

## **ENERGY STAR Mortgage Pilot Program Frequently Asked Questions**

### **What is the goal of the ENERGY STAR Mortgage pilot program?**

The ENERGY STAR Mortgage pilot program is designed to help homeowners make affordable, energy-saving improvements to their homes, in an effort to lower their energy bills and increase the value of their dwellings. The program will help eligible homeowners obtain an energy efficient mortgage, which will pay for the improvements.

Participating lenders must provide a true consumer benefit as part of their loan program(s) that is over and above the energy savings benefit to the homeowner. This can take the form of reduced loan fees, such as assistance with closing costs, or interest-rate reductions. The benefit must be approved by [Opportunity Finance Network](#) (OFN), as part of the application audit review. Opportunity Finance Network is a national nonprofit intermediary and certified member of the Fair Mortgage Collaborative (FMC).

### **Who is sponsoring the program?**

The program is being launched by the [Energy Programs Consortium](#) (EPC), in partnership with the [U.S. Department of Energy](#), [U.S. Environmental Protection Agency](#), state energy and housing agencies, and key support from the [Ford Foundation](#) and the [Surdna Foundation](#).

EPC is a 501(c)(3) nonprofit organization conducting policy research and demonstration programs sponsored by the main organizations representing state energy agencies: [National Association of State Energy Officials](#), [National Energy Assistance Directors' Association](#), [National Association of Regulatory Utility Commissioners](#), and [National Association for State Community Services Programs](#).

### **Who can participate in the program?**

The program will be available to eligible single-family, owner-occupied homes, including lower-income homes.

### **How does an energy efficient mortgage work?**

An energy efficient mortgage incorporates the cost of energy efficiency investments into the total lending package, so that borrowers can pay for those investments over the life of their loans and deduct the interest from their federal and state income taxes.

### **How much energy savings can a home typically achieve through energy efficiency investments?**

Energy efficiency investments can often reduce a home's energy use by up to 30 percent, through the installation of better insulation, energy efficient lighting and windows, and furnace and air conditioning replacement, among other measures.

### **Describe the Energy Star Mortgage Product.**

- The ENERGY STAR Mortgage consists of a first mortgage on the borrower's primary residence that is limited to the government-sponsored enterprises' (Fannie Mae and Freddie Mac) maximum allowable mortgage loan size. It can be a stand-alone mortgage containing the improvements, or a mortgage closed simultaneously with a subordinate energy efficiency loan funded via public monies, utilities, or other sources that includes the efficiency improvements, whichever is in the best financial interest of the homeowner. The first mortgage can be any kind of structure, including a fully amortizing fixed-rate mortgage of various terms, a reverse mortgage, or an interest only/amortizing hybrid with a fixed term and adjustable-rate mortgage as long as the borrower qualifies for the loan at the time of application to its highest adjusted rate and shortest structured term.
- The loan must be for the purchase of an ENERGY STAR qualified home (verified and labeled), or a home purchase or refinance, where the proceeds from the loan(s) are used for a Home Performance with ENERGY STAR assessment and improvements<sup>1</sup> that lead to at least a 20 percent total home energy savings over the home's previous energy usage. As part of the home energy assessment, the homeowner must be informed of the most cost-effective improvements that will achieve at least 20 percent total energy savings.
- There must be a verifiable borrower benefit provided by the lender that is a part of the mortgage loan, e.g., discounted mortgage rate, closing cost assistance, etc.
- Entities verifying the energy efficiency of homes, and contractors performing the improvements for either ENERGY STAR qualified homes or Home Performance with ENERGY STAR, must meet the guidelines established by the EPA and the U.S. Department of Energy (DOE) for these programs.
- The mortgage can incorporate available state and other discount programs.
- A "fee" will be charged to lenders to cover the initial review of their proposed energy efficient mortgage practices. A small fee is charged each year to cover the cost to review, not just the lender's standards, but also the lender's actual loan activity.

### **Describe the Lender Approval, Oversight and Review Process.**

- EPC will monitor the lending activity and the types of energy improvements and resulting predicted savings. EPC will also make final decisions about actions taken against lenders in noncompliance with the pilot program's lending requirements.
- Opportunity Finance Network will certify that the participating lender complies with all program-lending requirements, including the direct consumer benefit provided to the borrower. Within 12 months of the approved lender's participation, the lender will provide a Real Estate Settlement and Procedures Act (RESPA) compliant activity report listing all loans made under the program. Selected files will be audited for compliance with program requirements.
- The pilot program is open to all regulated lenders and/or state supported loan programs, but they must seek approval to participate in the ENERGY STAR Mortgage program pilot by submitting an application to Energy Programs Consortium, with review by OFN.
- The application sent to a lender requesting participation in the ENERGY STAR Mortgage pilot includes a legally binding agreement between the lender and EPC/OFN outlining how the lender

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<sup>1</sup> Or an equivalent process approved by a federal, state, or locally based entity.

reports the loan activity and what the consequences are for noncompliance with the standards, up to and including dismissal from the program.

