

The ENERGY STAR Mortgage Program A Multi-State Initiative

Program Overview

High interest-rate mortgages and costly energy bills are two major hurdles hindering many low- and middle-income homeowners from safeguarding and improving the value of what is usually their biggest asset: their home. Many of these families do not have up-front capital to pay for the types of home improvements that have consistently proven to lower energy costs and increase the value of a dwelling, including installation of energy efficient windows and appliances, better insulation and weatherization options. Most are also unaware of the various forms of assistance – such as an energy efficient mortgage – that could enable them to afford such upgrades.

This fall, the Energy Programs Consortium (EPC)¹ is kicking off an innovative program that will make a broad range of energy efficiency improvements financially feasible for the first time to eligible single-family, owner-occupied homes. The ENERGY STAR Mortgage Program is being launched in partnership with the U.S. Department of Energy, the U.S. Environmental Protection Agency, state energy and housing agencies, and key support from the Ford and Surdna foundations.

The ENERGY STAR Mortgage Program will enable qualified, low-income borrowers to:

- Refinance their high interest-rate mortgages and/or obtain reduced loan fees, such as assistance with closing costs, among other benefits;
- Finance weatherization measures that will reduce long-term energy costs; and
- Incorporate available rehab and weatherization assistance from existing grant and loan funds, allowing states to subsidize the mortgage and/or subordinate energy loan interest with public and utility funds.

The program will also make energy efficient mortgages available to higher-income homeowners, but the benefits available to them may differ from those provided to low-income borrowers.

The project offers homeowners the only mortgage product that has received permission from EPA's national ENERGY STAR program to be marketed as an ENERGY STAR Mortgage. Lenders approved to participate in the ENERGY STAR Mortgage Program will have permission to use EPA's nationally recognized ENERGY STAR trademark in marketing their loans. Consumers consistently regard items bearing the ENERGY STAR logo – ranging from appliances to homes – as quality “green” products.

Pilot testing is planned for three states -- Maine, Massachusetts and New York -- beginning in late fall 2008. Additional states are expected to join the program in 2009.

¹ EPC is a 501(c)(3) nonprofit organization conducting policy research and demonstration programs sponsored by the four main organizations representing state energy and regulatory agencies: the National Association of State Energy Officials; the National Energy Assistance Directors' Association; the National Association of Regulatory Utility Commissioners; and the National Association of State and Community Services Programs.

About the ENERGY STAR Mortgage Product

An energy efficient mortgage incorporates the cost of energy efficiency investments into the total lending package, so that borrowers can pay for those investments over the life of their loans and deduct the interest from their federal and state income taxes. These investments can reduce a home's energy use by up to 30 percent.

While energy efficient mortgages have existed for years, they have not made major inroads into the mortgage market, for a variety of reasons. Few lenders offer them because they add paperwork, increase processing time and are more difficult to sell on the secondary mortgage market. Realtors do not tend to know about the energy efficient mortgage, and see little advantage to telling their clients about it. Borrowers, even if they know about the mortgages, are often concerned that they may take extra time and do not understand the mortgage program well.

With these hurdles in mind, EPC established a Working Group in 2006 composed of representatives of federal and state energy and housing agencies, banking and real estate industries, and the foundation community to develop an energy efficient mortgage product that could reach a significant number of newly purchased and refinanced homes.

The resulting ENERGY STAR Mortgage has four major advantages over other energy efficiency mortgage products. It will:

- Require that lenders provide a verifiable borrower benefit as a part of the mortgage loan that is over and above the energy savings advantage to the homeowner, such as discounting of mortgage rates, closing-cost assistance or other benefits to induce consumer interest. This reduction in profit will be offset by the "branding value" of using ENERGY STAR to name their products.
- Expand the energy audit tool requirement to the much more readily available, cheaper and technically accepted state approved audit tools.
- Allow lenders to work with skilled nonprofits that are now qualifying thousands of low-income homeowners for energy supports and will support mortgage qualifications and the application of state subsidies to improve energy efficiency and reduce debt service.
- Impose a change in state regulations and systems that unifies the provision of low-income energy efficiency grants and other housing subsidies available to low-income families, as opposed to the current system of silos for each program.

Under the EPA agreement, states can also market the product to middle-income families without providing the same level of program subsidy.

Lenders and brokers are approved and authorized to promote loans as ENERGY STAR Mortgages by Opportunity Finance Network (OFN), a national nonprofit intermediary and certified member of the Fair Mortgage Collaborative (FMC). OFN acts as a third party, independent, self-sustaining, and industry-based lender approval and oversight organization for the program.

For more information about the ENERGY STAR Mortgage Program, please contact:

Mark Wolfe, Energy Programs Consortium, 202-237-5199 / mlwolfe@energyprograms.org or
Howard Banker, Opportunity Finance Network, 914-844-3134 / hbanker@opportunityfinance.net