National Rates

GET FREE QUOTE

gages - Energy Efficient uide

Home Purchase

Form Secured by **SecureRights™**.
Advertising Disclosures

Get FREE Quote

copy and/or reuse this guide, in whole or parts, provided that you reference (link) to the

lortgage" is an environmentally friendly type of home loan. But how do you make a lly? Also known as Energy Efficient Mortgage Programs, Green Mortgages are a special o make your home more energy efficient while saving you money at the same time.

Energy Efficient Mortgage Programs let you borrow money specifically to pay for energy efficient upgrades to your home. The cost can be added into the mortgage used to purchase a home or rolled into your current mortgage through an energy efficient refinance to allow you to make improvements to the home you have now.

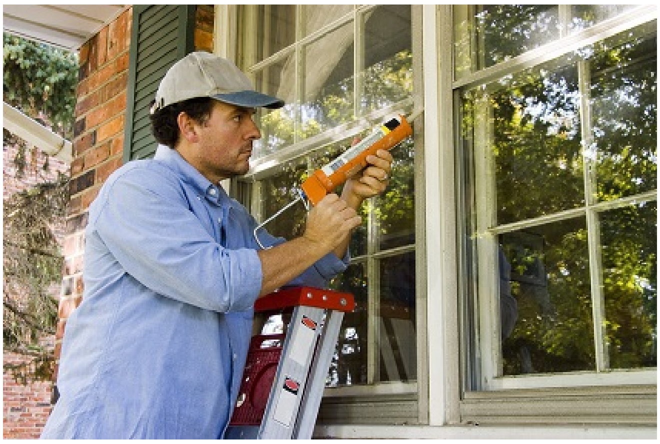
The loans can provide an affordable way to make upgrades that may be costly up front, but save money over the long run, such as double paned windows, tankless water heaters, a high efficiency furnace or air conditioning system (HVAC), and new insulation. The result is a more environmentally friendly living space with significantly lower costs for heating and cooling.

Unlike a home equity loan or home equity line of credit (HELOC), Energy Efficient Mortgages aren't a type of second mortgage. Though created as a separate loan, they are ultimately rolled into your primary mortgage—so you only make only one mortgage payment per month.

How much money can you save with a Green Mortgage and reduce your home's carbon footprint at the same time? Consider the following:

- Overall, heating and cooling accounts for 50–70% of the total energy used in the average American home.
- 60% of the existing homes in the U.S. are not properly insulated.
- Updating your home's insulation can save up to 20% on heating and cooling costs or up to 10% of your total yearly energy bill.
- According to the Department of Energy, energy loss from outdated windows accounts for nearly 25% of the annual heating and cooling costs for the average American home.
- Even the most basic double-paned window can reduce energy use by up to 24% in cold climates during the winter and by up to 18% in hot climates during the summer.
- In houses with central air and heating, about 20% of the air is lost due to faulty, outdated duct work.
- A new Energy Star-rated dishwasher not only uses less energy (a dishwasher typically accounts for 2% of your gas or electric bill) but can also save as much as 1,200 gallons of water a year.
- Programmable thermostats can save about 2% on heating bills and more than 3% on cooling bills. These numbers can translate into savings of up to $180 a year.

Energy Efficient Mortgages allow families to both save money and benefit the environment at the same time. They also make your home more comfortable and durable. Energy efficient homes are cooler in the summer and warmer in the winter, cost less to maintain, have lower monthly utilities costs, and generally last longer.



Energy Efficient Mortgage Programs can help you do the following:

- Get money to invest in energy efficient upgrades for a new house.
- Help you to qualify for a larger mortgage to pay for a house that is already energy efficient.
- Qualify you for money for green renovations when refinancing a mortgage.
- Make older homes more comfortable and more affordable with lower utility payments.
- Help you to use less energy to maintain the temperatures in your home and therefore lessen you family's footprint.

Whatever your reasons for seeking a Green Mortgage, the results are the same: a more comfortable, energy efficient, environmentally sound home that is cheaper to maintain and has lower monthly utility costs.

