FHA Loan Programs for Financing Energy-Related Features/Improvements

Presented by:

Kevin Stevens—Director, Office of Single Family Program Development, Federal Housing Administration (FHA)

Patricia McBarron—Credit Policy Specialist, Office of Single Family Program Development, HMID

Agenda

Title I

- Property Improvement Loans

Title II

- Solar and Wind Technologies
- 203(k) Rehabilitation Mortgages
- Energy Efficient Mortgages
- Weatherization
- Energy Efficient Homes

Title I Property Improvement Loans

Key Features

- Improvements must improve livability or utility of the property
- Permanently attached and part of the realty
- Loan limit $25,000 for 1-unit (higher for multi)
- Lien:
  - 1st, or 2nd position
  - 3rd position when 2nd lien connected to down payment assistance
  - Unsecured if ≤ $7,500

Title I Property Improvement Loans

Not Required

- Credit score
- Property Appraisal
- Equity
- Energy assessment
- Cost-effective test
- Partial qualification

Information online:

http://portal.hud.gov/hudportal/documents/huddoc?id=TI_PI_AllowLoanPar.doc
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title

Title I Property Improvement Loan Volume

TI PI Loan Count by FY		
Fiscal Year	Count Of Loans	Sum of Loan Amount
2008	670	$ 9,829,106.05
2009	4,199	$ 61,631,663.97
2010	4,552	$ 66,669,643.19
2011	5,825	$ 78,947,172.68
2012	7,203	$ 107,472,567.45
2013	5,977	$ 105,486,185.34
2014	5,568	$ 100,028,674.99
2015	4,652	$ 84,213,072.65
2016	3,518	$ 66,500,393.20
2017	1,284	$ 24,159,313.31

Ending Quarter 2, FY 2017

Solar and Wind Technologies

Features:

- Add to base loan amount the lesser of:
  - **New** solar or wind energy system cost, or
  - 20 percent of property value
- Appraised value must not include system value
- Borrower must own system (not lease)
- Borrower must qualify on total loan (w/system cost)

Not Required:

Energy Assessment, Cost-effective test, Partial qualification

Solar and Wind Technologies

Loan Amount Example for Home Purchase	
$400,000 Sales Price	**$415,000 Appraised Value**
$386,000	96.5% maximum base loan amount on lesser of sales price or appraised value
+ $20,000	full cost of **new** solar system
$406,000	base FHA loan amount
+ $ 7,105	Upfront Insurance Premium 1.75%
$413,105	Total loan amount for which borrower must qualify

Solar and Wind Technologies

Loan Amount Example for Rate/Term Refinance

Applicable Parameters	Hypothetical Figures
Maximum Loan Limit for Area	$450,000
Appraised Value without solar system	$250,000
LTV 97.75% of value without solar	$244,375
Unpaid balance + closing costs + prepaids	$205,000

$205,000 — the lesser of hypothetical figures
+$ 20,000 — plus full cost of **new** solar system
$225,000 — equals total base loan amount
+$ 3,937 — plus 1.75% of total base for Upfront MIP
$228.937 — total loan amount borrower must qualify for

Footnote: This maximum loan formula applies to borrowers who have lived in the home for at least 12 months. Other loan amount formulas apply for borrowers who have lived in the property less than 12 months.

203(k) Rehabilitation Mortgage

Key Features:

- Improve and repair homes — not limited to energy-type
- Finance the lesser of the
  - Purchase price (or appraised value if refinance) + improvement cost, or
  - 110 percent of after-improved appraised value
- Borrower must qualify on total loan amount w/ improvements.

Volume 203(k) with EE improvements: 5,000 – 6,000/yr.

Not Required:
Energy assessment, cost-effective test, partial qualification

203(k): Volume

Fiscal Year	Total 203(k) Loan Count	203(k) Loans with EE Improvements
2010	22,484	Not avail
2011	18,850	Not avail
2012	16,979	Not avail
2013	16,013	Not avail
2014	14,625	Not avail
2015	16,013	9,337
2016	16,979	9,471
2017	8,138	4,333 (incmplete data)

Ending Quarter 2, FY 2017 (3/20/2017)

Energy Efficient Mortgages

Requirements:

- Home Energy Assessment
- Improvements must be recommended on the Assessment Report
- Financed improvements must be cost-effective Test – means they must pay for themselves with energy projected to be saved
- Maximum financeable energy package that can be added to the Base Loan Amount is the lesser of:
  a) the cost of the cost-effective energy package as determined by the home energy audit; or
  b) the lesser of 5 percent of:
    - the Adjusted Value;
    - 115 percent of the median area price of a Single Family dwelling; or
    - 150 percent of the national conforming mortgage limit.

EEM: Borrower Qualifies without Energy Package

	Loan Amount Structure
	Base Loan Amount
+	Energy Package
=	New EEM Base Loan Amt
+	Upfront MIP (1.75% of EEM Base)
=	Total Loan Amount

	Borrower Qualification
	Base Loan Amount
+	Upfront MIP (1.75% Base Loan Amt
=	Total Loan Amount

EEM: Volume

Energy Efficient Mortgages	
FY 2010	2,498
FY 2011	1,072
FY 2012	661
FY 2013	608
FY 2014	348
FY 2015	337
FY 2016	201
FQ (2) 2017	72

Ending Quarter 2, FY 2017 (3/20/2017)

Weatherization

Finance on top of base loan amount, up to:

- $2,000 (not to exceed actual cost) without a separate value determination, or
- $3,500 (not to exceed actual cost) if supported by a value determination made by an approved FHA Roster Appraiser, or
- Borrowers qualify normally - on total loan (with improvements)

Not Required:

Energy Assessment, Cost-effective test, Partial qualification

Energy Efficient Homes

- Permits 2 percent "stretch" on qualifying ratios for mortgages secured by an Energy Efficient Home (EEH)
- EEH = Homes that score 6 or higher using DOE's Home Energy Score assessment model
- Borrower can make improvements to reach the "6" score – via 203(k)
- EEH is a compensating factor that allows higher ratios on a manual underwriting process.