

{ Flagstaff's Green Builder }

Why You Should Push for an Energy Efficient Mortgage

By David Carpenter

The Energy Efficient Mortgage (EEM) is an underused product that could get you into a house you would normally not qualify for. The product takes into account the energy consumption of the home when determining the total amount for which the borrower is approved, and it is fully insured by FHA/HUD. Under the program, a third-party rater is used to test the energy efficiency of a home. A qualified HERS rater is usually required. The rater will determine how much more efficient the home is against a baseline. Then the total cost of energy savings over the term of the loan (say 30 years) can be set aside when determining if you qualify. As an example: for a new Energy Star home that costs \$400,000, the HERS rater performs a complete energy performance evaluation and determines through an FHA/HUD-approved process that the home will save \$35,000 in energy consumption over the 30-year life of the loan. Therefore, the borrower only needs to qualify for a \$365,000 loan as opposed to the full \$400,000. In fiscal year 2009, about 3,000, or

nearly \$600 million, in loan balances took into account the monthly utility savings achieved by incorporating energy efficient features into the home's construction. This represents a 146 percent increase over the previous year. Yet, this is only one percent of all loans originated.

Meanwhile, almost 17 percent of single family homes built in 2008 were Energy Star certified, and a recent McGraw Hill Construc-

tion study reported that 21 percent of builders expect to build 90 percent of their homes to a higher environmental standard in the future. So why is this loan program not taking off like it should be? Many experts in the industry do not know how to implement or gain experience with EEMs. The EEM program has been around since the 1980s, but you will need to demand this type of mortgage, and maybe even educate your team. This may be because agents, brokers, and originators prefer to write mortgages with which they are more familiar. The EEM requires additional paperwork and time to close. This may represent a risk to the

separate financing. The new FHA rules regarding limits for improvements have changed from a mere \$8,000 to now 15 percent of the appraised value. By coupling an EEM with a 203k loan, you can buy a used house and upgrade the thermal envelope, windows, doors, insulation, and the home's heating system all with the proceeds of the loan, and even have some left over for that new kitchen remodel.

So start early and do your homework; both the EEM and the 203k will require qualified licensed contractors and consultants to be involved from the very beginning. Any way you look at it, the EEM is catching on and it could be the boost you were looking for to get into that new house. **FBN**

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people trying to get your loan closed and move on to the next one.

EEMs are also gaining popularity when coupled with the FHA's 203k program for resales. Buyers can buy a fixer-upper and make their improvements with mortgage funds instead of

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