Legislative Brief

Updating Federal Mortgage Programs to Encourage Energy Efficiency

Public Policy Goals

Reduce the amount of energy that is consumed by homes. Encourage the development of energy efficient building technologies, materials and components. Facilitate the growth of "green jobs" in the residential construction and remodeling sector.

Summary of Legislative Objectives

1.) Update underwriting standards for federally insured mortgages to accurately reflect energy costs. Ensure that demonstrable operating savings are factored into underwriting to offset the incremental expense of making homes more energy efficient.

2.) Adjust appraisal standards for federally insured mortgages to accurately reflect the added incremental value of energy efficiency.

Detailed Discussion – Mortgage Underwriting Standards

"Covered Agencies" are defined as federal agencies and federally chartered entities.

"Federal Insurance" is defined as insurance provided by federal agencies and federally chartered entities.

Direct the Administration to develop enhanced energy efficiency underwriting criteria for all federally insured mortgages as follows:

> -Any mortgage underwriting system that is used to originate a federally insured mortgage must take into consideration energy costs in determining the portion of gross income that can be used to service mortgage debt
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> -To facilitate this consideration, mortgage underwriting platforms must include a line item for "estimated annual energy costs."
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> -Annual energy operating costs shall be determined using one of two methods. A default annual estimated energy cost shall be calculated for each home and shall be based on the size of the home and on the most current version of the Energy Information Administration's Residential Energy Consumption Survey. The default annual estimated energy cost shall be used when an energy efficiency report is not provided.
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> -An energy efficiency report may be supplied by the buyer or seller. Such a report shall be prepared by a qualified third-party and include an estimate of annual energy costs specific to the home being purchased. If an energy efficiency report is provided, it shall be used as the basis for estimating annual energy costs.

-The criteria for calculating the cost of homeownership, (principal, interest, taxes & insurance) shall be expanded to include energy costs. Qualifying income ratios shall be adjusted accordingly. If an energy efficiency report is provided, it shall be used as the basis for estimating annual energy costs. In consultation with DOE, EPA and Covered Agencies, the Department of Housing and Urban Development (HUD) shall study the feasibility of adding water costs and location-based transportation costs to mortgage underwriting calculations. HUD shall report back to Congress within 18 months of enactment. Covered agencies shall fully cooperate in this analysis.

Safeguards & Limitations

-Any federal mortgage insurance program subject to this act shall be prohibited from modifying other underwriting criteria so as to negate any benefit that results from the use of enhanced energy efficiency underwriting criteria.

-Covered Agencies are prohibited from imposing greater buy back requirements or credit overlays on loans that utilize enhanced energy efficiency underwriting criteria.

-Covered Agencies are prohibited from adding additional private mortgage insurance premiums for loans that utilize enhanced energy efficiency underwriting criteria.

-Enhanced energy efficiency underwriting criteria may be used for both new and resale homes and shall be available for all housing types that would normally qualify for federal insurance.

Detailed Discussion – Appraisal Standards

Direct the Administration to develop enhanced energy efficiency appraisal guidelines for all federally insured mortgages as follows:

-An energy efficiency report prepared by a qualified third-party may be supplied by the buyer or seller. Such a report shall include an estimate of annual energy costs specific to the home being purchased. If an energy efficiency report is provided, it shall be used as the basis for estimating annual energy costs.

-For appraisal purposes, the value of energy savings shall be the sum, for the term of the mortgage, of the estimated annual differences between the default estimate of annual energy costs and the estimated annual energy cost as determined by an energy efficiency report. Default annual estimated energy cost shall be calculated for each home and shall be based on the most current version of the Energy Information Administration's Residential Energy Consumption Survey.

-The net present valuation of energy savings shall be added to the appraised value of the home by the appraiser or the mortgage underwriter. The discount rate shall be set periodically by the Administration based on the average interest rate of conventional thirty-year mortgages.

-For homes that qualify for enhanced energy efficiency appraisal guidelines, a copy of the energy efficiency report shall be included in the appraisal report.

-Enhanced energy efficiency appraisal guidelines shall be available for both new and resale homes and for all housing types that would normally qualify for federal insurance.

Detailed Discussion – Monitoring

On an annual basis, Covered Agencies will be required to issue a public report that enumerates the number of mortgages they have insured which use enhanced energy efficiency underwriting standards and appraisal guidelines. This report shall also include the default rates for enhanced energy efficiency mortgages.