



Selling A Higher Quality Home: The Power of Adding Value Through The Energy Efficient Mortgage

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February 2005



Who is Fannie Mae?

- Private company with a public mission
- Largest supplier of funds to conventional mortgage lenders
- Fannie Mae does not lend money directly to home buyers
- In 2003, provided over \$1.3 trillion in financing for 10 million families

EEM Benefits

- Efficient homes allow the borrower to save money every month
- Monthly energy savings are added to borrower's income for qualification purposes
 - Borrower may qualify for larger mortgage
 - A borrower who makes \$3,000 a month decides to buy a home which should save him \$100/month in utilities (as determined by the energy rating)
 - Lender qualifies this borrower as if his monthly income is **\$3,100** a month, not **\$3,000** a month
- Present Value of the Energy Savings is added to the home's appraised value
 - For loan underwriting, the appraised value = the sum of the appraised value from the appraiser plus the Energy Savings Value (present value of efficiency improvements)
 - For new construction, Energy Savings Value is capped at 5% of the value of the property (i.e., a home appraised at \$100,000 can have an “adjusted appraisal” of up to \$105,000 based on the energy rating)

The Value of Efficiency

Purchase Price	\$250,000
Down payment	\$ 50,000
Loan Amount	\$200,000
Interest rate	5.5%

P&I	\$1136
Average Utility	\$ 150
Total Expenses	\$1286

Purchase Price	\$253,000
New Appraisal	\$255,000
Down payment	\$ 50,600
Loan Amount	\$202,400
Interest rate	5.5%

P&I	\$1149
Average Utility	\$60
<i>*Energy Savings</i>	<i>*\$90</i>
Total Expenses	\$1209

Monthly Savings \$77

** \$90 monthly energy savings would be added to borrower income in the qualification process.*

Benefits of Energy Savings Value

- Higher Appraised Value Used to Increase Price
 - Best for tight housing markets where housing values are not rising quickly
 - Higher appraised value allows builder to sell home for higher price to account for additional costs from energy efficiency -- equipment, appliances, and/or construction techniques
- Higher Appraised Value to Finance Upgrades
 - Borrower can use higher appraised value to finance upgrades from the builder

Increase Home Price

- Resistance from some builders to build energy efficient homes
 - Additional costs of efficiency measures
 - Additional cost of conducting an energy rating
 - Concern that appraisers will “undervalue” the home because they are not well-trained on how to value energy efficiency
- EEM can overcome these concerns
 - The EEM allows the lender to add the “Energy Savings Value” (PV of the savings) to the appraised value of the home
 - Builder does not have to worry about price being higher than appraisal
 - Even if price stays below appraisal, marketing tool for builder

Finance Upgrades

- Many home buyers have little cash for upgrades to the home after closing and other costs
- Buyers at or near 100% LTV cannot finance upgrades purchased from builder unless the appraised value is higher than the sales price
- EEM allows the lender to increase the appraised value by amount of “Energy Savings Value”
- Higher appraisal allows borrower to finance upgrades and pay for them as part of their mortgage costs

Financing Builder Upgrades

- Sales price \$200,000
- Appraisal \$200,000
- Energy Savings Value \$10,000
- New “Adjusted “Appraised Value \$210,000
- Borrower upgrades – New Purch. Price \$205,000
- Borrower can finance upgrades

EEM Product Parameters

- Eligible properties
 - One unit, owner-occupied
 - Owner-occupied principle residences
 - No cooperatives
- Property must have monthly energy savings calculated
- Appliance manufacturer rebates OK

EEM Product Parameters

- “Feature” for any existing products in selling guide
- Automated underwriting (easier process for lenders)
- 30-year, fixed rate
- Purchase or limited cash-out refinance
- 100% LTV
- 3% minimum borrower contribution (does not have to come from borrower’s own funds)
- No income limit for borrower
- Low or moderate income borrowers only required to contribute minimum of \$500 from their own funds

How Does a Home Qualify?

- Every home must be rated by a certified energy rater
 - Home can be energy efficient as-is or need efficiency upgrades – which can be financed
- Rater will provide report that includes all the information the lender needs
 - Estimated monthly “Energy Savings”
 - The “Energy Value” of the energy efficiency measures

- The EEM provides quantitative financial benefits for consumers, lenders, builders and energy raters.
 - Consumers
 - Low down payments
 - Higher appraisals which may allow them to finance more of their “wish list”
 - Additional qualifying income from energy savings
 - Lower home operating costs every month
 - Raters
 - Increased demand (and revenue) for energy ratings
 - Lenders
 - Potentially higher loan amounts
 - New financing tool which differentiates lender from competitors
 - More satisfied, loyal customer
 - Builder
 - Higher valued homes with potentially higher sales prices
 - New opportunity to differentiate builder from competitors



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