



Better Buildings Neighborhood Program
Financing Peer Exchange Call: *PowerSaver Program*
Call Slides and Discussion Summary

September 22, 2011

- Call Logistics and Attendance
 - What are participants interested in knowing about PowerSaver?
- PowerSaver Overview and Implementation:
 - Patricia McBarron, Program Manager, PowerSaver Program, U.S. Department of Housing and Urban Development
 - Cynthia Adams, Executive Director, Local Energy Reliance Program (LEAP), Charlottesville, VA
- Grant Project Q&A and Discussion
- Potential Future Call Topics

Participating Grant Programs

- Charlottesville, VA
- Efficiency Maine
- Santa Barbara, CA
- Chicago, IL
- Olympia, WA
- Eagle County, CO
- Maryland
- Greater Cincinnati Energy Alliance



FHA PowerSaver

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FHA HOME ENERGY IMPROVEMENT LOAN PILOT PROGRAM

SEPTEMBER 22, 2011

HOME ENERGY IMPROVEMENTS

The need for affordable financing

- Helping homeowners make money-saving home energy improvements is a top priority of the Administration.
- Home energy improvements can save families hundreds of dollars a year – while creating jobs and reducing pollution.
- More home owners want to make home energy improvements, according to industry forecasts.
- But a lack of affordable, available financing remains a major barrier for many consumers.
- A market need exists for a financing option.

NEW OPTION FOR THE MARKET

- ◆ PowerSaver is designed to support home energy improvement loans through mainstream lenders to consumers who can afford to make proven, energy saving measures.
- ◆ The lien, if any, securing the loan must hold no less than second lien position. The lien must be in second lien position unless there is no first lien.
- ◆ FHA has two goals for PowerSaver:
 - Create a mainstream mortgage product that can be scaled in the market through private capital, through liquidity for lenders and affordable rates for borrowers.
 - Evaluate the costs and benefits of home energy improvements
 - in energy use reduced, dollars saved and value created.

KEY FEATURES OF POWERSAVER

- Based on FHA Title I Property Improvement Program.
 - FHA Insurance
- Potential liquidity opportunities for lenders.
- New incentives for lenders to participate and lower costs for consumers.
- New underwriting/credit requirements and uses of eligible funds.
- Priority targeting to communities that have taken steps to encourage home energy improvements.

POWERSAVER PILOT PROGRAM

- **FR Notice - November 2010**
 - ✓ Proposed the program
 - ✓ Requested public comments
 - ✓ Solicited lenders to participate in a two-year pilot program to make PowerSaver loans.
 - ✓ Interested lenders were asked to submit to FHA nonbinding Expressions of Interest to participate by January 31, 2011.
 - ✓ Participating lenders must be FHA-approved Title I lenders

- **FR Notice – Final April 2011**
 - ✓ Address public comments
 - ✓ Provided final program structure

UNDER THE FRAMEWORK OF TITLE I

Title I Program consists of two components:

1. Property Improvement Loans (1934)
 - ✓ PowerSaver utilizes the framework of Title I Property Improvement loan program.
2. Manufactured Housing Loans (1969)

TITLE I INSURANCE FEATURES

Features that apply to Title I Insurance

- Premiums are 1% of loan amount x loan term and paid annually.
 - Example: \$10,000 loan with a 15 yr term, then the premium is \$1,500. FHA will bill the servicer \$100 each year.
- Premiums may be passed on to the borrower but cannot be financed
- Coverage is lesser of :
 - 90% of Default costs, or
 - Amount in lenders reserve account

USES OF GRANT FUNDS

- 1) Supporting costs associated with creating or enhancing staffing and/or systems necessary to deliver or report on PowerSaver-insured loans;
- 2) Funding costs of loan marketing, origination, and/or underwriting;
- 3) Offsetting costs associated with appraisals and other approved methods of property valuation; and
- 4) For lenders that will also service their own loans, reducing servicing costs.

Note: FHA will closely monitor use of grant money.

