

FHA's Energy Efficient Mortgages



Purpose of the EEM

- ◆ To Help Achieve the National Energy Goals (to Reduce Pollution)
- ◆ To Help Create Affordable Housing

What is an Energy Efficient Mortgage?

- ◆ A borrower can finance into an already approved FHA loan, 100% of the cost of an eligible cost effective energy package
 - The property does not need to be re-appraised
 - The borrower does not have to be qualified with the additional mortgage amount
- ◆ 5% of property value (not to exceed \$8,000) or \$4,000 which ever is greater can be added onto the approved mortgage amount

What is an EEM (con't)

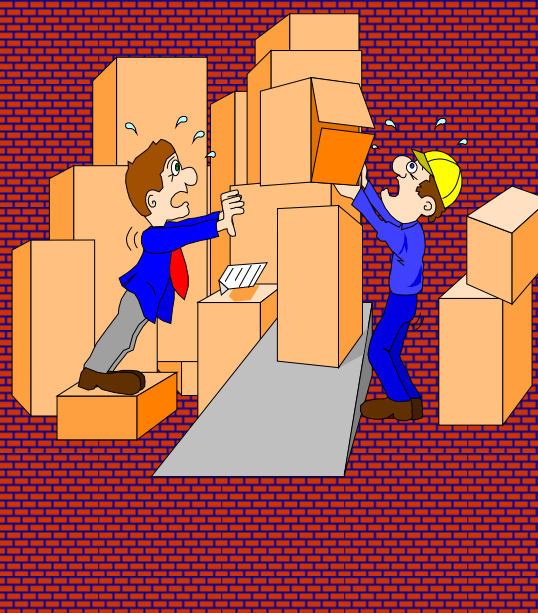
- ◆ Cost effective - the present value of the energy saved is **MORE** than the cost of the energy package (including maintenance)
- ◆ The maximum mortgage amount for an area can be exceeded by the amount of the energy package



Why Are EEMs Important?

- ◆ Reduced utility costs for borrower
- ◆ More discretionary money
- ◆ Better for the environment
- ◆ More comfortable house
- ◆ More security behind the loan (reduced operating cost)
- ◆ Expanded markets for lenders and real estate agents

Resources

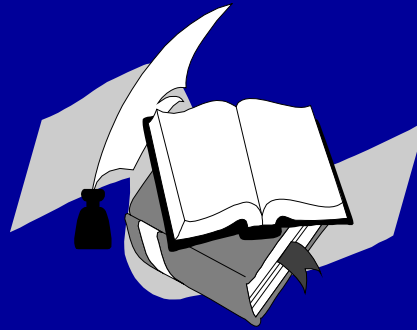


Other Websites

- ◆ www.eren.doe.gov
- ◆ www.hers-council.org
- ◆ www.cheers.org
- ◆ www.natresnet.org
- ◆ www.naseo.org.
- ◆ www.bcap-energy.org/home.php

HUD Handbooks

- ◆ 4155.1 REV-4 (Underwriting)
- ◆ 4150.1 (Appraisal)
- ◆ 4150.2 (Appraisal)



