



When you are buying, selling, refinancing or remodeling your home you can increase your comfort and reduce energy costs using an energy efficient mortgage (EEM). Energy efficient mortgages provide benefits for homeowners who purchase homes that are already energy efficient or provide extra funds for homeowners that wish to install energy-saving improvements that make their homes more efficient and more comfortable. While EEMs generally have a slightly higher monthly payment, this is more than offset by savings from energy efficiency.

HOW DO ENERGY EFFICIENT MORTGAGES WORK?

The EEM recognizes that energy efficient homes cost homeowners less to operate on a monthly basis than standard homes because they use less energy. Homeowners or buyers can count the extra income from energy savings in their debt-to-income ratio, allowing them to qualify for a larger loan and often a better interest rate.

There are three principle types of energy efficient mortgage:

EEMs can be used for both purchase and refinance transactions. In each case, an EEM can increase your buying power by factoring the monthly energy savings into your income, allowing you to qualify for a larger loan and better interest rate.

- ☼ EEMs can be used to purchase a home that is already energy efficient, based on verification by a qualified energy rater (see page 2).
- ☼ EEMs can be used to make energy upgrades when buying a non-efficient home, based on recommendations from a home energy rating.
- ☼ EEMs can be used to refinance loans to pay for energy efficiency upgrades to an existing home.

WHAT ARE THE BENEFITS OF AN ENERGY EFFICIENT MORTGAGE?

- ☼ Buyers can show lower debt-to-income and loan-to-value ratios – the key components in qualifying loans – which can allow them to qualify for a larger loan and sometimes a lower interest rate.
- ☼ Energy efficiency improvements can increase the potential resale value of a home and distinguish it in a competitive market.
- ☼ Energy efficient homes are more comfortable and save money on energy costs.
- ☼ EEM financing rates are better than most credit cards or home improvement loans. Mortgage interest is tax-deductible while other forms of credit or financing are not.

The Skinny on EEM financing

In this example, the buyer wishes to make \$30,000 in energy efficiency improvements to an existing home before moving in.

	Existing home	Same home with energy improvements
Loan amount (home value)	\$160,000	\$190,000
Interest rate	6%	5.85%
Monthly payment	\$1,399	\$1,379
Energy Bills	\$225	135
True monthly cost of home ownership	\$1,654	\$1,514
Monthly savings	—	\$140

* this table is for estimation purposes only and should not be considered a quote.

WHO IS ELIGIBLE FOR AN ENERGY EFFICIENT MORTGAGE?

All buyers who qualify for a home loan can also qualify for an EEM; availability is not limited by location, price or the homeowner's utility company. An EEM can be provided for government (FHA and VA), conventional, portfolio, and jumbo loans. A lender will help you decide which loan type is best for you.

To qualify, the efficiency of a home and the expected savings from proposed energy efficiency improvements must first be verified through a home energy rating, conducted by a qualified energy rater (see side bar).

WHO OFFERS ENERGY EFFICIENT MORTGAGES?

Energy efficiency mortgages are not unlike most other mortgages: they are provided by a range of lenders, are federally recognized and are competitive. You can get more information on EEMs on the internet or from your lender.

National loans:

- Federal Housing authority (FHA) EEM
- 203(k) FHA Home Rehabilitation Loans
- Veterans Affairs (VA) EEM
- Fannie Mae and Freddie Mac EEMs

State or regional EEM lenders:

- Dutch Creek financial Services - Boulder, CO
- E-star - Denver, CO
- GMAC Mortgage (Fannie Mae) - National

LEARN MORE

Go to the home page of these sites and search for energy efficient mortgage

Department of Housing and Urban Development: www.hud.gov/offices/hsg/sfh/eem/energy-r.cfm

Department of Energy:

www.eere.energy.gov/consumer/your_home/designing_remodeling/index.cfm/mytopic=10380

Fannie Mae: www.fanniemae.com

Residential energy Services Network: www.natresnet.org/resources/lender/lhandbook/fnm_co_pilot.htm

The Skinny on home energy ratings

To qualify for an energy efficiency mortgage, the home must undergo a home energy rating, conducted by an accredited rater, working with a home energy rating system (HERS). This is an evaluation of the home's efficiency to calculate energy costs and to uncover opportunities for additional energy savings.

The home energy rating looks at aspects such as insulation, appliances, windows, local climate, and utility rates. The final report includes:

- Overall energy rating of the home as it is;
- Recommended energy efficiency upgrades;
- Estimates of the costs, annual savings and useful life of upgrades;
- Improved rating score after the recommended upgrades are installed.

The energy rating is on a scale of 1 to 100 with higher numbers for greater efficiency. The rating tells lenders how efficient the home is and where there may be opportunities for cost-effective energy efficiency improvements (e.g., energy savings are greater than the total cost of the improvement).

Lenders often provide a list of qualified home energy raters. The cost of an energy rating can range from \$200 to \$400.

Conducting the home energy rating early in the loan process allows other aspects of the loan to proceed while the rating is being performed.

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