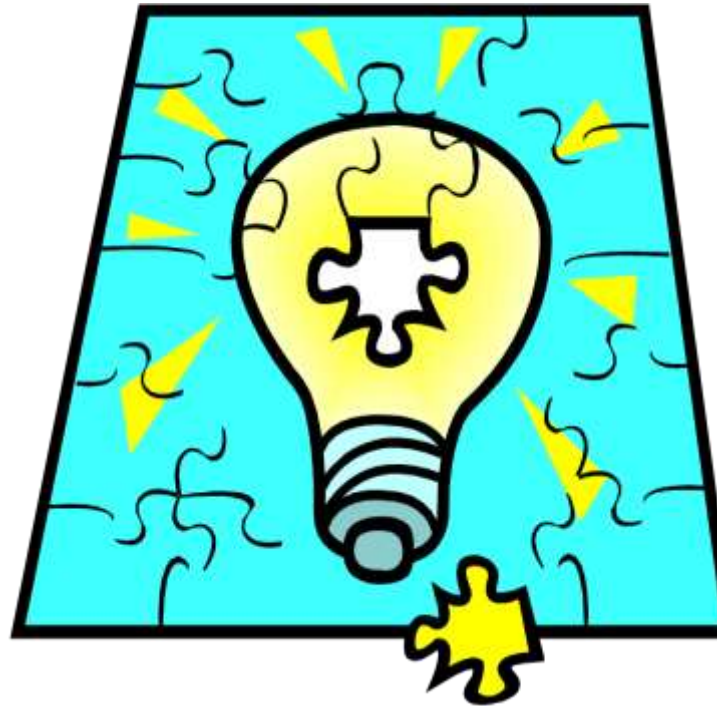


# *Consumer Benefits of Current Energy Retrofit Financing Opportunities*



Over the past 18 years I have promoted energy conservation upgrades to home buyers and clients who were refinancing their loans. This has resulted in a tremendous amount of energy retrofitting and a lot of very grateful clients.

There are many different financing strategies available to incorporate energy retrofitting in home financing. Today I am going to focus on a couple that are the most relevant in today's market.

I am not planning to get into the technical aspects of these programs today, I want to talk about the significant advantages they offer the consumers.

I will be focusing on the Energy Efficient Mortgage (EEM), Streamline 203K, and Full 203K.



It's not what you don't know  
that hurts you, it's what you  
do know that ain't so.

– *Will Rogers*

I am going to challenge you to be open to some ideas that may conflict with some misperceptions that have been repeated so many times that they are now accepted as fact.

I have been very successfully promoting these opportunities since 1993. Everything I am going to share with you is based on practical experience, not theory or assumptions.

I attended an event last year where a number of consultants and representatives from the building industry came together to strategize on how to deal with the financing barrier to the energy retrofitting process in light of the challenges that “PACE” had run into. At one point, one of the consultants on the panel was asked why the Energy Efficient Mortgage had never caught traction in this country.



He responded that homebuyers who are already anxious about the payments that they are taking on and the complexity of the process; are never going to agree to add something else that will increase their payments even further.

If this program was properly understood and explained it would be extremely rare that anyone would ***not*** take advantage of this when they purchased or refinanced a home using FHA financing.

Let's look at the cause of their anxiety. They are worried about how they are going to make payments that are often significantly higher than the rent they are currently paying. They are also worried about unexpected expenses that can come up when you own a home and you can no longer call a landlord to come fix something. Bar none, the single most common major unanticipated expense that a homeowner can be blindsided with is the failure of their HVAC unit.



When I started in the mortgage business, in 1993, I sat down every day with anxious homebuyers. When I discovered the FHA Energy Efficient Mortgage “Pilot Program”, I immediately recognized what a Godsend it was to them. Here was an opportunity for me to help ensure that one of their biggest fears would not come true. Here was a program that would allow them to finance 100% of the cost of a brand new, warranted, HVAC unit to replace that 20 year old unit that was hanging on by a song and a prayer.

