

Energy Efficient Mortgage

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Energy Efficient Mortgages

Designed to --

- ◆ recognize lower operating costs of energy efficient homes
- ◆ increase affordability for home buyers, regardless of income
- ◆ encourage energy efficient housing nationwide

The right thing to do!

Frank Raines, Fannie Mae CEO

Energy Impacts Affordability

- ◆ All homes benefit from efficiency improvements
 - The average home has a 3 square foot hole
 - Monthly energy bills are lower
 - Home is more comfortable year round
 - Older homes may have significant savings

Energy Affects Affordability

- ◆ Lower operating costs increase housing affordability
 - Home owner can gain equity faster
 - May even help individual to qualify for homeownership
 - Efficiency measures builds capital
 - Helps owners stay in their homes
- ◆ Energy prices predicted to be high
 - Savings continue throughout years in home

Energy Consumption

- ◆ Per capita energy use is projected to increase
- ◆ Projected demand for energy in 2025 is *markedly* higher (25%) than in 2002
 - Sustained growth in the South – where all new homes have central AC – is important factor
- ◆ Average home is expected to be 6% larger
 - New homes are on average 26% larger than existing housing stock
 - Have greater needs for heating, cooling, lighting

Low-Income Households

- ◆ Low-income households spend greater % of income on energy
 - FY 1999, low-income consumer spent 14% of income
 - FY 2000, grew to 19%
- ◆ In many markets first-time home buyer buying older homes
- ◆ Rising energy costs = true hardship for low-income families
 - Millions of households apply for heating & cooling assistance
 - Millions households in arrears on utility bills and face shut off

What Makes a Home Efficient?

- ◆ Efficient Building Envelope
 - Tight Ducts & Construction
 - Improved Insulation
- ◆ Efficient Conditioned Air Distribution
 - Proper sized heating and cooling systems
- ◆ Efficient Equipment
 - High Performance Windows
 - Efficient hot water heaters
- ◆ Siting /landscaping of home to maximize solar heat gain in winter / minimize in summer

Old EEM Shortcomings

◆ Product limitations

- Manually underwritten, not DU compatible
- Too complicated
- 95% LTV for EEM too restrictive
- Widespread misinformation
- Too many products
- Products too complex
- Need for ongoing training

Improved Product

◆ Revisions

- Streamlined product line
- DU solution for the products
- Low income borrower product
- More flexible underwriting guidelines
- Customized rating form for lender to use
- Creative down payment sources such as rebates and tax incentives

Consumer Demand

- NAHB research that consumers willing to spend almost \$3,000 more on average
- Increased recognition of Energy Star brand
- Studies demonstrate that efficiency increases resale value of the home
 - ◆ 1982 Study showed home value increased by \$11.63 per \$1.00 decrease in fuel expenditures
 - ◆ 1985 Study showed that home value increased by \$12.52 per \$1.00 decrease in electric bills

Tell Me Why Again

◆ Sell more houses

- Better marketing message
- Product differentiation
- More referrals with happier clients

◆ Make more money

- Homes can sell at higher value
- Reduced call backs
- More buyers can qualify for home

◆ Reduced Liability

- Quality assurance
- Verification & testing

EEM Benefits

◆ Qualify for larger mortgage

- Monthly energy savings added to borrower's income for qualification purposes

◆ Finance energy retrofits

- Energy improvements to existing homes can be 15% of home's value
- Finance up to 100% of improvements
- Improvements paid over life of mortgage

◆ Increases home's appraisal

- For new construction: appraised value of property plus present value of efficiency improvements
- For retrofits: as-is value plus cost of improvements

Energy Efficient Mortgage

- ◆ Why offer energy specific mortgage?
 - Adds energy savings to borrower's income for qualification
 - Increases appraisal, buyer can select more upgrades
 - Gain alliance with growing number of energy efficient builders
 - Provide additional marketing tool for builders' sales team
 - Tap into growing number of energy efficient homes
 - Demonstrate value to home buyer
 - Allows rebates as down payment source

The Value of Efficiency

Purchase Price	\$250,000
Appraisal	\$250,000
Down payment	\$ 50,000
Loan Amount	\$200,000
Interest	5.5%
P&I	\$1136
Average Utility	\$ 150
Total Expenses	\$1286

Purchase Price	\$253,000
New Appraisal	\$260,000
Down payment	\$ 50,600
Loan Amount	\$202,400
Interest	5.5%
P&I	\$1138
Average Utility	\$60
Energy Savings	\$90
Total Expenses	\$1198
Savings	\$88

Financing Builder Upgrades

Sales price	\$250,000
Appraised Value	\$250,000
Energy Savings Value	\$10,000
New Appraised Value	\$260,000
Borrower upgrades — carpet, landscaping	
New PP	\$255,000

Borrower can finance upgrades

Energy Efficient Mortgage

- ◆ Eligible properties
 - One unit, owner-occupied
 - Owner-occupied principle residences
 - No cooperatives
- ◆ Property must have monthly energy savings calculated
- ◆ Appliance manufacturer rebates OK
- ◆ Tax credits added to income

