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## Energy Efficient Mortgages Program

The Energy Efficient Mortgages Program (EEM) helps homebuyers or homeowners save money on utility bills by enabling them to finance the cost of adding energy-efficiency features to new or existing housing as part of their FHA-insured home purchase or refinancing mortgage.

[Information by S](#)[Print version](#)[Email this to a fr](#)**Purpose:**

This program seeks to help achieve national energy-efficiency goals (air pollution) and provide better housing for people who might not otherwise afford it. By considering the savings on monthly utility bills when determining how large a mortgage the household can afford, as many as 250,000 more homebuyers could qualify per year, according to a 1986 study by the Joint Center for Housing Studies. Although EEMs have been available in some States since 1980, they have been little understood or marketed. With EEMs, borrowers need to get a separate, costly loan for energy improvements when buying an existing home.

**Type of Mortgage:**

EEM is one of many FHA programs that insure mortgage loans--and thus encourage lenders to make mortgage credit available to borrowers who otherwise qualify for conventional loans on affordable terms (such as first-time homebuyers) and to residents of disadvantaged neighborhoods (where credit may be hard to get). Borrowers who obtain FHA's popular Section 203(k) Mortgage Insurance for **One- to Four-Family Homes** are eligible for approximately 97 percent financing, and are able to fold closing costs as a front mortgage insurance premium into the mortgage. The borrower must pay an annual premium.

EEM can also be used with the **FHA Section 203(k) rehabilitation program** and generally follows that program's financing guidelines. For energy-efficient housing rehabilitation activities that do not also require buying or refinancing property, borrowers may also consider HUD's **Title I Home Improvement program**.

**How to Get a EEM:**

FHA-approved lending institutions--which include many banks, savings and credit associations, and mortgage companies--can make loans covered by EEM.

**Eligible Customers:**

All persons who meet the income requirements for **FHA's standard Section 203(b) insurance** and can make the monthly mortgage payments are eligible.

apply. The cost of the energy improvements and estimate of the energy must be determined by a home energy rating system (HERS) or an energy consultant. Up to \$200 of the cost of an energy inspection report may be included in the mortgage. Cooperative units are not eligible; individual condominiums may be insured if they are in projects that have been approved by FHA, the Department of Veterans Affairs, or meet certain Fannie Mae guidelines.

EEM can also be used with **FHA's Section 203(h) program** for mortgages to victims of presidentially declared disasters. The mortgage must comply with both Section 203(h) requirements, as well as those for EEM. However, the program is limited to one-unit detached houses.

#### **Eligible Activities:**

EEM can be used to make energy-efficient improvements in one to four unit and new homes. The improvements can be included in a borrower's mortgage if their total cost is less than the total dollar value of the energy that will be saved during their useful life. The cost of the improvements that may be eligible for financing as part of the mortgage is either 5 percent of the property's value (not to exceed \$8,000) or \$4,000--whichever is greater. The **maximum mortgage limit** for a single-family home is \$160,950, plus the cost of the eligible energy-efficient improvements. (Limits may be lower in some areas of the country.)

#### **Application:**

Applications must be submitted to the local HUD Field Office through an approved lending institution. HUD's homepage offers a **searchable list of approved lenders**.

#### **Funding Status:**

In FY 1996, 3,500 loans were endorsed. In FY 1997, 4,700 loans were endorsed.

#### **Technical Guidance:**

EEM is authorized under Section 513 of the Housing and Community Development Act of 1992. Program regulations are in Mortgage Credit Analysis for Mortgage Insurance on One-to-Four-Family Properties (HUD Handbook 4155.1), paragraphs 2-20. This and other FHA programs are administered by the Office of Single-Family Housing in HUD's Office of Housing-Federal Housing Administration. Contact the **Director of Single-Family Housing** at the nearest HUD Homeownership Center.

#### **For More Information:**

The **Department of Energy (DOE)** and HUD established a Joint Initial Energy Efficiency in Housing. To learn more about this collaborative effort, see DOE/HUD Initiative on Energy Efficiency in Housing: A Federal Partners Program Summary Report, which is available from **HUD USER** (1-800-

the existing home before and after upgrades.

Rating scores are between 1 and 100. Higher scores indicate greater efficiency. Cost-effective upgrades are those which will save more money through energy savings than they cost to install.

U.S. Department of Energy recommended Home Energy Ratings contain a numerical score from 1 to 100, a one to five star-plus rating, and the estimated energy costs. Higher scores indicate greater efficiency. Cost-effective upgrades are those which will save more money through energy savings than they cost to install.

A HERS rating usually costs between \$100 and \$300. This could be paid for by the buyer, seller, lender, or real estate agent. Sometimes the cost of the rating may be financed as part of the mortgage. No matter how the rating is paid for, it is a very good investment because an EEM could save you or your buyer hundreds of dollars each year.

upgrades will bring. Borrowers may use these potential savings like extra cash, and add the cost of upgrades into the mortgage, paying them off easily as part of the monthly mortgage payment. Once the upgrades are installed the potential savings turn into real savings.