Purpose of this Guide:

You don't have to be a financial expert or building contractor to use and understand this guide. But you will find detailed information that will be helpful whether you are buying a new home, making improvements to and refinancing an old one, or just want to know more about Energy Efficient Mortgages. This guide will give you a better understanding of:

- Energy Efficient Mortgage Programs
- Who they benefit
- What they can pay for
- How to get one
- Why these upgrades matter to the environment
- Why these upgrades matter to your wallet
- Green Mortgages for small businesses

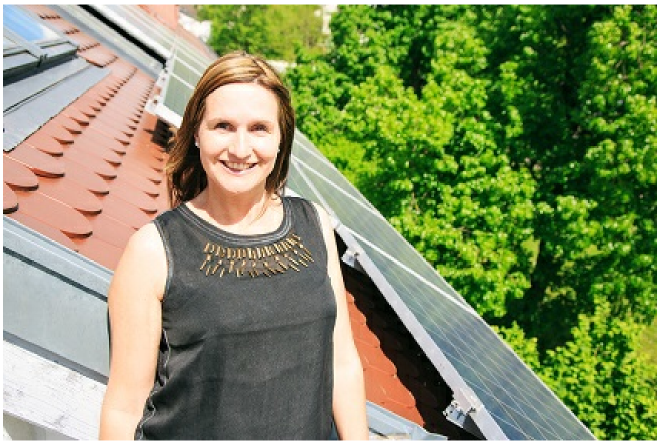
Part 1: What are Energy Efficient Mortgages?

In this section, we dive into the ins and outs of Energy Efficient Mortgages, how you can qualify for one, and how you can get one.

What is an Energy Efficient Mortgage?

Oftentimes, the terms "Green Mortgage" and "Energy Efficient Mortgage" are used interchangeably. The official term for this type of loan, though, is Energy Efficient Mortgage or EEM for short. EEM is often the more commonly used term when speaking with lenders or seeking information online.

The basic idea behind Energy Efficient Mortgage Programs is financial: Energy efficient homes use less energy and are therefore less expensive to own. People who have more efficient homes spend less per month on utility costs. Those savings can be used to pay for a slightly larger mortgage that can be used to fund those improvements.



Again, an EEM is not a second mortgage. It is a loan that is rolled into your primary mortgage when you either buy a home or by refinancing. That means that you only make one mortgage payment every month and there's no additional lien on your property.

If you are purchasing or building a home that you want to add energy efficient features to, you would first get approved for a regular mortgage for the purchase. Then, you would get an EEM —to be rolled into that mortgage—to pay for energy efficient upgrades.

If you are refinancing a mortgage for a home that you already own and you want to add some energy efficient renovations, you would again get am Energy Efficient Mortgage to be rolled into the new loan.

Lastly, if you are purchasing a new home that already has energy efficient qualities, lenders recognize that your utility payments will be lower and will let you qualify for a greater overall mortgage amount. EEMs can be applied to most home mortgages.

And to make things even easier, you don't have to do anything to qualify for an EEM. In fact, if you already qualify for your main mortgage, you will (in most cases) also qualify for an EEM. And to make it even easier, especially if you are strapped for cash after the purchase of a home, you don't have to make an additional down payment on the EEM.

Energy Efficient Mortgage Programs are supported by the same entities that back the overwhelming majority of residential mortgages in the United States: the FHA (Federal Housing Administration), the VA (Dept. of Veterans Affairs), and Fannie Mae/Freddie Mac (the conventional secondary mortgage market). Energy efficient mortgage lenders include banks, mortgage companies, savings and loans, credit unions – the same type of places you would get a regular mortgage.

How can an EEM can work for you?

One of the best ways that a Energy Efficient Mortgage Program can work for you is to increase your purchasing power and allow you to qualify for a larger mortgage. If you are purchasing a home that already meets standards of energy efficiency, you will pay lower monthly bills. As a result, a larger percentage of your income can be applied to your mortgage when it comes to calculating the total amount that you qualify for. For example, on an FHA Energy Efficient Mortgage, you can qualify for up to 33% of your debt to income ratio (that's the new mortgage payment, plus any existing loan payments vs income) with an EEM but only 29% without.