Energy Efficient Mortgage

Energy Efficient Mortgage	Product Parameters
Product Types	30-year or less, fixed rate, purchase money or refinances
Maximum LTV	100% LTV 105% CLTV
Borrower Contribution	3% from flexible sources
Income Limit	none
Eligible properties	One-family, owner-occupied principal residences w/ Energy Rating
DU	Eligible

MyCommunity EEM

Energy Efficient Mortgage	Product Parameters
Term	30-year or less, fixed rate, purchase or refi
Maximum LTV	100% LTV, 105% CLTV
Borrower Contribution	\$500
Income Limit	100% AMI unless high cost area or FannieNeighbors
Min Credit if manual underwriting	620 for Community 100+, 600 for Comm 97
Eligible Property	One-family, owner-occupied principal residences w/ energy rating
DU	Eligible

How Does a Home Qualify

- ◆ Every home must be rated by a certified energy rater
- ◆ New homes must be more efficient than the “reference home”
- ◆ Existing homes must be retrofitted to be more efficient using cost effective measures
- ◆ Rater provides lender report that includes all the information for EEM
 - Estimated monthly “Energy Savings”
 - “Energy Value” of the energy efficiency measures

www.natresnet.org

RESNET

- What the Media Says About RESNET
- Inside RESNET
- RESNET Services
- Rater Code of Ethics
- Rating Disclosure Form
- Standards and Guidelines
- Rater Training Opportunities
- Member News
- Directories
- Members Corner
- Lenders Corner
- HERS/EEM Info
- RESNET Conference
- Energy Codes

RESNET DIRECTORIES

RESNET maintains the following directories for your benefit. Check out the Member Directory to find those companies and organizations that are assisting RESNET with promoting HERS and EEMs. The Operating HERS Systems directory allows you to see if your state is among the many states that has a certified HERS program. The Lender Directory provides a state-by-state list of lenders offering energy efficient mortgages. If you are looking for a Home Energy Rater in your area, a state-by-state list is also available.

- [Member Directory](#)
- [Operating HERS Systems](#)
- [Rater Directory](#)
- [Accredited HERS Providers](#)
- [Accredited HERS Training Providers](#)
- [Accredited BOP Providers](#)
- [Accredited Rating Software Programs](#)



Underwriting Requirements

- ◆ No minimum credit scores for DU
 - Low credit scores for manual underwriting
- ◆ Pricing not impacted by energy efficiency feature
- ◆ DU Requirements
 - Standard EEM must receive an “Approve” otherwise it must be manually underwritten
 - If MCM EEM receives a EA Level I-II, MCM pricing applies with no additional LLPAs
- ◆ One month reserve required for manual underwriting

New Home Process

- ◆ Select energy efficient home to purchase
- ◆ Get energy report from builder
- ◆ Lender gives borrower income “credit” for energy savings
- ◆ Lender adds energy value to appraised value of home
- ◆ Tax credits, if relevant, also added to income
- ◆ Rebates, if available, included in available funds for closing
- ◆ Borrower may qualify for larger mortgage, sees value of the efficiency measures

Existing Home Process

- ◆ Borrower selects home
- ◆ Borrower contracts with energy rater
- ◆ Rater prepares an energy report that recommends cost effective measures
- ◆ Borrower selects the measures to install and determines with lender final loan amount
- ◆ Loan closes with additional funds for efficiency measures going into escrow
- ◆ Once installed, contractor paid from escrow -- remaining balance toward principle reduction
- ◆ Loan can be sold to FM after closing, before improvements finished

Local EEM Pilots

- ◆ Over a dozen pilots developed to promote residential energy efficiency
- ◆ Goals include
 - increased consumer awareness
 - builder acceptance and demand
 - realtor training
 - streamlined loan processing
- ◆ Tremendous positive media response to local events and launches

San Antonio PowerHouse TM

- ◆ \$2 billion Fannie Mae housing investment announcement
- ◆ \$500 million in EEMs over 5 years
 - Expect 5,000 new homes over 5 years
- ◆ Includes largest builders in area
- ◆ Greater San Antonio HBA, local utility are partners
- ◆ Local and national lenders participating
- ◆ Parade of Homes will all be energy efficient

2003 Progress-to-date

◆ 2003 Product Marketing

- Materials and lender list on www.efanniemae.com
- Marketing classes for realtors, builders, other interested groups
- Promotion of product at conferences, seminars, and trade shows
- Consumer oriented brochure available for partners to use
- Housing Counselor Guide in development

Where We Are Now

- ◆ Growing demand for residential efficiency
- ◆ Increasing list of interested relevant partners
- ◆ We have the financial product
- ◆ We have system to process EEMs
- ◆ You can help your buyers get special financing and an immediate decision for these homes

What We Need to Do Now

- ◆ Consumer education on residential energy efficiency
- ◆ Seek out new local pilots and partners
- ◆ Product variances to test new ideas
- ◆ Facilitate local relationships between realtors, builders, loan officers, raters, and home buyers
- ◆ Make the process seamless
- ◆ Explore consumer motivation and additional opportunities for success

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