PRIMARY FEATURES

Attribute	Eligible
Loan Amount Maximum	•\$25,000
Loan Term	<ul style="list-style-type: none"> •15-years (standard energy improvements) •20-years (renewable energy improvements)
Transaction Types	•No cash-out
Combined-Loan-to-Value	•100%
Appraisal Type	<ul style="list-style-type: none"> •Exterior inspection or •Other FHA accepted method of property valuation
Property Types	<ul style="list-style-type: none"> •Single Family detached •Attached dwellings •Condominiums <p><u>Ineligible:</u></p> <ul style="list-style-type: none"> •Co-operatives •Manufactured Homes
Number of Units	•One

PRIMARY FEATURES

Attribute	Eligible
Occupancy	<ul style="list-style-type: none"> •Owner-occupied <p><u>Ineligible</u></p> <ul style="list-style-type: none"> •Second Homes •Non-Owner-Occupied
Borrower Ownership	<ul style="list-style-type: none"> •1/2 interest minimum
Decision Credit Score	<ul style="list-style-type: none"> •660 minimum
Debt-to-Income Ratio	<ul style="list-style-type: none"> •45% maximum (compensating factors allowed to offset)
Use of Proceeds	<ul style="list-style-type: none"> •Measures that improve home's energy performance (min 75% of loan proceeds) • Other Home Improvements (25% of proceeds)
Disbursement of Proceeds	<ul style="list-style-type: none"> •50% maximum at closing •50% upon completion of the work
Discount Points	<ul style="list-style-type: none"> •Third parties may pay and •Must be bona fide

TARGET MARKETS

- Participating lenders are required to target markets that have already taken affirmative steps to expand home energy improvements.
- **Better Buildings** projects are automatically eligible
- Areas where the **Home Performance with Energy Star** program is available are automatically eligible
- FHA will approve other communities as eligible in consultation with the Department of Energy.

RESOURCES

➤ Title I & PowerSaver Home Page

http://www.hud.gov/offices/hsg/sfh/title/ti_home.cfm

➤ Community partners with DoE for building retrofit projects

<http://www.eere.energy.gov/betterbuildings/>

➤ Home Performance with Energy Star

http://www.energystar.gov/index.cfm?c=home_improvement.hm_improvement_hpwes_partners.

Questions?



- The overarching goal of the PowerSaver loan program, administered by the Department of Housing and Urban Development (HUD), is to help homeowners make money-saving improvements through home energy upgrades.
- The Federal Housing Administration (FHA) insures loans against default as long as they meet minimum standards.
- PowerSaver has adapted the statutes and regulations already in place for Title 1 loans. Some of the regulations were modified to better serve PowerSaver goals.
 - For example, there was a regulation change for PowerSaver to require that participating lenders target communities that have energy retrofit program in place, such as communities with Better Buildings programs.

Key Presentation Points about PowerSaver



- The application period for lenders to apply to participate in the PowerSaver program ended in Jan 2011.
 - Eighteen lenders were selected to participate.
- All lender participants and buyers of PowerSaver loans must be FHA Title I approved.
 - The application to become FHA Title I approved may be accessed at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/title1ap. Questions about the application process can be directed to HUD's Office of Lender Approval.

- There are grant accounting regulations that restrict how grantees can use HUD's grant funds.
 - For example HUD's grant funds cannot be used to buy down interest rates, pay insurance premiums, or pay loan payments.
- Better Buildings grantees can use their funds to meet their own goals, and also support PowerSaver.
 - Examples of support currently offered by Better Buildings grantees are marketing, loan buy down programs, loan loss reserves, and home audits.
 - PowerSaver lenders hope that the Better Buildings programs will support marketing efforts for PowerSaver, particularly when consumers do not meet the requirements of local programs.
 - PowerSaver loan rates can run as high as 9%. Actual interest rates will depend on factors such as whether the lender needs to sell the loans for liquidity, and cost for selling the loan in the secondary market.
 - Programs may also leverage buy-down funds from local energy programs or other sources to lower rates.





The mission of the Local Energy Alliance Program is to lead the effort to retrofit buildings with energy efficient technologies. Our overarching goals include cost savings, job creation, energy self-reliance, and local economic development.



Role of an Energy Alliance



- Implement Programs
- Education & Outreach
- Workforce Development
- Document and promote the benefits of energy efficiency



The Nonprofit Implementer



What are the benefits?

