

FHA'S Energy Efficient Mortgage Cross Reference Tips



Program Compatibility	
Different EE Policies	<p>FHA has several EE policies. Each may be used separately, or overlay with another EE policy:</p> <ul style="list-style-type: none"> • EEM (Reference: 4155.1 6.D.) • Weatherization (Reference : 4155.1 2.A.5.d-g) • Solar (Reference: 4155.1 2.A.5.g)
Program Overlays	<p>The EEM policy is applicable to all FHA single family programs, 1-4 units, and for both purchases and refinances, including streamline refinances. EEM may not be used with HECM or Cooperative Share Loans.</p>
203(k)	<ul style="list-style-type: none"> • When used with 203(k) mortgages, lenders should show EEM costs on the 203(k) Worksheet (HUD form 92700). • For 203(k), the appraised value represents the After-Improved Value.
Weatherization Items	<ul style="list-style-type: none"> • The amount of energy-related installed cost that exceeds maximum EEM calculation in FHA Connection, may be used under weatherization policies described in HUD Handbook 4155.1 A.5 (d-g). • Weatherization program may be used on top of the EEM loan program, or alone without EEM. • Weatherization items apply only to <i>existing</i> properties. • Weatherization may not be used in conjunction with streamline refi, as this would be considered cash-out. • Any weatherization costs used must added to both sales price (for purchases) and appraised value to calculate the maximum mortgage amount. • The maximum loan amount calculation is subject to statutory limits for a given area. • Up to \$2,000 may be added to both the sales price (for purchases) and the appraised value, without a value determination. Higher amounts must comply with requirements in 4155.2.A.5.e.
Solar Costs	<ul style="list-style-type: none"> • The cost of solar may be added directly to the base loan amount after calculating the maximum LTV ratio limits, and before adding the UFMIP. • The amount that may be added to the mortgage is limited to the lesser of the solar energy system's replacement cost or its effect on the property's market value. • The statutory base mortgage limit for the area also may be exceeded by 20 percent to accomodate the cost of the solar system. [Reference 4155.1 (2.A.5.g)] • The solar program can be used for an existing or new home. • For appraisal considerations of solar systems, see 4150.2, Addendum B-5.
Streamline Refinance	<ul style="list-style-type: none"> • For streamlined refinance without an appraisal, CHUMS and FHA Connection use the value from original appraisal in the prior transaction. • The principal and interest (P&I) payment on the new loan including the energy package may be greater than the principal and interest (P&I) payment on the current loan, provided the estimated monthly energy savings as shown on the HERS report exceeds the increase in the P&I.

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Program Compatibility Continued	
Streamline Refinance Continued	<ul style="list-style-type: none"> • Lenders must determine that there is a net tangible benefit as a result of the streamline refinance transaction, with or without an appraisal. (ML 2009-32)
	<ul style="list-style-type: none"> • <u>With Appraisal</u>: This section will be updated in the near future.
	<ul style="list-style-type: none"> • <u>Without Appraisal</u>: This section will be updated in the near future.
Cash out Refinance	The borrower cannot receive cash back on an EEM transaction.
	<u>EEM Program</u> : Cash out refinances are not permitted under the EEM Program. FHA does not consider an EEM with streamline refinance to be a cash-out transaction.
	<u>Weatherization</u> : When adding cost of weatherization improvements to the appraised value, the maximum base loan amount is subject to normal maximum LTV limits. (e.g. 85% for cash-out)
	<u>Solar</u> : Under the Solar Program, the cash out LTV limits apply to the base mortgage, before adding the cost of solar.
HECM	HECM's are not permitted with EEMs.

EEM Rules	
New Construction	For new construction, the cost of the energy package should be subtracted from the sales price (since the builder has included those improvements in the sales price.) The lower sales price is used to calculate the base loan amount.
Sweat Equity	The borrower cannot be paid for labor (sweat equity) on work that they perform.
Qualifying Ratios	For EEMs, the qualifying ratios are based on the base mortgage (<i>without</i> the energy package costs), plus UFMIP. In this calculation, the UFMIP is calculated on the base loan amount <i>without</i> the energy package cost.
Stretch Ratios	<ul style="list-style-type: none"> • The qualifying ratios may be "stretched" when evidence is provided to show that the property was built to, or retrofitted to 2000 IECC standards. When this evidence is provided, the qualifying ratios may be "stretched" up to 33 percent on the front, and 45 percent on the back. • The qualifying ratios that may be "stretched" are calculated on the base mortgage plus UFMIP, and without the energy package costs financed into the FHA loan.