Here's an example of how this works, according to the HUD (Department of Housing and Urban Development) website:

If a buyer's total monthly income is $5,000. Then, their maximum allowable monthly payment at 29% is $1,450. And the maximum mortgage that they can get is $207,300

HOWEVER, with an energy efficient home:

The maximum allowable monthly payment for the same person at 33% is $1,650. And the maximum mortgage that they can get is $235,900. That amount makes a huge difference in the kind of house that you can afford! At the same time, your monthly bills will be lower, so you can actually afford it.

Are there different kinds of EEMs?

Yes, there are actually three different kinds of Energy Efficient Mortgage Programs. You will need to talk to your lender about which one makes the most sense for you:

- Conventional Energy Efficient Mortgage: This type of loan is offered by lenders who sell their loans to Fannie Mae and Freddie Mac. It is the most powerful of the EEMs as it allows you to borrow up to 15% of the home’s appraised value for improvements.
- FHA Energy Efficient Mortgage: This type of EEM does not let you borrow as much as a conventional EEM, but you will be able to take advantage of the benefits of FHA financing. You can borrow up to 5% of whichever of the following is the least: a) your home’s appraised value; b) 115% of the median area price of a single family home; or c) 150% of the conforming Freddie Mac limit for that area.
- VA Energy Efficient Mortgage: This version of the EEM is for qualified veterans and present military personnel and may be used only when purchasing or refinancing a home. As part of your home purchase/refinance loan, it allows you to borrow up to an additional $6,000 for energy efficient upgrades if the projected energy savings exceed the resulting increase in mortgage payments, or $3,000 based solely on the documented cost of the improvements themselves.

An individual Energy Efficient Mortgage Lender may offer more than one type of EEM and possibly all three.

How much money can I spend on improvements?

Except for VA Energy Efficient Mortgages, as there is no fixed cap on how much you borrow for energy improvements. As noted immediately above, the maximum with conventional and FHA Energy Efficient Mortgages are specified percentage of your home's value or a figure related to local home values.

What kinds of things does an EEM pay for?

An EEM can pay for improvements like new dual pane windows, a new HVAC unit with air ducts, insulation, weatherizing, energy efficient heating and cooling systems, fixing or replacing a chimney, installing active and passive solar technologies, and other upgrades.

Where can I find Energy Efficient Mortgage Lenders?

EEMs are offered by most mortgage lenders through federally insured mortgage programs like FHA and VA as well as secondary mortgage market lenders like Fannie Mae and Freddie Mac. All of them offer slightly different plans and you should talk to a few lenders before choosing. An individual lender may offer one or all three types: conventional, VA or FHA Energy Efficient Mortgages.

Who is eligible?

Basically, if you already qualify for a regular mortgage, then in most cases you already qualify for an EEM. For the EEM to be eligible for inclusion in the mortgage (different from the buyer being eligible), the actual energy efficient improvements must be cost effective. This just means that the total cost of the upgrades has to be less than the total value of the energy saved over the operative life of the improvement. So, if a new double-paned window costs $300, it needs to save over $300 in energy costs of the course of its life.

How do you get an EEM?

To get an EEM, you first have to find out what improvements your home needs. And, though you may have had your eye on a new central air unit and other upgrades that you think you need, you have to follow the official suggestions. These suggestions come in the form of a HERS report. HERS stands for Home Energy Rating System and it's an evaluation of how energy efficient a home is. A trained Energy Rater goes to your home and completes an inspection to find out just how energy efficient it is. The rater will take into account factors like insulation, windows, heating and cooling systems, and local climate to give the home an overall rating. You will work with your lender to find a licensed Energy Rater.

A HERS report includes:

- An overall rating for the house as it is.
- Recommendations for cost-effective energy upgrades.
- Cost estimates of the price, savings, and life of energy saving upgrades.
- An estimate of the house's rating after the upgrades.
- Before and after estimates of annual energy costs for the home.

