

## **THE ENERGY EFFICIENT MORTGAGE MEANS COMFORT AND SAVINGS**

When you are buying, selling, refinancing, or remodeling your home, you can increase your comfort and actually save money by using the Energy Efficient Mortgage (EEM). It is easy to use, federally recognized, and can be applied to most home mortgages. EEMs provide the borrower with special benefits when purchasing a home that is energy efficient, or can be made efficient through the installation of energy-saving improvements.

Home owners with lower utility bills have more money in their pocket each month. They can afford to allocate a larger portion of their income to housing expenses. If you have more cash, why not buy a better, more comfortable home? There are two options with the Energy Efficient Mortgage.

## **THE TWO SIDES OF THE EEM COIN**

## **WHO BENEFITS FROM THE ENERGY EFFICIENT MORTGAGE?**

### ***Buyers:***

- ◆ Qualify for a larger loan on a better home!
- ◆ Get a more comfortable home NOW.
- ◆ Save money every month from Day One.
- ◆ Increase the potential resale value of your home.

### ***Sellers:***

- ◆ Sell your home more quickly.
- ◆ Make your house affordable to more people.
- ◆ Attract attention in a competitive market.

### ***Remodelers/Refinancers:***

- ◆ Get all the EEM benefits without moving.
- ◆ Make improvements which will actually save you money.
- ◆ Increase the potential resale value of your home.

Pay for energy improvements easily, through your mortgage. Your lender can increase your loan to cover energy improvement costs. Monthly mortgage payments increase slightly, but you actually save money because your energy

**Finance energy improvements!**

◆ Cost-effective energy-saving measures may be financed as part of the mortgage!

◆ Make an older, less efficient home more comfortable and affordable!



**Increase your buying power!**

◆ Stretch debt-to-income qualifying ratios on loans for energy-efficient homes!

◆ Qualify for a larger loan amount! Buy a better, more energy efficient home!

bills will be lower!



An EEM can only be done if an official home energy rating, or HERS Report, indicates that it will save you money.



## HERS, or Home Energy Rating Systems

A HERS report is similar to a miles-per-gallon rating on a car. HERS are programs which provide evaluations of individual homes energy-efficiency. A HERS report is prepared by a trained Energy Rater. Factors such as insulation, appliance efficiencies, window types, local climate, and utility rates are used to rate the home and calculate energy costs.

### **A HERS Report includes:**

- ◆ Overall Rating Score of the house as it is.
- ◆ Recommended cost-effective energy upgrades.
- ◆ Estimates of the cost, annual savings, and useful life of upgrades.
- ◆ Improved Rating Score after the installation of recommended upgrades.
- ◆ Estimated annual total energy cost for the existing home before and after upgrades.



Rating scores are between 1 and 100. Higher scores indicate greater efficiency. Cost-effective upgrades are those which will save more money through energy savings than they cost to install.

U.S. Department of Energy recommended Home Energy Ratings contain a numerical score from 1 to 100, a one to five star-plus rating, and the estimated energy costs. Higher scores indicate greater efficiency. Cost-effective upgrades are those which will save more money through energy savings than they cost to install.

## THIS IS WHY THE EEM WORKS

**Energy-efficient homes cost less to own than non-efficient homes, though they may start off with higher price tags.**

	<b>Older existing home</b>	<b>Same Home with energy improvements</b>
Home price (90% mortgage, 8% interest)	\$150,000	\$154,816
Loan amount	\$ 135,000	\$139,334
Monthly payment*	\$991	\$1023
Energy bills	+\$ 186	+\$ 93
The true monthly cost of home ownership	\$ 1,177	\$ 1,116
<b>Monthly savings</b>	-	<b>\$ 61</b>

\* Estimated mortgage payments are based upon principle and interest only, and do not include taxes and insurance. Value indicated here are for example only, and will vary from home to home.

### **Many homes qualify for energy upgrades.**

This home qualified for \$4,816 in upgrades. With the EEM, lenders recognize the savings the upgrades will bring. Borrowers may use these potential savings

may use these potential savings like extra cash, and add the cost of upgrades into the mortgage, paying them off easily as part of the monthly mortgage payment. Once the upgrades are installed the potential savings turn into real savings.

