



Energy Efficient Mortgages FHA Mortgage Insurance

Purpose

In 1992 Congress mandated a pilot demonstration of energy-efficient mortgages (EEMs) in five States. In 1995 the pilot was expanded as a national program. FHA insured 27,150 EEMs in FY2001, 30,331 in FY2002 and 26,600 in FY2003.

EEMs recognize that reduced utility expenses can permit a homeowner to pay a higher mortgage to cover the cost of the energy improvements on top of the approved mortgage. FHA EEMs provide mortgage insurance for a person to purchase or refinance a principal residence and incorporate the cost of energy-efficient improvements into the mortgage. The borrower does not have to qualify for the additional money and does not make a downpayment on it. The mortgage loan is funded by a lending institution, such as a mortgage company, bank, or savings and loan association, and the mortgage is insured by HUD. FHA insures loans. FHA does not provide loans.

Eligibility Requirements

- ▶ The borrower is eligible for maximum FHA-backed loan, using standard underwriting procedures. The borrower must make a 3-percent cash investment in the property. This 3- percent cash investment is based on the sales price. Closing costs are not included in the 3- percent calculation but may be used to satisfy the requirement. Any upfront mortgage insurance premium can be financed as part of the mortgage.
- ▶ Eligible properties are one- to four-unit existing and new construction.
- ▶ The cost of the energy-efficient improvements that may be eligible for financing into the mortgage is the greater of 5 percent of the property's value (not to exceed \$8,000), or \$4,000.
- ▶ To be eligible for inclusion in this mortgage, the energy-efficient improvements must be cost effective, meaning that the total cost of the improvements is less than the total present value of the energy saved over the useful life of the energy improvement.
- ▶ **The cost of the energy improvements and estimate of the energy savings must be determined by a home energy rating report which is done by a home energy rating system or energy consultant.** The cost of the energy rating may be financed as part of the cost-effective energy package.
- ▶ The energy improvements are installed after the loan closes. The lender will place the money in an escrow account. The money will be released to the borrower after an inspection verifies that the improvements are installed and the energy savings will be achieved.
- ▶ The maximum mortgage amount for a single-family unit depends on its location, and it is adjusted annually. To find FHA Max Mortgage amounts for any county in the country. The cost of the eligible energy-efficient improvements is added to the mortgage amount. The final loan amount can exceed the maximum mortgage limit by the amount of the energy-efficient improvements.

For more information on EEMs:

- ▶ Handbook 4155.1 Rev. 5, section 2-19 and 2-20.
- ▶ Contact Customer Service in your HUD Homeownership Center.
- ▶ See "About HUD's Home Improvement & Repairs" on HUD's Home Improvements Home Page.

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