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# **Go for the Gold: New Products to Finance Energy Efficiency**

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February 2003





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## **Understanding Fannie Mae**

### Mission

- At Fannie Mae, we are in the American dream business.
- Our mission is to tear down barriers, lower costs, and increase the opportunities for homeownership and affordable rental housing for all Americans.
- Because having a safe place to call home strengthens families, communities, and our nation as a whole.



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## **Secondary Mortgage Market**

- Fannie Mae purchases mortgages originated by primary lenders
  - Fannie Mae can not originate mortgages directly to the home buyer
  - Ensures adequate funding available for home financing
- Fannie Mae develops mortgage products used by the primary lenders
  - Willing to take on greater risk or try new ideas
  - Lenders know they can sell their loans to us



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## **National Housing Impact Goals**

- Develop and facilitate the implementation of innovative, bold, and progressive housing finance vehicles to create an inclusive housing finance system.
- To be the most responsive partner in finding solutions that generate tangible results to meet the nation's housing needs.
- We want to:
  - Tackle the toughest housing problems in America.
  - Be tangible.
  - Be the partner of anyone who cares about housing and communities.



# Energy Efficient Mortgages

## Designed to

- ☐ recognize lower operating costs of energy efficient homes
- ☐ increase affordability for home buyers, regardless of income
- ☐ encourage energy efficient housing nationwide

***The right thing to do!***

Frank Raines, Fannie Mae CEO



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## **Energy Costs Impact Affordability**

- All homes benefit from efficiency improvements
  - Monthly energy bills are lower
  - Home is more comfortable year round
- Lower operating costs increase housing affordability
  - Home owner can use income to gain equity
  - May even help individual to qualify for homeownership
- Retail energy prices predicted to remain high for several years



## Value to Low Income Families

- Low-income households spend greater % of income on energy
  - FY 1999, low-income consumer spent 14% annual income for energy bills
  - FY 2000, grew to 19%
- Rising energy costs cause true hardship for low-income families
- In 2001 additional 1.1 million households applied for heating & cooling assistance
  - 4.3 million households in 19 states in arrears on their utility bills and faced possible shut off.



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## **Energy Efficient Mortgages**

- Developed in the early 1980s in response to Executive Order signed by President Carter in 1979
- VA, FHA, Freddie Mac and Fannie Mae all developed separate and different programs
- Programs all have undergone multiple revisions and changes since inception
- Compared to the number of mortgages written annually, EEMs have been minuscule percentage



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## The Value of Efficiency

Purchase Price	\$250,000
Down payment	\$ 50,000
Loan Amount	\$200,000
Interest	7%

Monthly PITI	\$1331
Average Electric	<u>\$ 120</u>
Total Expenses	\$1451

Purchase Price	\$253,000
Down payment	\$ 50,600
Loan Amount	\$202,400
Interest	7%

Monthly PITI	\$1347
Average Electric	<u>\$ 60</u>
Total Expenses	\$1407

Savings **\$44**



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## EEM Shortcomings

- Product limitations
  - Manually underwritten, not DU compatible
  - Forms and formulas too complicated
  - 95% LTV for EEM too restrictive
  - Widespread misinformation
  - Too many products
  - Products too complex
  - Need for ongoing training



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## **Strategic Plan for Success**

- Define product limitations
- Listen to customers for suggestions on how to improve the product
- Seek internal approval for expanded, streamlined new product
- Identify MI companies willing to insure loans
- Solicit lender partners to originate and wholesale loans
- Develop customized pilots for specific needs
- Demonstrate value and increase loan delivery



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## **2002 Accomplishments**

- **Product Revisions**
  - Streamlined product line
  - DU solution for the products
  - Low income borrower product
  - More flexible underwriting guidelines
  - Customized rating form for lender to use
  - Creative down payment sources such as rebates and tax incentives



## EEM Benefits

- **Qualify for larger mortgage**
  - Monthly energy savings added to borrower's income for qualification purposes
- **Finance energy retrofits**
  - Energy improvements to existing homes can be 15% of home's value
  - Finance up to 100% of improvements
  - Improvements paid over life of mortgage
- **Increases home's appraisal**
  - For new construction: appraised value of property plus present value of efficiency improvements
  - For retrofits: as-is value plus cost of improvements



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## How Does a Home Qualify

- Every home must be rated by a certified energy rater
- New homes must be more efficient than the “reference home
- Existing homes must be retrofitted to be more efficient using cost effective measures
- Rater provides lender report that includes all the information for EEM
  - Estimated monthly “Energy Savings”
  - “Energy Value” of the energy efficiency measures



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## **Energy Efficient Mortgage**