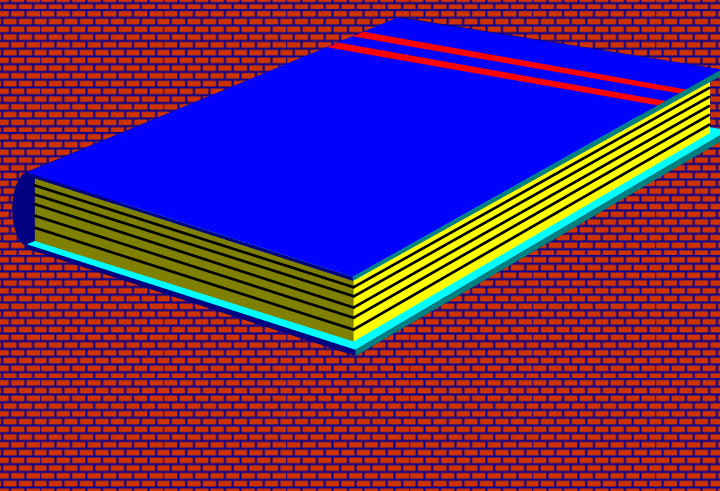
Mortgagee Letters

- ◆ 93-13 (basics of the program)
- ◆ 93-26 (MEC & new construction)
- ◆ 95-40 (w/ 203(k))
- ◆ 95-46 (new construction & nat'l scope)
- ◆ 97-10 (w/ 203(h))
- ◆ 97-22 (promotion of EEM)
- ◆ 98-02 (with 203(k) & adding 3-4 unit properties)
- ◆ 00-28 (AUS)
- ◆ 05-21(EAP & EEM)

Other HUD Resources

- ◆ HUD “Rehabilitation Energy Guidelines for 1 to 4 Units”

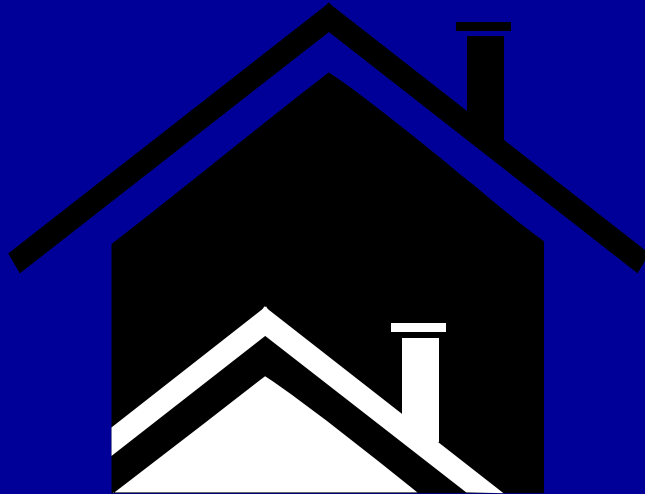
Program Details



EEM vs. EEH

- ◆ EEM is a mortgage product adding additional dollars to the loan amount.
- ◆ EEH is a house built to state and local codes and the 2000 International Energy Conservation Code and therefore energy efficient. It is assumed that the house is energy efficient. Borrower is eligible for stretch ratios.
- ◆ CHUMS question on EEM is only for an EEM not EEHs. Correct coding is critical.

What Properties Are Eligible?



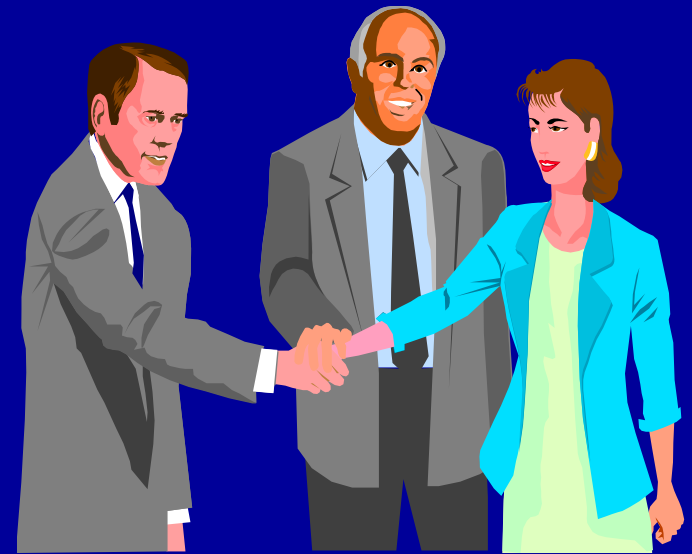
- ◆ 1- 4 units
- ◆ Existing construction
- ◆ New construction
- ◆ SF, townhouses, condos, manufactured houses, duplexes,

What FHA Loans Can Be Used?

