

Energy Efficient Mortgage Webinar - Nov. 20, 2008

1) Howard Banker

Chief Lending and Investment Officer, Opportunity Finance Network (Energy Programs Consortium)

- The Opportunity Finance Network serves as the third party lender oversight organization for lenders working with Energy Efficient Mortgages.
- Approved lenders and loan products can use the ENERGY STAR logo (but not the Certification logo) and be called ENERGY STAR mortgages.
- Loans for home improvements can also be combined with mortgages into one package.
- Other types of loans can be used for home improvements as well (refinance, unsecured, grants, subordinate mortgage, etc). Lenders can still be ENERGY STAR lenders if they use other types of loans. Furthermore, lenders must offer some sort of additional benefit for using EEMs (e.g. - lower interest rate, reduced closing costs, etc.).
- A pilot program in Maine, Massachusetts, and New York will allow loans for home improvements to a home that increases whole home energy efficiency by at least 20%. Colorado, New Jersey, Pennsylvania and Washington, DC will likely be included in the next phase of the pilot program.
- HERS audits can be used for the pre and post testing as well as audits done in association with a Home Performance with Energy Star program. Alternatively, states can use a different method for verifying the energy savings of home improvements (this has to be reviewed and approved by a federal or state entity) and use these results in place of the HERS audit.
- Another goal of this program will be supporting low income communities. Maine, Massachusetts and New York were selected because they have strong existing energy efficiency programs. As a result, it will be easier to refer low income families to lenders in these states.

Questions:

Q: How are audits paid for?

A: Audits are typically paid for by the borrower. Some states have energy grants to pay for the audit. The lender can also offer a grant to pay for audit. Audits tend to range in price from \$350 to \$800 but on average are \$400 to \$500.

Q: Don't EEMs already exist?

A: The ones that exist do not have explicit HERS protocols. This pilot allows for state-approved or sponsored audits.

Q: Can a green program allow for access to EEMs?

A: Yes, as long as the home meets ENERGY STAR criteria.

2) Matt Miller

Single Family Sourcing, Strategy and Offerings Management, Freddie Mac

- Freddie Mac is a secondary market for loans purchased from other lenders.
- For manually underwritten loans, energy efficiency can be used as a feature for most loans. But the mortgage file must contain an appraisal report of energy efficiency, energy addendum, and/or HERS rating.
- No maximum limit on income to expense ratios that may be extended due to energy efficiency.
- Energy efficiency features are not permitted in Loan Prospector (automated underwritten loans).

- EEM renovation mortgages are available. These are mortgages for homes that are used to improve the energy efficiency of an existing home.
- Prior to the completion of improvements, the costs of improving energy efficiency are included in the total loan (along with the mortgage).
- Energy efficient items should be noted in the comments section.

Questions:

Q: How does Freddie Mac educate lenders about the EEM loans they are purchasing?

A: At the moment, there is no outreach or training addressing this issue.

Q: What is the status of promoting Energy Efficient Mortgages through legislation?

A: There is a section (2902) of proposed legislation for the HUD secretary to develop recommendations to eliminate barriers to the use of energy efficient mortgages. No price incentives are currently available.

Q: Who underwrites the loan after the appraisal?

A: Freddie Mac does not underwrite the loan, they purchase the loan after it has been underwritten.

Q: How do we educate the underwriter so they know the benefits of energy efficiency?

A: The appraiser will have to complete the 70a form that answers various questions and provide it to underwriter.

3) Dick Bradley

Credit Policy Specialist, Office of Program Development, Federal Housing Administration, U.S. Department of Housing and Urban Development

- To add home improvements to a FHA loan, a second appraisal is not required. But the borrower must first qualify for the base loan amount. Cost-effective improvements (including maintenance costs) can be added without 2nd appraisal (\$8000 or 5% value of house cap).
- Energy Efficient Homes (EEH) are homes that are built to 2000 IECC or later (borrowers can qualify for stretched qualifying ratios). This includes 1-4 unit properties, existing and new homes, single family homes, townhouses, condos, manufactured homes and duplexes. Coops will soon be covered.
- EEH loans can be extended to owner-occupants, non-profit organizations and government organizations.
- Lenders must ensure fees are usual and customary. Fees for inspection can also be financed.
- The present energy usage of the home is analyzed by a HERS rater through a computer analysis and physical inspection of home (e.g. - blower door test). Utilities can provide ratings as well.
- The borrower is responsible for contracting the work. HERS raters should not provide materials or labor. Work should be completed in 90 days or 6 months (203-K).
- A worksheet which shows EEM calculations must also be filled out by the lender. The lender must conduct a final inspection and ensure that energy savings are taking place.
- In addition, the lender must hold back payment home improvement services until the work is complete. If the home will not achieve energy savings, the home improvement plans must be changed to make it efficient or the balance in funds can be used to pay down the principal of the loan. The payment is released after final inspection and inspector says the system is working properly.
- The FHA EEM program was included in recent legislation but there is a technical correction which must be addressed before the legislation can pass.