- Eligible properties
  - One unit, owner-occupied
  - Owner-occupied principle residences
  - No manufactured homes, unless built to state or local code
  - No cooperatives
- Property must have monthly energy savings calculated
- Appliance manufacturer rebates OK
- Tax credits added to income



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## Energy Efficient Mortgage

- Revised product parameters
  - Automated underwriting
  - 30-year, fixed rate
  - Purchase or refinance
  - **100% LTV**
  - **3% minimum borrower contribution**
  - No income limit for borrower
- Easy to qualify



## MyCommunity Mortgage EEM

- Even lower down payment
  - Same value from energy efficiency measures
  - Lesser of \$500 or 1% of the value of the home
  - 100% LTV
  - 620 credit score for Community 100+, 600 for Community 97
  - Borrowers with income of 100% of area median income or less
    - Exceptions for Fannie Neighbors<sup>®</sup> areas
    - Higher incomes ok for high cost areas



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## Underwriting Requirements

- No minimum credit scores for DU
  - Low credit scores for manual underwriting
- Pricing not impacted by energy efficiency feature
- DU Requirements
  - Loan must receive an “Approve” otherwise it must be manually underwritten
  - If it receives a EA Level I-III, but it meets the manual underwriting standards, it can be approved
- One month reserve required for manual underwriting



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## **EEM Process For New Homes**

1. Select energy efficient home to purchase
2. Get energy report for home from builder
3. Bring energy report to lender
4. Lender gives borrower income “credit” for energy savings and adds energy value to appraised value of home
5. Tax credits, if relevant, also added to income
6. Rebates, if available, included in available funds for closing
7. Borrower may qualify for larger mortgage, sees value of the efficiency measures



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## **EEM Process for Existing Homes**

1. Borrower selects home
2. Borrower contracts with energy rater
3. Rater prepares an energy report that recommends cost effective measures
4. Borrower selects the measures to install and determines with lender final loan amount
5. Loan closes with additional funds for efficiency measures going into escrow
6. Once installed, contractor paid from escrow -- remaining balance toward principle reduction
7. Loan can be sold to FM after closing, before improvements finished



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# **Desktop Underwriter Solution**



## Section V --

Add Energy Savings to "Other Income"



1003 AppTaker - Section V. Monthly Income and Combined Housing Expense Information

File View Actions Window Help

Section V. Monthly Income and Combined Housing Expense Information

Active Borrower: Homeowner, John Associated Co-Borrower: Homeowner, Mary

Gross Monthly Income	Borrower	Co-Borrower	Total	Combined Monthly Housing Expense	Present	Propo
Base Income*	\$3,380.00	\$1,100.00	\$4,480.00	Rent	\$500.00	
Overtime		\$0.00	\$0.00	First Mortgage(P & I)		\$5
Bonuses				Other Financing(P & I)		
Commissions				Hazard Insurance		\$
Dividends/Interest				Real Estate Taxes		\$2
Other	\$0.00	\$400.00	\$400.00	Mortgage Insurance		
Subtotal	\$3,380.00	\$1,500.00	\$4,880.00	Homeowners Assn. Due:		
Net Rental Income	\$0.00	\$0.00	\$0.00	Other:		
Subj Net Cash Flow	\$0.00	\$0.00	\$0.00	Total	\$500.00	\$8
Total	\$3,380.00	\$1,500.00	\$4,880.00			

B/C	Description of other income	Month Amou
C	Alimony/Child Support Income	\$4
	Other Income	

For Help, press F1

NUM



## Section VII -

For retrofit homes --  
Add the installed  
cost of the energy  
measures to Line B  
“Alterations,  
improvements, or  
repairs”

For appliance  
manufacturer  
rebates, the rebate  
amount is added to  
Line L “Total Other  
Credits”

1003 AppTaker - Section VII. Details of Transaction

File View Actions Window Help

RD CL GY ?

VII Section VII. Details of Transaction

A	Purchase Price	\$80,000.00
B	Alterations, improvements, repairs	\$12,000.00
C	Land (if acquired separately)	\$0.00
D	Refinance (incl. debts to be paid off)	\$0.00
E	Estimated prepaid items	\$800.00
F	Estimated closing costs	\$1,200.00
G	PMI, MIP, Funding Fee	\$0.00
H	Discount (if Borrower will pay)	\$0.00
I	Total Costs (items A through H)	\$82,000.00
J	Subordinate financing	\$0.00
K	Borrower's closing costs paid by Seller	\$0.00
L	Total Other Credits (enter below)	\$750.00
M	Loan Amount (exclude PMI, MIP, Funding Fee Financed)	\$77,600.00
N	PMI, MIP, Funding Fee financed	\$0.00
O	Loan amount (items M & N)	\$77,600.00
P	Cash from/to Borrower (subtract J, K, L, & O from I)	\$3,650.00