- ◆ 203(b)
- ◆ 203(h)
- ◆ 234
- ◆ 203(k)
- ◆ 221(d)(2)
- ◆ Purchase or Refinance, including streamline refinance

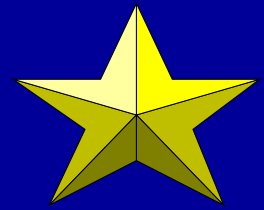
Who Can Get an EEM?

- ◆ Owner-occupants
- ◆ Non-profits
- ◆ Governmental agencies
- ◆ Investors (ONLY with a streamline refinance without an appraisal)



The Home Energy Rating

- ◆ An analysis of the present energy usage and the proposal of an energy package designed to improve energy efficiency.
 - A physical inspection of a house, generally including diagnostic tests.
 - A computer analysis.
- ◆ Energy Scales are Expressed as 0-100
- ◆ 100 = 's a code constructed home based on the energy rating scale.
- ◆ 0 = 's a zero energy home requires no net required energy on an annual basis according to the energy rating scale, or 100% better than code.
- ◆ The lower the number, defines better energy efficiency.



Who Does the Home Energy Rating?

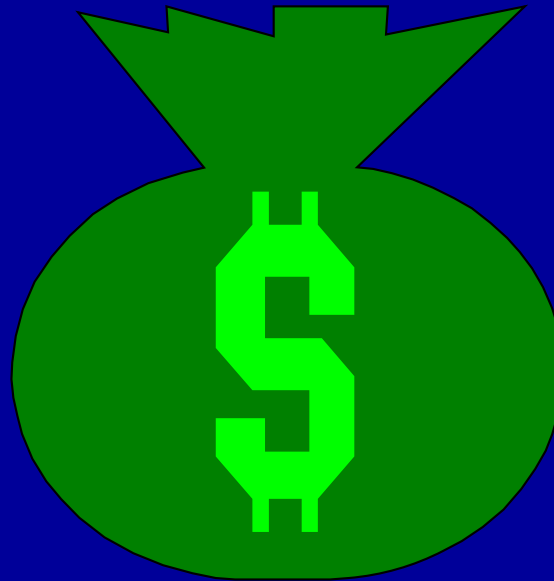
- ◆ A HERS (home energy rating system) provider (meeting national guidelines)
- ◆ An energy consultant
 - A utility
 - A governmental agency
 - A non-profit experienced in energy ratings
 - An entity approved by local, state, or federal government to provide ratings

The Energy Package

- ◆ A combination of energy improvements that are cost effective.
- ◆ HERS report outlines improvements, costs and energy savings.
- ◆ All items in energy package must be completed.
- ◆ Changes are OK (with approved change order) if the energy package with the changes still are cost effective.
- ◆ Fee can be included in the Energy Package.

Loan Limits

- ◆ Statutory mortgage limit can be exceeded by the amount of the EEM.



Calculating the EEM Amount

- ◆ The Home Energy Rating Report provides the cost of the Energy Package, the energy savings and the Present Value of savings
- ◆ Attachment B1 (often part of the HERS report)
- ◆ **Critical Question** -Is the cost of the Energy Package less than the Present Value of Energy Saved?

EEM Amount (con't)

- ◆ If Yes, compare the cost of EP to the property value. The EEM amount will be:
- ◆ Actual cost , if cost is less than \$4,000, or
- ◆ \$4,000, if cost is more than \$4,000, but less than 5% of value, or
- ◆ Lesser of cost or \$8,000, if cost is less than 5% of value, or
- ◆ Lesser of 5% of value or \$8,000, if cost is greater than 5% of value.