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EEM Rules Continued	
Max EE Costs per FHAC	<p>1. The EEM Calculator is located in FHA Connection on the Case Processing screen.</p> <p>2. The cost of the energy efficient package that may be eligible for financing into the mortgage is the least of A or B as follows:</p> <p style="margin-left: 40px;">A. The dollar amount of cost-effective energy package, or</p> <p style="margin-left: 40px;">B. The lesser of 5% of:</p> <ul style="list-style-type: none"> • The value of the property, or • 115% of the median area price of a single family dwelling, or • 150% of the conforming Fannie Mae/Freddie Mac limit. <p><u>Note:</u> The \$8,000 cap and \$4,000 floor were eliminated with ML 2009-18.</p>
Energy Package	<p>The energy package may include:</p> <ul style="list-style-type: none"> • HERS audit report • Energy-efficient-related improvements, as outlined on the HERS audit report • Completion Inspection(s) • General contractor (sometimes called EEM Facilitator) <p>When the total energy package to be added into the FHA loan amount exceeds the net present value of energy savings, the excess cost may be used under the Weatherization Program, or paid by the borrower from his/her own funds. (apply seller-paid items rules if seller is paying EE-related costs)</p>
Cost-effective Energy Improvements	<p>A cost-effective energy package is one where the cost of the improvements, including maintenance, is less than the present value of the energy saved over the useful life of those improvements. The formula for determining cost-effectiveness applies to the EEM energy package. Cost-effectiveness is not used for items factored into the sales price or appraised value, such as items under Solar or Weatherization Programs.</p>
Age of Audit	<p>The HERS audit report may be no older than 120 days (180 days for 203(k) and New Construction) prior to the date of closing.</p>
Type of EE Audit Report	<p>The EE audit must be completed by a qualified home energy rater using a tool known as a Home Energy Rating System (HERS). The HERS must both meet the minimum requirements of the Department of Energy (DOE) approved ratings guidelines and must have achieved passing results from DOE's Building Energy Simulation Test (BESTTEST) or subsequent testing requirements.</p>
Time of Completion	<p><u>Existing Properties:</u> The EE improvements must be completed no more than 120 days before closing or 90 days after closing (180 days when combined with 203(k) rehabilitation mortgages.)</p> <p><u>New Properties:</u> EE improvements must be completed at or prior to the closing date. In this case, the installation of the energy package is included in the total construction of the house.</p>

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EEM Rules Continued	
Seller or Third-party Paid Items - Factors Affecting Maximum Loan Amount	<p>When none of the costs from the EE package are added into the borrowers FHA loan amount, then EE items paid by the seller or a third-party are assumed to be included in the sales price, and therefore are not considered to be an inducement to purchase.</p>
	<p>When <i>any</i> of the EE costs are layered on top of the FHA base loan amount (EEM), then:</p> <ul style="list-style-type: none"> • Any EE costs paid by third-party must be considered a seller concession. • The whole cost of any single EE improvement must be either paid by the buyer or seller/third-party. The buyer may split the payment between the loan amount and borrower assets, but may not split the cost of any single EE improvement with the seller or third-party.
Appraised Value	<p>The appraisal does not need to reflect the value of the energy package that will be added to the property for either new or existing construction. This exclusion applies to the EEM Program, and not to items financed under the Weatherization or Solar Programs.</p> <p>Under the Weatherization Program, up to \$2,000 of improvements may be added to the appraised value (& sales price) without a support in the appraised value. Guidance for valuation under Weatherization may be found in 4155.1 A.5 (d-g). Guidance for Solar may be found in 4155.1 A.5 (g), and 4150.2, Addendum B.</p> <p>For streamline refinance without appraisal, the original principal balance minus the UFMIP represents the appraised value for calculations.</p> <p>For 203(k) loans, the after-improved value is the appraised value that should be used in loan amount calculations.</p>
Base Loan Amount	<p>Base loan amount must consider applicable guidelines (examples: acquisition cost if owned less than 1 year, minimum required cash investment for purchases, new construction properties less than 1 yr old, streamline refinance, property flipping, etc.).</p>