Other Credit	Amount
TOTAL OTHER CREDITS	\$750.00

For Help, press F1

NUM



## Additional Data Section --

For new homes  
-- add Energy  
Savings Value  
to appraised  
value

For existing  
homes -- Add  
installed cost  
of energy  
efficiency  
measures to  
appraised  
value

The screenshot shows a software window titled "AppTaker - Additional Data". The window has a menu bar with "File", "View", "Actions", "Window", and "Help". Below the menu bar is a toolbar with icons for file operations and a set of numbered buttons (I through X). The main area of the window is titled "AD Additional Data" and contains the following fields:

- Active Borrower:** A dropdown menu with "Homeowner, John" selected.
- Associated Co-Borrower:** A text field containing "Homeowner, Mary".
- Property Type:** A group box containing several radio button options:
  - Detached Housing
  - Attached Housing
  - Condominium
  - High-Rise Condominium
  - PUD
  - Co-Op
  - Manufactured Housing
- Appraised Value:** A text field containing "\$80,000.00".
- Lien Type:** A dropdown menu with "First Mortgage" selected.

At the bottom of the window, there is a status bar that says "For Help, press F1" and a button labeled "NUM".



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**There are  
no EEM DU  
messages.**

**Retrofits get a  
HomeStyle  
message.  
Ignore and  
code with  
SFC 124.**

**MCM loans  
also need  
SFC 460 for  
Community  
97 and SFC  
480 for  
Community  
100+**

**Review Findings** [X]

Lender Case #:  Recommendation:

Display Finding Type

All   
  Credit   
  Ratios   
  Appraisal  
 Risk Analysis   
 Employment & Income   
 Conditions  
 Eligibility   
 Required Funds   
 Scope

Selling Guide

ID	Explanation
1	The risk profile of this case meets Fannie Mae's guidelines.
2	This case meets Fannie Mae's eligibility requirements.
FINDINGS	
3	This recommendation is valid up to a note rate of 9.000 percent.
VERIFICATION MESSAGES/APPROVAL CONDITIONS	
4	This loan is also subject to all other lender specified conditions.
5	Verify that all borrowers have signed the Borrower Authorization For Counseling form to participate in post-purchase early delinquency counseling, if such counseling becomes necessary. This form is required for all Fannie 97 loans.
6	Each borrower signing the Note must complete an acceptable home buyer education program documented by (1) a certificate or letter from the lender OR (2) evidence of completion provided by an MI, a local agency, or the HomePath Hotline.
7	This Fannie 97 loan must be identified as such by inserting special feature code



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## 2003 Progress-to-date

- 2003 Product Marketing
  - Seeking lender partners to originate and wholesale the EEM
  - Materials on [www.efanniemae.com](http://www.efanniemae.com)
  - Training for lenders on product and DU solution
  - Marketing classes for realtors, builders, other interested groups
  - Promotion of product at conferences, seminars, and trade shows
  - Developing consumer oriented brochure for our partners to use



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## **EEM Lenders**

- **SunTrust Mortgage**
- **National City**
- **BancMortgage**
- **Homeowners Mortgage Enterprises**
- **Pinnacle Financial Corp.**
- **Matrix Financial Services**
- **Lake Mortgage**
- **Sovereign**
- **Wachovia**
- **Mountain States Mortgage**



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## Countrywide Partnership

- Announcement of important lender partner
- Nation's largest independent residential mortgage lender
- Will retail and wholesale the EEM products
- Expect retail origination to commence by the end of the month
- Encourage partnerships with local Countrywide branches to facilitate EEMs



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## CA Retrofit Pilot

- Identified unique resource of EEM facilitators
- Established rating industry
- Leadership of the California Energy Commission
- Relatively high energy prices
- Looking to demonstrate value of EEMs for retrofitting existing homes to consumers
- Need to build statistically significant database of loans to demonstrate performance and lack of credit risk



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## **Burlington EEM/Smart Commute Pilot**

- Borrowers employed by either University, City of Burlington or local hospital are eligible
- Must live within 1 mile from their workplace
- Can have energy savings AND commuting savings added to income for qualification purposes



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## Where We Are Now

- There is latent demand for residential energy efficiency
- There is a growing list of interested relevant partners
- We have the financial product
- We have important lender partners
- We have the backend system to process the loans



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## **What We Need to Do Now**

- Consumer education on residential energy efficiency
- Facilitate the local relationships between the realtors, the loan officers, the raters, and the home buyers
- Make the process seamless
- Speak the right language at the appropriate time
- Learn from both the successes and failures
- Don't act until you have a plan!



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Questions ?





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