



HUD's Energy Efficient Mortgages Program

As the single largest housing expense after a mortgage payment, your utility costs can have a direct impact on how large a mortgage you can afford. You can save money on the cost of utilities by purchasing new energy-efficient heating and cooling systems or by making home improvements, such as weatherizing and insulating older homes, and these investments can end up saving you money through lower utility bills. As a new homebuyer or current homeowner, you may be able to use an Energy Efficient Mortgage (EEM) to finance the cost of these improvements.



The U.S. Department of Housing and Urban Development's (HUD) Energy Efficient Mortgages Program allows you to finance the purchase of a home—or refinance your current mortgage—and include the cost of the energy-saving, cost-efficient improvements through a single mortgage. EEMs are mortgage loans that are insured by the Federal Housing Administration (FHA), which is a part of HUD.

FHA's EEM program recognizes the monthly utility cost savings when homebuyers make energy-efficient improvements. Homebuyers, or homeowners when refinancing, may use the EEM program to finance the cost of energy-efficient improvements into their new mortgages, without the need to qualify for additional financing, because cost-effective energy improvements result in lower utility bills making more funds available for their mortgage payments.

How the Loan Works

You can take out an EEM loan as a 15- or 30-year fixed-rate mortgage or as an Adjustable Rate Mortgage

(ARM) from an FHA-approved lender. FHA requires that you make at least a 3-percent downpayment on the property, which is based on the sale price. Any upfront mortgage insurance premium may be financed as part of the mortgage.

The total amount of your mortgage is based on the value of your home plus the projected cost of energy-efficient improvements. When determining how large a mortgage you can afford, the lender can consider the estimated energy savings that are expected once you make energy-efficient improvements to the home that meet energy-conserving standards. Because your home will be energy efficient, you will save on utility costs and, therefore, be able to devote more income to the monthly mortgage payment.

Your final loan amount can exceed the maximum FHA mortgage limit by the amount of the energy-efficient improvements. To find FHA mortgage limits in your area, visit the HUD website at www.hud.gov. A Home Energy Rating System provider or energy consultant determines the estimated cost of the energy improvements and estimated energy savings and provides a home energy rating report to you and your lender. You may finance up to \$200 of the cost of the energy inspection report as part of the mortgage.

A portion of your loan is used to pay for the purchase of the home, or in the case of a refinance, to pay off any existing debt. The remainder is placed in an interest-bearing account on your behalf and released to you after an inspection verifies that the improvements are installed and the energy savings will be achieved. You can begin making energy improvements after the loan's closing. You are responsible for hiring contractors and getting bids for the work to be done on your home. The work must be completed within 90 days after closing.

Eligibility

Almost anyone who has a satisfactory credit record, enough cash to close the loan, and sufficient steady income to make monthly mortgage payments can be approved for an FHA-insured EEM loan. There is no upper age limit and no certain income level required.

The following types of properties are eligible under the EEM program, including new construction or existing one- to four-unit single family residences:

- Detached houses
 - Townhouses
 - Condominiums (certain restrictions apply)
- Cooperative units are not eligible.

The Cost and Types of Improvements

You may finance into your mortgage the cost of the energy-efficient improvements determined to be “cost effective,” which means that the total cost of the improvements, including any maintenance costs, is less than the total present value of the energy saved over the useful life of the energy improvement. The maximum cost of improvements that you can add to the mortgage is either 5 percent of the property’s value (not to exceed \$8,000) or \$4,000, whichever is greater based on the value of your property. For example, if your property’s value is \$75,000, the maximum cost of improvements allowed is \$4,000 because this is greater than 5 percent of the property value. If your property’s value is \$100,000, the maximum amount of improvements allowed is \$5,000 because this is 5 percent of the property’s value, greater than \$4,000 but less than \$8,000. Finally, if your property’s value is \$160,000, the maximum cost of improvements allowed is \$8,000, which is 5 percent of the property value and the maximum allowed overall.

Examples of improvements that are made under an EEM loan:

- Replacing a furnace/cooling system
- Fixing or replacing a chimney
- Insulating an attic, crawl space, and/or pipes and air ducts



Courtesy of DOE/NREL. Credit: Sam Finner.



Courtesy of DOE/NREL. Credit: Warren Grete.

- Replacing doors or windows
- Installing active and passive solar technologies

If you can demonstrate an ability to complete the work yourself in a satisfactory manner, you may complete the labor. Materials that you furnish may be applied to your downpayment to the extent of the estimated cost of the materials.

Applying for an EEM

You may apply with any participating HUD-approved lender, such as a bank, credit union, or mortgage company. You can find a searchable list of HUD-approved lenders online at www.hud.gov.

Information Resources

Internet

www.hud.gov or espanol.hud.gov.

More details about the Energy Efficient Mortgages Program are on the HUD website, including a list of HUD-approved lenders.

HUD-Approved Housing Counseling Agency Locator

HUD supports a network of approved housing counseling agencies that provide counseling services across the nation. For a complete list of HUD-approved agencies in your area, call the HUD housing counseling referral line toll-free at 1-800-569-4287 or visit the HUD website at www.hud.gov.