

9/23/09



Federal Incentives/Policies for Renewables & Efficiency

Energy-Efficient Mortgages

Last DSIRE Review: 08/03/2009

Incentive Type: Federal Loan Program

State: Federal

Eligible Efficiency

Technologies: Yes; specific technologies not identified

Eligible Renewable/Other Technologies: Passive Solar Space Heat, Solar Water Heat, Solar Space Heat, Photovoltaics, Daylighting

Applicable Sectors: Residential

Web Site: <http://www.resnet.us/ratings/mortgages>

Summary:

Homeowners can take advantage of energy efficient mortgages (EEM) to finance a variety of energy efficiency measures, including renewable energy technologies, in a new or existing home. The U.S. federal government supports these loans by insuring them through Federal Housing Authority (FHA) or Veterans Affairs (VA) programs. This allows borrowers who might otherwise be denied loans to pursue energy efficiency improvements, and it secures lenders against loan default.

The federal Energy Star program has a partnership program for lenders whereby lenders who provide EEMs to borrowers may become Energy Star lender partners. These EEMs may or may not be used to purchase an Energy Star qualified home. Becoming a partner allows lenders to utilize the Energy Star brand to promote themselves as Energy Star partners offering EEMs. To become a lender partner lenders must first provide proof that they know how to write EEMs. To maintain their partnership benefits, lenders must write a certain number of EEMs per year. Energy Star does not have a lender certification program or process. Click [here](#) for more information about Energy Star's lender partnership program. As of August 2008, the federal Energy Star program lists 61 private lenders who offer homebuyer assistance, HERS assistance, special financing, and other assistance to applicants buying homes with the Energy Star rating. Energy Star requires that its lender partners provide EEMs to qualified borrowers regardless of whether it is an FHA EEM, Fannie Mae EEM, or VA EEM.

FHA Energy Efficient Mortgages

The FHA allows lenders to add up to 100% of energy efficiency improvements to an existing mortgage loan with certain restrictions. FHA mortgage limits vary by county, state and the number of units in a dwelling. See www.fha.com/lending_limits.cfm for more details. These mortgages were previously limited to \$8,000. In June 2009, HUD issued [Mortgagee Letter 2009-18](#) which announced the removal of the dollar cap. The maximum amount of the portion of an energy efficient mortgage allowed for energy improvements is now the lesser of 5% of:

- The value of the property,
- 115% of the median area price of a single-family dwelling, or
- 150% of the Freddie Mac conforming loan limit

Loan amounts may not exceed the projected savings of the energy efficiency improvements. These loans may be combined with FHA 203 (h) mortgages available to victims of presidentially-declared disasters and with financing offered through the FHA 203 (k) rehabilitation program. FHA loan limits do not apply to the EEM. Homebuyers must submit a Home Energy Rating (HER), contractor bids, and a FHA B Worksheet. This process may become streamlined in 2009 as a result of the Housing and Economic Recovery Act of 2008, which requires HUD to report to congress with ways to remove the administrative barriers and increase consumer participation and awareness of these financing options.

Presently, up to \$200 of the cost of the HER may be included in the mortgage, and borrowers may include closing costs and the up-front mortgage insurance premium in the total cost of the loan. The loan is available to anyone who meets the income requirements for FHA's Section 203 (b), provided the applicant can meet the monthly mortgage payments. New and existing owner-occupied homes of up to two units qualify for this loan. Cooperative units are not eligible. Homebuyers should submit applications to their local HUD Field Office through an FHA-

approved lending institution, or they can apply directly online at www.fha.com/energy_efficient.cfm. See also www.hud.gov/offices/hsg/sfh/eem/energy-r.cfm.

Department of Veterans Affairs (VA) Energy Efficient Mortgages

The VA insures EEMs to be used in conjunction with VA loans either for the purchase of existing homes or for refinancing loans secured by the dwelling. Homebuyers may borrow up to \$3,000 if only documentation of improvement costs or contractor bids is submitted, or up to \$6,000 if the projected energy savings are greater than the increase in mortgage payments. Loans may exceed this amount at the discretion of the VA. Applicants may not include the cost of their own labor in the total amount. No additional home appraisal is needed, but applicants must submit a HER, contractor bids and certain other documentation. The VA insures 50% of the loan if taken by itself, but it may insure less if the total value of the mortgage exceeds a certain amount.

This mortgage is available to qualified military personnel, reservists and veterans. (See www.homeloans.va.gov/elig2.htm for more details). Applicants should secure a certificate of eligibility from their local lending office and submit it to a VA-approved private lender. If the loan is approved, the VA guarantees the loan when it is closed.

Conventional EEMs

Conventional mortgages are not backed by a federal agency. Private lenders sell loans to Fannie Mae and Freddie Mac, which in turn allow homebuyers to borrow up to 15% of an existing home's appraised value for improvements documented by a HER.

Fannie Mae also lends up to 5% for Energy Star new homes. Fannie Mae EEMs are available to single-family, owner-occupied units, and Fannie Mae provides EEMs to those whose income might otherwise disqualify them from receiving the loans by allowing approved lenders to adjust borrowers' debt-to-income ratio by 2%. The value of the improvements is immediately added to the total appraised value of the home.

Freddie Mac offers EEMs for one- to four-unit dwellings and also helps raise the effective income of the borrower to qualifying levels by allowing lenders to increase the borrower's income by a dollar amount equal to the estimated energy savings. Any energy efficiency improvements can qualify, and these mortgages can be combined with both fixed-rate and adjustable-rate mortgages. Borrowers should apply directly to the lender. See www.natresnet.org/resources/lender/default.htm for more details.