A HERS rating costs somewhere between $300 and $800 and you can finance it as part of the loan if it isn't paid for by the buyer, seller, lender, or real estate agent.

Once I have my HERS, how does it all work?

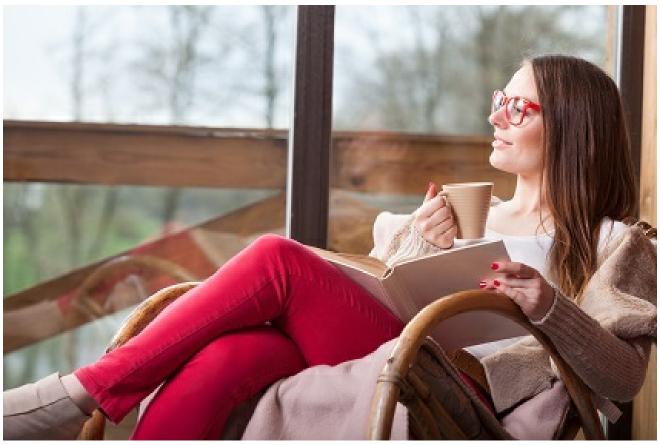
Once you have your HERS inspection, you can figure out how much money you qualify for and what upgrades you want to spend the money on. So, maybe you can get that new central air unit after all! Once the actual EEM has been worked out with the lender and the loan closes, the lender puts the money into an escrow account. The mortgage owner then has between 90 and 180 days (depending on who provides the EEM) to hire professionals to make the improvements. You can do some of the improvements yourself to save money, but you cannot pay yourself to make the renovations. The money is then paid out to the borrower once an inspection takes place to verify that the proposed improvements have been made and the energy savings are real.

Part 2: Who needs an Energy Efficient Mortgage?

Three scenarios look at different ways to use an EEM:

Example 1:

Nicole and Chad bought their home ten years ago. Though they love their house, it is older and hard to keep warm in the winter and cool in the summer. After a winter of particularly crippling heating costs, they thought about selling and moving to a more efficient home.



Ultimately, though, Nicole and Chad decided that they loved their neighborhood too much to move and looked into what they could do to upgrade their home to make it more energy efficient. After extensive internet research, they decided that they needed to insulate their attic, replace all of their windows with double-paned windows, replace their central heating and cooling system, and repair the duct work.

Unfortunately, they did not have enough cash in savings to get all of this work done at once. After talking to a broker friend about their situation, they realized that if they refinanced their mortgage to take advantage of lower interest rates, they could qualify for an EEM to pay for the improvements without any money out of their pockets except for the refinancing fees and the HERS report.

When Chad and Nicole finally got their HERS rating, they found that they not only qualified for most of the energy efficient upgrades they wanted, but the report also suggested some other upgrades that they hadn't considered. Now, Chad and Nicole are happy with their home and glad that they didn't go through the nightmare of selling their home, purchasing a new one, and moving. Their home is more comfortable year round and because they refinanced, they also have a lower overall mortgage payment every month.

Example 2:

With a new baby on the way, the Miltons have more than outgrown their starter home. They decide to build a new three bedroom home two towns away in a better school district.

In this town, they have a choice of two different builders. The first builder does not invest the time or effort to make his homes as energy efficient as they could be. However, his homes are less expensive—at least in the short term. The second builder invests the time and materials to create greener, more energy efficient homes. Unfortunately for the Miltons, the asking price on those homes is just out of their reach.

The Miltons crunch the numbers and compare the two similar homes. It's not surprising that they find that the utility costs for the more energy efficient home are much lower. They are surprised, however, when they talk to their loan officer and find out that because the greener home costs less to maintain each month, the Milton's can actually qualify for a larger loan to pay for the home if they add an EEM to their regular mortgage.

In the end, the family gets a larger mortgage to pay for the greener home. They also get the space that they need for their growing family and save money with lower monthly costs. Also, the temperature in their home is more consistent in all seasons which gives them peace of mind while trying to keep their young brood comfortable and healthy.