- Mission-driven business – efficient, nimble, and with the community's best interests at heart
- Free to partner with the private sector, foundations, and local government in ways a for profit business or utility cannot
- Success is dependent on doing and creating local jobs, stimulating the economy, and providing **value** to the building owners and occupants
- Alliance structure means we seek to align our goals with our partners' to better ensure success for us all



Home Performance w/ ENERGY STAR



Home Performance with ENERGY STAR® Summary of Energy Improvements Performed



Home Address:

John Q. Public
100 Main Street
Charlottesville, VA 22901

Work Performed by:
A PLUS Insulation Company

Work Verified by:
The Best Energy Auditor

Work Completed on:
January 31 2011

Executive Director

Home Performance Improvements:

*Accessed all kneewall areas & foamed 6" open cell foam and installed passive grates

*Main attic-foamed entire roof deck with 6" open cell foam

*Insulated basement floor to an R30 with fiberglass batts

*Installed humidistat in attic to monitor moisture

*Insulated all hot piping runs off DHW tank

*Insulated rim joist with open 3" open cell foam

Home Performance Results Achieved:

All attic areas were addressed and reconfigured spaces brought duct work into conditioned areas. Entire floor area was insulated. Stratification issues improved.

Environmental Impact of Improvements:

Fuel usage and emissions reduced by treating entire attic and floor areas.



HOME PERFORMANCE WITH
ENERGY STAR

Home Performance with ENERGY STAR® offers a comprehensive, whole-house approach to home improvement that results in better energy efficiency, greater comfort, and lower energy bills.

ENERGY STAR is a voluntary partnership sponsored by the U.S. EPA and U.S. DOE to protect the environment through superior energy efficiency.

quick stats

over 200 retrofits completed

(HPwES and Better Basics)

100+ homeowners in pipeline

PowerSaver Loans



Rates

Unsecured PowerSaver Loan up to \$7,500	<u>Apply Now</u> <i>Include "PowerSaver" in the Loan Purpose field and term requested in the comments section</i>
2 years (24 months)	2.99% APR
3 years (36 months)	3.99% APR
5 years (60 months)	4.99% APR
10 years (120 months)	6.99% APR
FHA mortgage insurance premiums for unsecured PowerSaver Loans are waived by the credit union, no other fees apply.	

PowerSaver LOANS

Saving Energy. Saving Money. Improving Homes.

PowerSaver Loan Buy Down



Rates	
Unsecured PowerSaver Loan up to \$7,500	Apply Now <i>Include "PowerSaver" in the Loan Purpose field and term requested in the comments section</i>
2 years (24 months)	0%
3 years (36 months)	0%
5 years (60 months)	0%
10 years (120 months)	6.99% APR
FHA mortgage insurance premiums for unsecured PowerSaver Loans are waived by the credit union, no other fees apply.	



PowerSaver LOANS

Saving Energy. Saving Money. Improving Homes.

Messaging Strategy



\$5000 HPwES job minus bundled rebates

\$2655 cost for improvements is paid back in 6 ½ years
on the utility savings alone

Monthly cash flow is neutral.

Utility savings offset the cost of the improvements.

OR

**3 YR payback: make a \$75/month loan payment
(less the utility savings of \$33/month)**

**And for the cost of dinner for two and a movie,
enjoy health, comfort, and savings**

Key Presentation Points about LEAP



- LEAP is a 501c3 nonprofit with a mission to lead efforts to upgrade buildings to reduce energy use.
 - It is an independent entity but works closely with local governments.
- LEAP is a sub-grantee of the Southeast Energy Efficiency Alliance (SEEA) and a Home Performance with Energy Star sponsor.
- Although LEAP is a Better Buildings sub-grantee, it did not have the funding to put in place a revolving loan program. Instead, LEAP looked to partner with lending institutions.
 - LEAP is mainly interested in working with credit unions because they are mission-driven and focused on thrift (e.g., saving money by saving energy).

Key Presentation Points about LEAP

- In its first year, LEAP completed approximately 200 retrofits.
- A big component of LEAP, offered in conjunction with a partner credit union, is buying-down rates to 0%.
(Interestingly, none of 46 homeowners pursuing upgrades indicated interest in 0% financing on a recent survey.)
- Contractors can offer PowerSaver loans for customers that are not in LEAP's program.

- How can insurance premiums be passed onto borrowers?
 - Premiums can either be rolled into the interest rate or billed directly to the borrower (they must be listed separately from the loan payment on bills). Premiums can't be financed into the loan amount.
- Can incentive dollars be used to pay for HUD insurance premiums?
 - No. Under grant rules, incentives can't be used to pay insurance premiums, buy down interest rates, or make loan payments.
- Can grant funding be used to pay for the costs of ramping-up a program, origination and closing fees, and loan servicing costs?
 - Loan servicers can use the money for servicing costs. Grants can also be used to fund program ramp-up, origination and closing fees, and other costs, such as appraisals.