EEM Amount (con't)

- ◆ Calculation should be in “Remarks”
- ◆ Ratios are calculated before the EEM amount is added
- ◆ MIP is on the total loan amount
- ◆ LTV may well be over 100% (up to 107% with simplified calculation); for a 203(k), LTV can't exceed 110%

Fees

- ◆ Home Energy Rating
 - varies (\$300-\$500 typical)
 - needs to be what's usual and customary
 - can be part of the Energy Package
- ◆ Post Test/ Compliance Inspection
 - usually in Rating Fee
 - usual inspection fee can be part of the Energy Package

Getting the Work Done

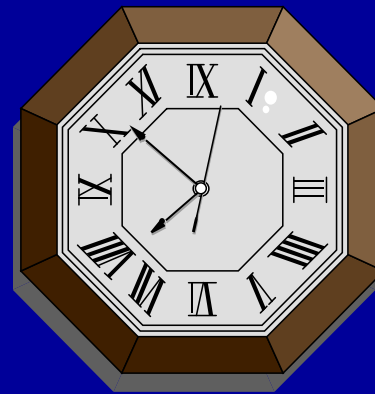
- ◆ Borrower should get bids before closing
- ◆ EEM dollars are put into a non-interest bearing escrow account - or if combined with a 203(k), put into the Rehab Escrow Account
- ◆ 90 days to complete work (6 months if a 203(k))
- ◆ Contractor can't be Rater for HERS

Getting the Work Done (con't)

- ◆ Post test/compliance inspection when work is done
- ◆ If work is OK and meets PV test, the money is released
- ◆ If the work doesn't meet the PV test, borrower will have to re-do or add improvements

Time for Work

- ◆ Retrofit must be done within 90 days
- ◆ If combined with a 203(k), the work must be done within 180 days
- ◆ Post test done at completion



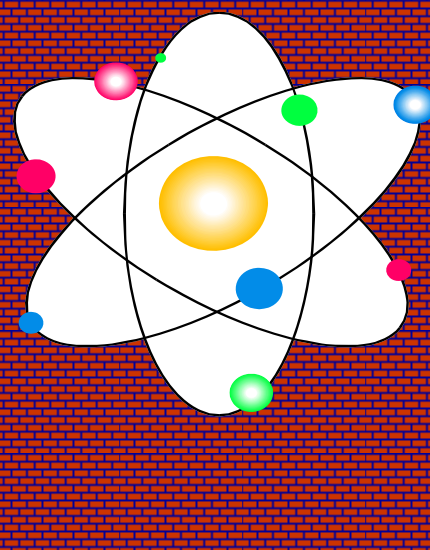
EEM and 203(k)

- ◆ Home Energy Rating Report done before work write up.
- ◆ Energy Package needs to be incorporated into work write up.
- ◆ There may need to be additional EEM inspections. Consultant and rater decide how many.

Required Documents

- ◆ Mortgage Credit Analysis Worksheet (MCAW) or 203(k) Maximum Mortgage Worksheet showing EEM calculations
- ◆ The Home Energy Report
 - behind MCAW
 - if a 203(K), with Maximum Mortgage Worksheet
- ◆ Attachment B (usually part of Home Energy Rating)
- ◆ Escrow Agreement

FHA's Other Energy Products



Weatherization

- ◆ 4155.1 Rev 4, Chg. 1, Para C(2) and 4150.1, Rev-1
- ◆ Mortgage amount can be increased by the cost of weatherization items
 - Cost is added to sales price and value
- ◆ Cost effectiveness is not a requirement
- ◆ Depending on the cost, an appraisal may not be required
- ◆ In some cases, weatherization may be combined with the EEM

Solar Energy Systems

- ◆ 4155.1, rev-4, chg. 1, Para C(3) and 4150.1 rev-1.
- ◆ Cost of solar energy system is added directly to the mortgage amount.
- ◆ It may exceed the statutory limit by 20%.
- ◆ Amount added is the lesser of replacement cost or effect on market value.
- ◆ System can be active or passive.