In the process, they were able to make their home far more comfortable. As if this wasn't enough, because the Energy Efficient Mortgage requires that an independent Rater determine that there is a reasonable expectation that the savings on their utility bill be greater than the increased cost to their mortgage payment, this was addressing their other major concern at the same time by making their house more affordable.

Because I understood all of these advantages I was able to convey them to every buyer I dealt with.

Is it any wonder that every buyer since 1993 that could benefit from an Energy Efficient Mortgage, chose to include it?

I often refer to the Energy Efficient Mortgage as the “Comfort Food of the home buying process”.

This is a program that allows a home buyer to make their home more:

Comfortable  
Affordable  
Dependable



When properly explained it is a pretty serious no-brainer for them.

An Energy Efficient Mortgage not only increases the comfort of the home a family is buying, but it makes it more affordable and alleviates a significant amount of the fear and stress these buyers are facing.



Over the last 18 years I have never had a single home buyer that could benefit from an Energy Efficient Mortgage that did not elect to include it.

Ironically, every buyer I have ever dealt with has elected to include this primarily because they were concerned about their house payment and dealing with unexpected expenses that come up when you own a house.

I have actually had people tell me what an incredible salesman I must be to be able to persuade homebuyers to include an EEM. If presented with the real facts, I don't know how anyone would have the ability to talk a homebuyer out of doing this program.



It is like buying a car and having an opportunity to make it nicer, more comfortable, and more dependable, in a way that would increase the gas mileage enough to off-set the cost of the added monthly payment for the improvement





The beauty of the EEM program is that the energy efficiency increase is considered in the valuation. The added amount for the EEM does not have to be included in the appraisal because it is assumed that it has added value to the house.

It goes even further though, the added amount is also excluded from a buyers qualifying ratios as the expectation is that the reduction in their energy bills will off-set the increased mortgage payment.

The Streamline 203K offers another great opportunity for home buyers or owners to increase the energy efficiency of their home. It also allows them to include items that are not energy related.

We are getting ready to close a 203K(s) refinance loan for a client who was doing it to replace a roof. I explained how they could incorporate an energy package into this under the Energy Upgrade California Program and qualify for the rebates. They added \$16,000 in energy upgrades. This will increase their mortgage payment by about \$80. They are in the PG&E service area. They will save more than \$80 a month on their utility bills. The rebate is great but this made a lot of sense for them even without it.

With all of the distressed properties that are on the market today there is a tremendous opportunity to promote energy conserving measures in Streamline & Full 203K loans.

These loans allow an owner occupant home buyer to finance the costs to repair the home in their mortgage. The ability to receive rebates for energy measures not only creates an incentive for them to include energy retrofitting, it actually encourages owner occupant buyers to purchase and repair these houses in the first place.

There are huge benefits to our communities and housing market to promote owner occupants purchasing these houses.

A streamline 203K loan will allow someone to finance a realistic \$28,000 to \$31,500 in upgrades and repairs. They can also include an EEM. This will generally allow an additional 5% of the appraised value.

Although upgrades done in the 203K programs **do** have to be included in the appraised value the buyer is allowed to finance up to 106.15% of the after improved value (111.15% if an EEM is included)

The Streamline version of the 203K does not allow Solar (PV) systems to be included because it specifically excludes anything that requires plans and drawings that have to be reviewed.

The Full 203K will allow Solar (PV) and does not have a limit on the total repairs. The Full version is much more involved though, and very few of us are allowed to do them. As a result, I do not promote this as an option in general forums.

I have identified several ways to incorporate energy retrofitting within the Energy Upgrade California Model into the home purchase process. When this is a part of a total package that includes the down payment assistance grants that are currently available it creates a **very powerful** homebuyer incentive program that requires that they include energy retrofitting measures.

This has generated a lot of excitement among the Contractors and Realtors I have explained it to.

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