Example 3:

Brian loves the details, solid building techniques, and design of older homes. He has fallen in love with a house in his neighborhood that was build in the 1920's. The place is very charming, but it is in need of a serious overhaul to prevent it from being a utility money pit. It desperately needs improvements like an HVAC system (it previously just had window units), double paned windows, and extensive insulation.

This isn't Brian's first house purchase. His last house also needed some repairs and he simply asked the seller to add the upgrades on as part of the purchase agreement. Unfortunately for Brian, he isn't the only one who has eyes for this particular house. The market in this area is extremely competitive and he is finding that he may not be able to offer as much money as some other buyers.

His lender suggests that he stay competitive with other buyers who may have deeper pockets by applying for an EEM on top of his regular mortgage to finance the cost of repairs in his offer price. This ends up making his offer more attractive than others because the seller, who is an elderly gentleman, doesn't have to do the repairs himself. Also, Brian, who is particular about his houses, can get the repairs and upgrades that he really wants instead of suffering through whatever cheap repairs that the seller tries to make.

Three months later, it is the dead of winter and Brian is living in his new home. He enjoys the old world feel and character of the house, but he doesn't have to deal with an endless struggle to heat the house and be comfortable.

Part 3: Green Mortgages for Small Businesses

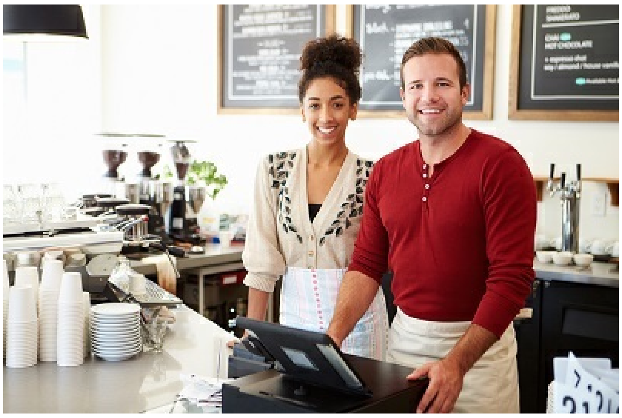
So far, we've talked about the benefits that Energy Efficient Mortgages can have for homeowners, but what about small to mid-sized businesses?

Greening efforts and retrofits help improve the bottom line of any business with lower operating costs. Also, consumers are more likely to patronize green businesses. Javelin Strategy & Research found that 43% of consumers are more likely to do business with green companies. So there are good reasons to seek an Energy Efficient Mortgage for your business.

Unfortunately, there are currently commercial versions of the Energy Efficient Mortgage Programs described above. However, there are alternatives that provide the basic benefits of Energy Efficient Loans for businesses. These include:

- Small Business Administration Loans, including the 7(a) loan and the SBA 504 loan
- State energy efficiency financing programs
- Commercial PACE loans

Among the things you can do with these loans are:



- Retrofit facilities
- Purchase energy efficient equipment
- Utilize energy efficient construction
- Buy alternative fuel for vehicles
- Replace a transportation fleet with hybrid and improved-mileage vehicles
- Increase efficiency with a new HVAC, heat pumps, and insulation
- Install energy efficient power and light bulbs
- Utilize new sources of energy including wind, solar, and geothermal
- Install energy efficient doors, windows, and skylights

Small Business Administration Loans

The U.S. Small Business Administration is an independent agency of the federal government formed to help Americans start, build, and grow businesses. The SBA does not actually make loans, but it does guarantee them. A number of banks and other lending institutions offer these SBA guaranteed loan programs to help small businesses. Applicants must meet the lender's criteria and requirements as well as those of the SBA.

The two standards that the SBA uses to define a "small business" are: 500 employees and $7 million dollars in average annual receipts for non-manufacturing industries. There are many exceptions, though, so be sure to check out the SBA website for more details to see if you qualify as a "small business."

504 Loan Program:

This program is designed for small, brick and mortar businesses that need financing for fixed assets like real estate or equipment. It can also be applied to fixed asset projects like purchasing land and constructing new facilities or modernizing or renovating existing facilities.