The other EEM option is for the lender to stretch debt-to-income qualifying ratios to allow a larger loan for a house that is already energy efficient. A debt-to-income ratio "stretch" means that a larger percentage of the borrower's monthly income can be applied to the monthly mortgage payment. That means the buyer has more borrowing power based up on the same income.

**WHAT THE EEM DOES FOR A BUYER'S BORROWING POWER**

**THE EEM PROCESS SIMPLIFIED**

**For a standard home without energy improvements:**

Buyer's total monthly income	\$3,000	\$5,000
Maximum allowable monthly payment 28% debt-to-income ratio:	\$840	\$1,400
Maximum mortgage at 90% of appraised home value:	\$132,900	\$221,500

**For an energy-efficient home:**

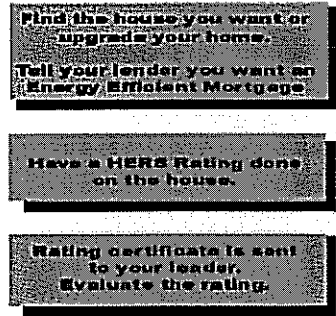
Buyer's total monthly income \$3,000 \$5,000

Maximum allowable monthly payment \$900 \$1,500  
 30% debt-to-income ratio:

Maximum mortgage at 90% of appraised home value: \$142,400 \$237,300

**Added Borrowing Power Due to the Energy Efficient Mortgage:** \$9,500 \$15,800

Mortgage Rate of 7.5% · Down Payment of 10% · 30 Year Term Principal & Interest Only · Tax & Insurance Not Factored



**IF THE HOME QUALIFIES FOR ENERGY IMPROVEMENTS:**

**IF THE HOME QUALIFIES FOR ENERGY IMPROVEMENTS:**

Lender puts extra funds to pay for energy improvement into an escrow "Holdback" account.

Lender "qualifies" you for the loan.

The loan closes and you move in!

The loan is approved.

Energy improvements are installed. Escrow clears!

Either you got a great deal or you got a great comfort!

**In other words:**  
 This buyer got into a home worth thousands of dollars more, just because it was energy efficient. That could mean a home with more living space, in a better location, or in better overall condition.

**AVAILABLE ENERGY EFFICIENT MORTGAGE LOANS**

**Federal Housing Administration (FHA) EEMs**

The FHA Energy Efficient Mortgage covers upgrades for new and existing homes and is now available in all 50 states. Key features includes:

- ◆ Loan limits may be exceeded
- ◆ No re-qualifying
- ◆ No additional down payment

**Case Study:**

**ADDING ENERGY IMPROVEMENTS THROUGH THE HOME PURCHASE**

*"The EEM was the second best thing that*

- ◆ No new appraisal
- ◆ \$4,000 or 5% of the property value (up to \$8,000) may be financed

### 203(k) FHA Home Rehabilitation Loans

The FHA 203(k) program enables a home buyer or investor to obtain a single loan to finance both property acquisition and complete major improvements after the time of loan closing. Can be used in conjunction with the FHA EEM. Key features include:

- ◆ Loan limits may be exceeded
- ◆ Total cost of improvements must exceed \$5,000

### Veterans Affairs (VA) EEMs

The VA Energy Efficient Mortgage is available to qualified military personnel, reservists and veterans in all 50 states for energy improvements when purchasing an existing home. Key features include:

- ◆ \$3,000 of upgrades may be financed based solely on documented costs
- ◆ Up to \$6,000 may be financed if upgrades are deemed cost effective

### Fannie Mae and Freddie Mac EEMs

Fannie Mae secondary market guidelines

*ever happened to me. The first best was actually being able to buy a home. This is our first home, and the EEM saved us a lot of headaches because we knew what we needed to do to the house. It's nice and comfortable now. Even my dogs are happy. I am very impressed."*

**- Pat Theard**

First-time home buyers Patricia and Mynette Theard purchased their home in California. It was built in 1940, and sold for \$150,000. They got an FHA loan for 95% of the value of the property. The lender saw an opportunity for them to improve on their investment and recommended an Energy Efficient Mortgage.

A HERS Rating on the home recommended \$2,300 in energy improvements including ceiling, floor and furnace duct insulation, plus a setback thermostat. The lender set aside an extra \$2,300 for the improvements, bringing the total loan amount from \$142,500 to \$144,800. The loan closed, the Theards moved in, and the improvements were installed. The monthly mortgage payment increased by \$17, but the Theards are saving \$45 each month through lower utility bills.

Ask your lender about an Energy Efficient Mortgage. If they are not knowledgeable about the EEM, encourage them to learn about it, or find another lender.

Call the organizations listed on the back of this booklet. Find out how they can use the EEM to your benefit when you buy, sell, refinance or remodel your home!