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Fannie Mae

Energy Efficient Mortgages

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***CRITERION***  
MORTGAGE LTD

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Pat Goolsby, President  
Criterion Mortgage, Ltd.  
November, 2006

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# A Little History

- Most of the loans Criterion closes are for new or proposed construction
  - In 2000 one of our largest builders began building 100% of their homes with the Energy Star Rating. They keep asking about Energy Efficient Mortgage Options
  - I found few lenders who understood or would talk to us about Energy Efficient Loans
  - Even if I did – I did not find a good fit as the programs seemed too complicated and did not have an option for automated underwriting technology.
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# Fannie Mae Revises EEM in 2002

## ■ Product Revisions

### Streamlined product line

- ❑ DU solution for the products
- ❑ Low income borrower product
- ❑ More flexible underwriting guidelines
- ❑ Customized rating form for lender to use

**Criterion Mortgage has closed 90 EEM loans for 20M in since May 2003**

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# Benefits of the Energy Efficient Mortgage

- **Qualify for larger mortgage**
    - Monthly energy savings added to borrower's income for qualification purposes
  - **Increases home's appraisal**
    - For new construction: appraised value of property plus present value of efficiency improvements
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## Energy Report

For Fannie Mae Desktop Underwriter®

Use this Energy Report to show the Energy Savings (for underwriting purposes in accordance with the requirements of the Energy Efficient Mortgage product) to determine the Energy Savings related to the property. This Report is to be completed by the Energy Rater and submitted to the Lender. This Report must be retained by the Lender in the Loan File.

Borrower Name(s): \_\_\_\_\_

Property Address: \_\_\_\_\_

### Energy Savings

Monthly Energy Savings

54

Enter Monthly Energy Savings Value into Section V "Monthly Income and Combined Housing Expense Information" in Desktop Underwriter®.

### Energy Value

#### New Homes or Energy Efficient Existing Homes

Energy Savings Value

8072

Enter Energy Savings Value into "Additional Data" in the Desktop Underwriter® screen by adding this value to appraised value.

OR

#### Energy Improvements to Existing Homes

Energy Savings Value

Enter into Section VII "Details of Transaction". Add to Line B "Alterations, improvements, repairs"

AND

Enter Energy Savings Value into "Additional Data" in the Desktop Underwriter® screen by adding this value to appraised value.

Rater's/Provider's Signature

*Dave Thompson*

Date

7/25/06

REM/Rate - Residential Energy Analysis and Rating Software v12.2

This information does not constitute any warranty of energy cost or savings.  
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# Qualifying for More Loan

- For every \$1.00 saved on monthly energy costs
  - Borrower can qualify for additional \$60 to \$70 in upgrades/loan amount
  - For example, if monthly Energy Savings are \$54.00. With EEM borrower could qualify for additional \$3,510 in upgrades without effecting their qualification.
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# Value of Energy Efficient Measures – Example based on San Antonio Utility Costs

## Home without Energy Efficient Rating

Purchase Price	\$230,000
Appraised Value	\$230,000
Down payment	\$ -0-
Loan Amount	\$230,000
Interest	6.5%
Monthly P&I	\$1,454
Average Electric	<u>\$ 150</u>
Total Expenses	\$1,604

## Home with Energy Star Rating Builder recoups 2% of EE Measures

Purchase Price	\$235,000
New EEM Value	\$235,000
Down payment	\$ -0-
Loan Amount	\$235,000
Interest	6.5%
Monthly P&I	\$1,485
Average Electric	<u>\$ 116</u>
Total Expenses	\$1,601

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## Value of Energy Efficient Measures – Selling incentive

### Current Home – not Energy Efficient

Current Loan Amount

\$120,000

Interest 5.75%

Monthly P&I \$ 700

Average Electric \$ 400

Total Expenses \$1,050

### New Home with Energy Star Rating

Loan Amount \$220,000

Interest 6.5%

Monthly P&I \$1,390

Average Electric \$ 200

Total Expenses \$1,590

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# Constuction/Permanent

**Borrower acquired land in 1984. Land was free & clear when ready to build.  
Borrower wanted to finance all Construction Cost \$221,000.**

## Loan without EEM

Appraised value of land and new home  
= \$270,000  
Loan Amount/Construction Cost  
= \$221,000  
Loan to Value Ratio = 81.8%  
Loan requires PMI  
P&I at 5.5% = \$1,255  
Monthly PMI =  $\frac{\$ \quad 59}{}$   
Total                    \$1,314

**Borrower would have to put  
down additional \$5,000 to  
avoid PMI**

## Loan with EEM

Appraised value of land and new home  
= \$277,203  
Loan Amount/Construction Cost  
= \$221,000  
Loan to Value Ratio = 79.7%  
Loan does not require PMI  
P&I at 5.5% = \$1,255  
Monthly PMI =  $\frac{\$ \quad -0-}{}$   
Total                    \$1,255

**Borrower saves \$59. per month  
since the loan does not  
require PMI**

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# Constuction/Permanent

**Borrower acquired land in 2004. Land was free & clear when ready to build  
Borrower wanted to finance 80% to avoid PMI.**

## Loan without EEM

Appraised value of land and new home  
= \$263,600

Construction Cost  
= \$242,900 (92% LTV)

80% LTV loan = \$210,880

Required down payment \$32,020.

## Loan with EEM

Appraised value with EEM  
= \$269,953

Construction Cost  
= \$242,900

80% LTV Loan = 215,962

Required down payment \$26,938

**Down payment Saved = \$5,082.**

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# EEM Process for Existing Homes

- 1. Borrower selects an existing home to purchase or improves current home**
  - 2. Borrower contracts with energy rater**
  - 3. Rater prepares an energy report that recommends cost effective measures**
  - 4. Borrower selects the measures to install and determines with lender final loan amount**
  - 5. 100% of Energy Improvements up to 15% of total value can be financed into loan**
  - 6. Loan closes with additional funds for efficiency measures going into escrow**
  - 7. Once installed, contractor paid from escrow -- remaining balance, if any, toward principle reduction**
  - 8. Loan can be sold to Fannie Mae after closing, before improvements are finished**
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# Value of Energy Efficient Measures – Retrofit

## Example based on San Antonio Utility Costs

### Existing Home without Energy Efficient Measures

Purchase Price	\$200,000
Appraised Value	\$200,000.
Down payment	\$ -0-
Loan Amount	\$200,000
Interest	5.5%
Monthly P&I	\$1136
Average Electric	<u>\$ 140</u>
Total Expenses	\$1276

### Existing Home installing recommended Energy Efficient Measures

Purchase Price	\$206,000
New EEM Value	\$206,000
Down payment	\$ -0-
Loan Amount	\$206,000
Interest	5.5%
Monthly P&I	\$1,170
Average Electric	<u>\$ 94</u>
Total Expenses	\$1,264

**Savings \$12**

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# New Homes Constructed with Energy Efficient Measures Benefit Consumers

- Saves Energy
- Provides a living environment that is healthy and comfortable
- Consumer saves on monthly utility costs
- Adds value to home appraisal

## **Families can use monthly savings –**

- Additional buying power
- Family disposable income, vacations
- Saving for education or retirement

*\$50 invested every month at a 7% rate of return for 15 years will earn over \$15,000*

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