Questions:

Q: Could I get a copy of rehab guidelines? Is 2000 IECC always used as reference code?

A: The code will be periodically changed to a new code. Currently, there are thoughts of changing the reference code because many states are ramping up their code requirements. There are some concerns that doing this will make improvements less cost effective. Rehab guidelines will be sent upon request.

Q: Is there data on how many FHA EEMs have been issued?

A: There have been some problems with lenders entering the appropriate information for EEMs. The only FHA EEMs that are being tracked are those relating to retrofitting. Homes that are built to higher standards are lumped into all other FHA loans.

Q: How can renewable energy be incorporated into EEMs?

A: While renewable energy technologies are eligible for EEMs, they tend not to be cost effective for typical borrowers due to the high costs of these technologies (e.g. photovoltaic). But the higher caps may allow some borrowers to add renewable energy into their loans.

4) Bill White

Supervisory Loan Specialist, U.S. Department of Veterans Affairs

- The VA EEM program is only for existing homes. These are not allowed for new loans.
- The VA website lists many ways to improve existing homes.
- The improvements are based on cost. HERS ratings are not required.
- For loan increases between \$3k to \$6k, the cost of improvements must not exceed savings on utilities. It is highly preferred that these improvements be completed before closing (within 6 months). No formal escrow required.
- Veterans can receive loan increases of \$6000 or more if improvements are completed within 90 days.
- Unfortunately, this program is not very well known and is only a small portion of all guaranteed home loans that include energy efficient improvements.
- Sometimes, lenders are reluctant to process these types of loans.
- A lender's handbook and lenders lines are available for reference on how to handle these loans.

5) Jean Ballard

Fannie Mae, Senior Product Developer, Product Management and Development

- EEMs have been offered for 20 years but resources were pulled due to low lender interest and few incentives as the housing market boomed. Fannie Mae now wants to re-engage in EEMs to support the renewed interest in EEMs.
- Fannie Mae is working on ways to make EEMs more flexible and more suitable for the market.
- Fannie Mae would like feedback from the lending community on how to make their EEMs more successful

(Jean opened up the call to elicit ways to improve EEMs)

Comment: The home appraiser must fill out a form that indicates the lesser of two values (net present value of energy savings and cost of improvements). It is less likely for the appraisal to match the true price of an energy efficient home because the appraiser underestimates the energy savings. The language needs to be changed so the appraiser has a better understanding of the present value of energy savings.

Comment: Any increase in use of EEMs would need to be accompanied by educating EEMs to lenders and borrowers. Any guidance that can be passed on to the consumer would be very beneficial.

Response from Jean: Fannie is reviewing all their materials to make sure they are addressing key areas so EEMs can be readily used.

Q: Is there a list of lenders who offer EEMs?

A: Currently, Fannie Mae does not have a public list of lenders which offer EEMs. This is something we'd like to move towards.

Q: None of the major banks are aware of EEMs. What will be done to change this so consumers can learn of these mortgages?

A: New market conditions should allow people to find EEMs because they need loans to help them qualify.

Q: Has there been any coordination with mortgage insurance companies?

A: Right now, insurance companies are insuring up to the full amount of the EEM.

Comment (from a rater): Lenders have a difficult time finding people who have proper knowledge about EEMs. In addition, Realtors are having problems communicating these benefits to buyers. Mortgage brokers seem to know little about EEMs and are unable to get more information about them. On a side note, homeowners should be aware that fees for energy ratings may cost as much as \$1500. At times, callers have been told that Fannie doesn't have an EEM program.

Response from Jean: Fannie Mae is working on educating employees that we have and have always had an EEM program. I believe that any gaps have been filled on this, but please let me know if you experience otherwise. As for brokers, I know of a number of brokers that specialize in EEMs. Strides have been made to educate realtors by raters (and EPA has educated realtors as well Brian added). These are tough issues and more work needs to be done to spread the word.

Q: Does Fannie Mae support the use of Form 70A or is there another form to use?

A: Fannie Mae does not use the Form 70A. The energy savings for a Fannie Mae EEM is determined by a HERS rating and documented on the Fannie Mae Energy Report. The Fannie Mae EEM relies on the HERS energy report to assess the Energy Savings Value (ESV) – this is the figure that is added to the appraised value. This eliminates the uncertainty appraisers often are faced with if adequate comparable values of other energy efficient properties are not available.

Q: For a new construction EEM, what building code is used as reference?

A: We've recently requested RESNET to change the building code used in the HERS rating for a Fannie Mae EEM. We are moving to the HERS Reference Home, which currently is the 2006 IECC.