- OFN does not approve a particular loan product, but a set of standards that the lender/investor products must meet.
- The requesting lender must:
  - Show that it has existing and nationally recognized mortgage investors for the purchase of the mortgage loans and/or evidence that it has adequate capitalization authority for a portfolio approach.
  - Grant authority to OFN to review and interview its production management and facilities teams as well as its loan systems to determine the lender's capacity to offer ENERGY STAR Mortgages.
  - Provide all necessary evidence requested by OFN to demonstrate that the product it offers the borrower is not offset by an increase in other loan costs.
  - Agree to a RESPA-compliant loan activity review of a statistically adequate number of all the ENERGY STAR Mortgages made by the lender in the 12 months after approval of participation in the ENERGY STAR Mortgage pilot.

### **What are the ENERGY STAR Loan Marketing & Compliance Requirements?**

- To market and promote an ENERGY STAR Mortgage, participating lenders and brokers must be active ENERGY STAR lending partners. As partners, lenders and brokers must meet all partner commitments contained in the ENERGY STAR lender partnership agreement including adhering to ENERGY STAR's identity guidelines, in addition to the lender requirements as identified by the EPA, EPC, and Opportunity Finance Network.
- There may be transactions that are intended to meet the requirements of an ENERGY STAR Mortgage but do not, even though the transaction can still bring some energy efficiency or green benefit to the borrower. These transactions may get some additional marketing help from states participating in the pilot program that may want to support local "green" initiatives. States may add green attributes to assist in marketing the loan product, such as an estimate of the carbon footprint of the home with a comparison to an appropriate benchmark home. These loan products do not include and are different from the ENERGY STAR Mortgage.

### **What types of energy efficient mortgages are currently available, and how does the ENERGY STAR Mortgage differ from them?**

Currently, there are three different versions of energy efficient mortgages available in the U.S. The first two versions listed here – mortgages available through Federal Housing Agency and Veterans Affairs programs -- are insured by the federal government.

- 1) **Federal Housing Agency (FHA) Energy Efficient Mortgages:** FHA allows lenders to add 100 percent of the additional cost of energy efficiency improvements to an already approved mortgage loan -- as long as the additional costs do not exceed \$4,000 or 5 percent of the value of the home, up to a maximum of \$8,000, whichever is greater. Homebuyers must submit a Home Energy Rating (HER), contractor bids, and an FHA B Worksheet. 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.

- 2) Veterans Affairs (VA) Energy Efficient Mortgages:** The VA energy efficient mortgage is available to qualified military personnel, reservists and veterans for energy improvements when purchasing an existing home or for refinancing loans secured by the dwelling. Energy improvements are capped at \$3,000–\$6,000. 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.
- 3) Conventional Energy Efficient Mortgages:** Conventional mortgages can be offered by lenders who sell their loans to Fannie Mae and Freddie Mac, which then allows homebuyers to borrow up to 15% of an existing home's appraised value for improvements documented by a HER. The mortgages are not backed by a federal agency. Conventional energy efficient mortgages raise the purchasing power of buying an energy efficient home by allowing the lender to increase the borrower's income by a dollar amount equal to the estimated energy savings. The Fannie Mae loan also adjusts the value of the home to reflect the value of the energy efficiency measures.

**How they differ from the ENERGY STAR Mortgage product:** Unlike the ENERGY STAR Mortgage, the FHA, VA, and conventional energy efficient loans do not require lenders to provide a consumer benefit above and beyond the energy savings, such as a discounted mortgage rate, reduced loan fees, or closing cost assistance. The ENERGY STAR Mortgage is limited to the maximum allowable Fannie Mae and Freddie Mac mortgage loan size, which is significantly higher than the caps allowed by FHA, VA or conventional energy efficient mortgages. Unlike the FHA, VA and conventional loan products, the ENERGY STAR Mortgage requires that the improvements funded by the loan lead to at least a 20 percent total home energy savings over the home's previous energy usage. Also, the ENERGY STAR Mortgage can incorporate public funds or other funding sources. For example, it can consist of a mortgage closed simultaneously with a subordinate energy efficiency loan funded via public monies, utilities, or other sources that includes the efficiency improvements. The mortgage can incorporate available state and other discount programs as well. Additionally, the ENERGY STAR Mortgage permits the use of state-supported audit tools, which are cheaper and easier to use than the more complicated federal standards that are required for the above three mortgage products.

#### **Which states are participating in the pilot program?**

Pilot testing is planned for Maine, Massachusetts and New York beginning in the late fall of 2008. Additional states are expected to join the program in 2009.

#### **Can any state apply to join the program?**

Yes. The pilot program is open to all regulated lenders and/or state-supported loan programs. Interested parties must seek approval to participate in the ENERGY STAR Mortgage pilot program by submitting an application to Energy Programs Consortium, who will forward the application for review and follow up to Opportunity Finance Network.

#### **For more information about the ENERGY STAR Mortgage Program, please contact:**

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