



Green Mortgages

by Norm Murphy

My first experience with the Boulder Tour of Solar and Green-Built Homes was much like my first paragliding lesson. There I sat, in the middle of a field wearing a harness and a helmet, strapped to a parachute. I was completely blind to the element that was most important to me at the moment – the wind. As the lesson progressed, I learned to spot thermals that would lift me to the sky, gusts that were miles away, and wind patterns expressed by the clouds. It was thrilling to awake to a power and beauty that had always been around me. Like thermals and wind patterns, many of the conservation features seen in the homes on the Tour are invisible to the untrained eye. Some benefits are difficult to quantify; some are seen readily in the “bottom line.”

No doubt you are aware of rising energy costs and the resulting renewed commitment to conservation and sustainable sources of energy. As part of that effort, a tool from the Jimmy Carter era has been reborn – the green mortgage – but the 21st century version is cleaner, more attainable, and increasingly sophisticated. The green mortgage, or as it’s known by Fannie Mae, the Energy-Efficient Mortgage (EEM), was created to provide financing for installing energy upgrades in homes by recognizing the economic value of efficiency. Here’s how it works:

The Energy-Efficient Mortgage (EEM) recognizes that energy-efficient homes cost less to operate on a monthly basis than standard homes because they use less energy. Many of the terms of a traditional mortgage are still in place, like the all-important debt-to-income ratio. With the

EEM, however, the money saved on monthly utility bills in an energy-efficient home is added dollar for dollar to the income side of the ratio. This translates into greater buying power for the homebuyer, allowing them to invest in a better quality, higher-performing home, or to invest in needed energy-efficiency improvements.

Upon first glance this may look like a wash, but in most cases the return on the efficiency investment will be higher than the cost of borrowing the money,

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even before taking into consideration the rising costs of energy. Furthermore, the homebuyer is insulated from rising energy costs, while the value of the home increases, and they get to live in a more comfortable home with fewer maintenance issues.

In some areas, energy-efficiency improvements can increase the resale value of a home and distinguish it in a competitive market.

An EEM can be used for both purchase and refinance transactions for a home that is already energy-efficient or to finance energy-efficiency upgrades. To qualify for an energy-efficiency mortgage, the home must undergo a home energy rating,

conducted by an accredited rater, at a cost of between \$250 and \$500. Check with your lender to see which type of rating they require, but the most common is the Home Energy Rating System (HERS). A HERS rating evaluates the home’s efficiency to calculate energy costs and to uncover opportunities for additional energy savings. After the audit, the home will get a HERS “score” of 1 to 100 and a report, which includes recommendations for upgrades, and estimates for the cost of the improvements and expected energy savings. To be eligible for the EEM, the home must achieve a 5-star rating and the proposed improvement must be cost-effective; in other words, the monthly savings realized from the property’s utility bills must be greater than the added monthly cost of the energy-efficient mortgage.

An energy-efficient mortgage can make it possible for people at varying income levels to make sustainable improvements to their homes. However, the market for energy-efficient mortgages is still growing in many parts of the country, including Colorado. While a few lenders are beginning to offer discounts on closing costs and lower interest rates for EEMs compared to many conventional loans, overall the mortgage community has yet to get behind the market potential of EEMs. It’s important to find a lender who’s up-to-date on the latest information and is open to experimenting with EEMs. As with any mortgage process, homeowners need to do their homework carefully and talk with multiple lenders to explore the potential value of an EEM for their particular home.

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
Loan amount (home value)		\$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.

Learn More

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

To find a certified HERS rater, got to
www.natresnet.org/directory/raters.aspx

Start your search for an EEM lender at
www.energystar.gov/index.cfm?fuseaction=new_homes_partners.showHomesSearch



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- Assistance meeting the requirements of LEED™ certification
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The Center for ReSource Conservation now provides technical expertise to support and promote green building in residential and commercial construction.

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