The other EEM option is for the lender to stretch debt-to-income qualifying ratios to allow a larger loan for a house that is already energy efficient. A debt-to-income ratio "stretch" means that a larger percentage of the borrower's monthly income can be applied to the monthly mortgage payment. That means the buyer has more borrowing power based up on the same income.

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## **WHAT THE EEM DOES FOR A BUYER'S BORROWING POWER**

**Added Borrowing Power Due  
to the Energy Efficient Mortgage:**

**\$9,500**

**\$15,800**

Mortgage Rate of 7.5% • Down Payment of 10% • 30 Year Term  
Principal & Interest Only • Tax & Insurance Not Factored

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**AVAILABLE ENERGY EFFICIENT  
MORTGAGE LOANS**

**Federal Housing Administration  
(FHA) EEMs**

The FHA Energy Efficient Mortgage covers upgrades for new and existing homes and is now available in all 50 states. Key features includes:

- ◆ Loan limits may be exceeded
- ◆ No re-qualifying
- ◆ No additional down payment
- ◆ No new appraisal
- ◆ \$4,000 or 5% of the property value (up to \$8,000) may be financed

**203(k) FHA Home Rehabilitation  
Loans**

The FHA 203(k) program enables a home buyer or investor to obtain a single loan to finance both property acquisition and complete major improvements after the time of loan closing. Can be used in conjunction with the FHA EEM. Key features include:

**Case Study:**

**ADDING ENERGY  
IMPROVEMENTS  
THROUGH THE HOME  
PURCHASE**

- ◆ Loan limits may be exceeded
- ◆ Total cost of improvements must exceed \$5,000

- ◆ \$3,000 of upgrades may be financed based solely on documented costs
- ◆ Up to \$6,000 may be financed if upgrades are deemed cost effective

improvements including ceiling, floor and furnace duct insulation, plus a setback thermostat. The lender set aside an extra \$2,300 for the improvements, bringing the total loan amount from \$142,500 to \$144,800. The loan closed, the Theards moved in, and the improvements were installed. The monthly mortgage payment increased by \$17, but the Theards are saving \$45 each month through lower utility bills.

Ask your lender about an Energy Efficient Mortgage. If they are not knowledgeable about the EEM, encourage them to learn about it, or find another lender.

## **WHICH BUYERS AND HOMES ARE ELIGIBLE?**

All buyers who qualify for a home loan qualify for the EEM. The EEM is intended to give the buyer additional benefits on top of their usual mortgage deal. The lender will use the energy-efficiency of the house, as determined by a HERS rating, to determine what these benefits will be.

Energy Efficient Mortgages can be done on most homes. Availability is not limited by location, home price or utility company. EEMs can be done on government (FHA and VA) conventional, Portfolio and Jumbo Loans. Your lender will help you

## **Case Study:**

### **ADDING ENERGY IMPROVEMENTS THROUGH A HOME REFINANCE**

choose which loan type is best for you.

**Get an EEM on:**

- ◆ Older homes qualifying for upgrades
- ◆ New or old homes not requiring upgrades
- ◆ New construction

**SOME THINGS TO KEEP IN MIND**

It is best to have the HERS Rating done as early in the loan process as possible. This way, the Rating can be performed while other aspects of the loan are being processed. Closing the loan should not be delayed.

You may get a larger tax deduction with the EEM because the interest on mortgage payments is tax deductible. This can save you more money than paying for energy upgrades with a credit card, bank loan, or cash, none of which are usually tax deductible.

advantage of lower interest rates. Their lender suggested they get a HERS Rating on the home so they could finance energy improvements through their new mortgage deal as well.

The lender increased the loan by \$8,760 to cover the cost of energy improvements. Their final loan amount was \$176,400, which is higher than they could have gotten with out the EEM. The loan closed and the improvements were installed. These included double-paned windows, wall insulation, ceiling insulation, furnace duct repairs and insulation, and a few smaller items. These improvements, combined with their lower mortgage interest rate, mean the Changs will be saving about \$230 per month. They will be more comfortable too!