- If a PowerSaver pilot program provides funds to 18 different lenders (for example), can they all utilize the incentives for ramping-up, origination and closing fees, and loan servicing costs?
 - Yes, lenders have choices on how to use the funds. For example, some lenders are using funds for various types of marketing and outreach (e.g., radio spots, outreach events, games, etc.). If Better Buildings programs have ideas for how to effectively use these funds, participating lenders would likely appreciate it.
- If a project is mixed weatherization and renewable energy, is the term limited to 15 years or can it be extended to 20 years?
 - As long as one of the improvements made with PowerSaver financing is categorized as “renewable” on the list of Eligible Improvements and Standards , and meets the corresponding energy standard, HUD allows the loan term to be as long as 20 years.
- What kinds of residences are eligible? For example, are duplexes, townhomes, or modular homes eligible?
 - Only one-unit residential properties are eligible. Properties may be attached, semi-attached or detached. Condos are permitted. The property record should show ownership for a one-unit property. For example, the funds can’t be used to finance half of a duplex when property tax ID shows the duplex is a 2-unit. Modular homes are eligible, but manufactured homes are not.

- Can payments be made for completed components even if the overall project is still ongoing? For example, if knob and tube wiring needs to be replaced before insulating, can the electrician be paid in full before the completion of the entire project?
 - PowerSaver lenders are allowed to disburse part of the funds before full project completion. Lenders will need to understand what work was completed, and will need to inspect the parts that were done.
 - Regulations state that lenders should disburse 50% at loan closing, and withhold 50% until a project is completed. Sometimes borrowers request that disbursement not occur until the work is done. Lenders have the option to hold the initial 50% in an escrow account and disburse as agreed upon in an escrow agreement. For some equipment upgrades (e.g., HVAC systems), consumers aren't charged until the equipment is installed; in these types of cases, lenders are arranging to disburse funds upon completion.

- What if a desired home improvement is not shown on the list of eligible Improvements?
 - The list of Eligible Improvements and Standards is available at: <http://portal.hud.gov/huddoc/psstandards.pdf>. Nearly every upgrade that would improve home energy performance (e.g., insulation) is eligible and shown on this list. Additionally, PowerSaver permits 25% of loan funds to be used for non energy-efficiency improvements when listed on the Title I Letter 470, which can be accessed from this page: <http://www.hud.gov/offices/adm/hudclips/letters/title1/index.cfm>
 - Exceptions to this list can sometimes be made, especially if the activity is related to any kind of health and safety issue. For example, radon mitigation is not on the list, but it could be covered by some portion of a loan.

- How should programs work with lenders to identify opportunities for bringing together different sources of funding to cover different aspects of a program?
 - Program offices should talk with PowerSaver lenders to determine how they could help each other meet their objectives and leverage each other's strengths. Ideally, programs, lenders and contractors would refer consumers to each other and expand marketing for the various benefits possible. For example, if a homeowner does not meet income or other requirements for the program, the program could refer the homeowner to a local PowerSaver lender.
- How can programs not currently in the pilot access PowerSaver?
 - The current pilot is set through regulations and must be completed before HUD can consider further expansion of program parameters. HUD will evaluate the results of the pilot and use that to determine further expansion.

- What is the timeline is for the application process? Are there examples of the compliance plan that needs to be submitted?
 - HUD's Office of Lender Approval (OLA) reviews the application packages for lender approvals. Currently, the turnaround time for review and decision is 30 days from the time OLA receives an application package. The application requirements can be found at:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/title1ap
- Is it possible that at the end of the 2-year pilot period the program will be opened to other categories of buildings, such as multi-family or commercial?
 - Yes. For the pilot, HUD wanted to keep variables limited to certain features likely to lead to success. HUD has discussed the possibility of including 2-4 unit properties if the program continues after the pilot period. Commercial properties may not be eligible under Title 1 regulations.

- Loan Programs for Low and Moderate Income Households
- Blended Financing Strategies
- Overcoming and Adapting to Financial Strategy Challenges
- Financial Product Messaging and Communications