PACE-like programs that provide for First Lien priority but require a “non-object” determination by the mortgagee, Seller/Servicers are required to object to the encumbrance of any Mortgage owned by Freddie Mac.

To the extent necessary to mitigate greater risks associated with PACE and PACE-like programs, Freddie Mac may take additional actions, that could include adjusting loan-to-value and debt-to-income ratios for Mortgages secured by properties located in jurisdictions that permit such programs.

If you have any questions, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely,



Laurie Redmond
Vice President
Offerings Effectiveness