

# **The SAVE Act: Sensible Accounting to Value Energy**

## ***Frequently Asked Questions***

### **1. *What is the purpose of the SAVE Act?***

In today's market, homebuyers and home builders are discouraged from purchasing and constructing energy efficient homes. This is due to outdated mortgage underwriting and appraisal standards that fail to account for energy costs in determining affordability and do not consistently and accurately value energy saving features in appraisals. This means that a \$5,000 upgrade for granite countertops is reflected in appraisals while a \$5,000 upgrade for a highly efficient HVAC system is not.

The purpose of the SAVE Act is to correct these problems by requiring all federal agencies to update their underwriting systems to consider energy costs and the value of energy saving features.

### **2. *How would it work?***

The legislation requires HUD to issue updated underwriting and appraisal guidelines for all mortgage insured or purchased by federal agencies. These guidelines would require that energy costs be added to the current criteria used to estimate the cost of homeownership. Consumers that purchase energy efficient homes –which cost less to operate—will be able to apply their monthly energy savings to their principal and interest payment. This is critical to making energy efficient homes affordable. Considering energy expenses in this calculation has the added benefit of improving the accuracy of the underwriting process.

The legislation also requires agencies to update their appraisal criteria to insure that energy saving features are consistently and accurately valued. This is accomplished by adding the net present value of expected energy savings over the life of a mortgage to the value of the home when calculating loan-to-value ratios.

### **3. *When would the legislation take effect?***

Within twelve months of enactment, HUD is required to issue new underwriting and appraisal guidelines for all federally insured or owned mortgages. Agencies would have two years to update their mortgage underwriting systems. Three years after the date of enactment, all mortgages eligible to be insured or purchased by the federal government would be required to comply with the terms of the legislation.

### **4. *How would this legislation benefit the typical homebuyer?***

A typical home in a moderate climate will consume about \$2,800 per year in energy. A new or remodeled home that is 30% more energy efficient would consume about \$2,400 per year in energy saving the homeowner about \$400 per year –or \$35 per month. Making the typical new home 30% more energy efficient would increase the cost of the home by around \$5,000 and increase the monthly mortgage payment by around \$30 per month. Under the SAVE Act, a

homeowner buying the energy efficient home would be able to use the \$35 per month in energy savings to offset the \$30 increase in the mortgage payment. This change allows homebuyers to purchase energy efficient homes without increasing their cost of homeownership.

**5. *How would this legislation affect the quality of mortgage underwriting?***

Today's mortgage underwriting criteria typically considers principal, interest, insurance and property taxes in determining the cost of homeownership. Currently, energy costs are not taken into account which leaves a dangerous "blind spot" in existing underwriting criteria. For the average U.S. home, energy costs are typically higher than both insurance and property taxes. Adding energy as a discreet cost of homeownership will provide lenders with a much more accurate picture of the true cost of homeownership.

**6. *How will expected energy costs be determined?***

The SAVE Act establishes two methods for determining expected energy costs. For newly constructed energy efficient homes and existing homes that have been retrofitted with energy saving features, homeowners may have an energy rating analysis performed to estimate annual energy costs. The legislation requires that the ratings analysis be performed by a qualified third-party using a system recommended by the Secretary of Energy. If an energy rating has not been performed on a home then the underwriter must estimate the annual energy costs using a database maintained by the Department of Energy.

**7. *Isn't actual energy use dependant on consumer behavior? Can it be accurately predicted?***

Several large scale studies have been conducted to determine the correlation between predicted and actual energy savings for Energy Star certified homes. Energy Star uses the Home Energy Rating System (HERS) which is one way of estimating energy use under the SAVE Act.

These studies, conducted independently by Advanced Energy and the Northwest Energy Efficiency Alliance, compared the energy use of Energy Star certified homes against a control group of non-certified homes using consumption data supplied by local utility companies. Both studies found that Energy Star certified homes used less energy than the control group of non-certified homes. The Advanced Energy study compared the energy use of 7,141 homes over a ten-year period and found that the Energy Star certified homes used an average of 16% less energy than non-certified homes. The Northwest Energy Efficiency Alliance study examined 949 homes in Portland and found that Energy Star certified homes used an average of 13% less energy than non-certified homes.

**8. *Would the SAVE Act create more demand for energy efficient homes?***

The SAVE Act will make energy efficient homes more affordable for consumers. Surveys consistently indicate that home buyer's value energy efficiency and will purchase energy efficient homes if they are affordable.

**9. *Would the SAVE Act apply to all homes?***

Yes. The buyer of any energy efficient home, either new or resale, would be able to apply the energy savings to their mortgage payment if the home is rated by a third-party inspector using an approved rating system. However, the legislation does not require an energy inspection for all homes. The decision on whether to have an energy inspection performed is strictly up to the mortgage applicant.

**10. *The legislation relies on the Department of Energy's Residential Energy Consumption Survey (RECS) to determine average energy use. Does RECS provide an accurate picture of average energy use? Is there a better standard?***

Currently RECS is the only database maintained by DOE to track residential energy use. RECS data is collected by DOE directly from public utilities so it is based on actual usage and utility rates organized by climate zone. The legislation provides the Secretary of Energy with the discretion to designate another source for determining average energy consumption if a more accurate database is developed in the future.

**11. *Would the appraisal requirements artificially inflate home values?***

Currently there is no consistent method for valuing energy efficient features in homes. The SAVE Act establishes a specific and accurate method for calculating the value of energy saving that will be used by appraisers and lenders to determine the value of energy saving features. The method is based on energy savings that must be quantified in an energy rating report that is specific to each individual home. As an additional safeguard, the legislation also requires the HUD Secretary to adopt safeguards to prevent the overvaluation or duplicative counting of energy savings

**12. *Is there any precedent for including energy costs in the underwriting process?***

Yes, the underwriting process for loans for commercial property already take into account a building's operational costs including energy. Also, most banks consider energy costs when doing loan work out arrangements for homeowners facing foreclosure. Rather than waiting until then to consider energy costs, the SAVE Act requires energy costs be considered before a home is purchased.