There is a new version of the 504 Loan called the Green 504 which doubles the maximum amount that a business can get from $4 million to $2 million with a 10% down payment. To get this higher amount, the business must be purchasing, constructing, or retrofitting facilities with energy saving technologies that result in at least a 10% decrease in energy consumption. Also covered are projects to generate renewable energy like solar and wind.

7(a) Loan Program:

This is SBA's primary program to help start-up and small businesses to obtain financing when they might not be eligible for loans through normal lenders. Though it isn't specifically earmarked for energy efficient projects like the Green 504, it can be used for green projects. These loans are for a maximum of $2 million

State energy efficiency financing programs

Most states offer low interest loans and other subsidies to help small businesses to become more energy efficient. To find out about what programs are available in your area, go to the NASEO website (National Association of State Energy Officials) and click on your state:http://www.naseo.org/members-states

One example, to give you an idea of the benefits, is the Efficiency Maine program offered by the Finance Authority of Maine (FAME). This program provides small businesses with up to $35,000 at 1% interest to help with approved energy conservation measures with closing costs capped at $500.

Commercial PACE loans

Though PACE (Property Assessed Clean Energy Program) was essentially halted in the summer of 2010 due to the FHFA and Freddie Mac/ Fannie Mae, the idea is a good one. Started in Berkeley, CA in 2005, it's a municipal financing system where property owners get loans for energy efficient upgrades to their property for things like solar panels, energy efficient windows, and insulation. The owner then pays off the loan through increased property taxes over a set number of years. If the owner sells or leaves the property, the new owner takes on the payments as he or she will now be enjoying the energy efficient benefits.

To get a PACE loan, the property must be located in a municipality that has adopted a PACE ordinance. The process for getting the loan is similar to an Energy Efficient Mortgage in that an inspection takes place by a certified rater who determines what procedures are approved for the property. The amount available depends on the area that the business is located in, but the largest PACE loan approved so far has been $6 million.

The program was put on hold by the Federal Housing Finance Agency in July, 2010 because they felt that it was too risky. Still, states like California and Maine are making serious strides to bring it back.

Conclusion:

Hopefully this guide has helped to give you an understanding of Energy Efficient Mortgages. However, as with any financial product, the actual loans include some complexities and subtleties not covered here. While this guide provides an overview of EEMs, for a more complete understanding you should talk with an Energy Efficiency Mortgage Lender. To find one near you, please see our guide to Energy Efficient Mortgage Lenders by state, below.

Energy Efficient Mortgage Lender Guide by State

Click on this link for our guide to local Energy Efficient Mortgage lenders.

Subprime mortgages are back - with a new name

Aaron Crowe 25 October 2019

What to consider when buying homeowners insurance

Aaron Crowe 30 July 2019

Feature Articles

VA Mortgage Loans

Kirk Haverkamp 13 November 2015

Mortgage and Home Loan Help Guide for the Disabled

Kirk Haverkamp 13 November 2015

Growing Pains: The Parents-Backed Mortgage

Kirk Haverkamp 21 June 2007

Browse Mortgage Rates

Select a state

Go to State

100+ Calculators

Amortization Schedule Calculator

Auto Loan Payoff Calculator

Certificate of Deposit Calculator

Home Equity Line of Credit Payments Calculator

OR

Select one

View Calculator

National Rates

Mortgage Loan Directory and Information, LLC or Mortgageloan.com does not offer loans or mortgages. Mortgageloan.com is not a lender or a mortgage broker. Mortgageloan.com is a website that provides information about mortgages and loans and does not offer loans or mortgages directly or indirectly through representatives or agents. We do not engage in direct marketing by phone or email towards consumers. Contact our support if you are suspicious of any fraudulent activities or if you have any questions. Mortgageloan.com is a news and information service providing editorial content and directory information in the field of mortgages and loans. Mortgageloan.com is not responsible for the accuracy of information or responsible for the accuracy of the rates, APR or loan information posted by brokers, lenders or advertisers.