HomeStyle® Energy FAQs

March 29, 2016

The HomeStyle Energy mortgage loan is designed to help lenders offer financing for homeowners to increase home energy efficiency and reduce utility costs. Borrowers can finance energy-efficient upgrades when purchasing or refinancing a home. HomeStyle Energy may be a more affordable financing solution than a subordinate lien, home equity line of credit, Property Assessed Clean Energy (PACE)[1] loan, or unsecured loan.

Simple Options

- Pay off higher-interest energy improvement debt, including PACE loans.
- Finance up to 15% of the "as completed" appraised property value of a home.
- Finance up to $3,500 in weatherization or water-efficient improvements with no energy report.

General

Q1. May any Fannie Mae lender use the flexibilities offered by HomeStyle Energy?

Yes. HomeStyle Energy is available for use by any approved Fannie Mae lender, with no special approval required.

If using HomeStyle Energy to pay for future energy-efficiency improvements, the lender must be able to operationally support the transaction, such as by administering escrow accounts and monitoring completion of the work. This operational support is not needed for the payoff of other existing energy improvement financing through the limited cash-out refinance option, as the improvements would have been completed prior to the transaction.

Delivery of HomeStyle Renovation loans continues to require special lender approval.

Weatherization and Water-Efficient Improvements up to $3,500

Q2. What types of improvements would be covered under the $3,500 allowance for weatherization and water-efficiency items?

Basic weatherization items may include, but are not limited to:

- air sealing (including weather-stripping doors, caulking windows and plumbing penetrations)
- insulation (attic, floors, walls, basement)
- duct sealing and insulation
- smart thermostats and equipment controls
- windows and doors

[1] Refer to *Selling Guide* section B5-3.4-01, which discusses Fannie Mae's restrictions on PACE loans.

Basic water efficiency items may include installation of low-flow and on demand water devices, such as low-flow showerheads. This does not include drought-tolerant landscaping.

Q3. Is the lender required to escrow funds when utilizing the $3,500 allowance for weatherization or water-efficiency improvements?

Yes. The lender must establish a completion escrow for the incomplete energy improvements. The improvements must be completed no later than 180 days from date of the mortgage note. For requirements related to completion of the postponed improvements, including escrow accounts, disposition of funds after work completion, and title reports, see the *Requirements for HomeStyle Energy Improvements on Existing Construction* table in the *Selling Guide*, section B4-1.2-03, Requirements for Postponed Improvements.

Q4. How may a lender incorporate the $3,500 allowance for weatherization and/or water-efficient improvements with no energy report in a purchase transaction?

The lender should work with the borrower to determine the cost of the improvements to be included in the mortgage up to a maximum amount of $3,500. The lender must determine that the LTV ratio does not exceed the allowable LTV per the Eligibility Matrix by dividing the loan amount (including the cost of the energy improvements) by the lesser of the "as completed" appraised value of the property or the sum of the purchase price of the property and the cost of the energy improvements.

Q5. May a borrower receive more than $3,500 for weatherization, water-efficiency, or other energy related improvements?

Yes. If the borrower needs additional funds to complete the improvements, the lender may follow the guidelines that permit up to 15% of the "as completed" appraised value of the property to be used for energy improvements. Under this process, the lender works with the borrower to obtain an energy report to verify that the proposed improvements are cost-effective. The cost effectiveness can be evaluated in terms of the aggregate impact of the proposed improvements. This means not every energy improvement is required to meet the test for cost effectiveness, provided that all of the proposed improvements together meet the test for cost effectiveness.

Energy Report and Documentation Requirements

Q6. Why is the lender required to review an energy report and also keep receipts for the energy improvements?

The energy report is used to help identify and prioritize the cost-effectiveness of energy improvements the borrower may consider completing.

The receipts are required to provide evidence of the amount spent on energy improvements. When new funds are provided in a refinance or purchase transaction, these receipts help the lender determine the appropriate escrow draws and monitor work progress. When refinancing existing energy improvement debt, the receipts document the amount of funds spent on eligible improvements.

Q7. Why is an energy report required only for certain transactions?

An energy report is not required for basic weatherization and water-efficiency improvements up to $3,500 because studies have shown that they are cost-effective energy improvements. Fannie Mae also does not require an energy report for the payoff of a PACE loan.

For all other transactions, the energy report helps to ensure that the borrower has knowledge of the improvements that will be the most beneficial to them. The energy report should identify recommended energy improvements, include the expected costs of the improvements, specify the monthly energy savings, and verify the cost-effectiveness of recommended improvements.

Q8. How does the borrower or lender find a qualified assessor to complete an energy report?

The borrower or lender may visit the HERS website (www.resnet.us) or the DOE Home Energy Score website (http://energy.gov/eere/buildings/home-energy-score-information-interested-assessors) to locate a local qualified energy assessor. Additionally, there may be a local or state home energy certification or audit program that provides a report comparable to the HERS or DOE Home Energy Score report. In such cases, the energy report can be completed by an independent home energy consultant or auditor certified by such a local or state program. Refer to *Selling Guide* section B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties for further details.

Q9. May the cost of the energy report be incorporated into the borrower's loan amount?

Yes. The cost can be included in the total eligible amount of financing available, up to 15% of the "as completed" appraised value of the property. Loans with energy improvements are subject to the applicable LTV, CLTV, and HCLTV ratios shown in the Eligibility Matrix except HomeReady® loans, which are limited to a maximum LTV of 95%.

Payoff of Previously Financed Debt for Energy Efficiency Improvements

Q10. If the borrower is paying off a PACE loan or other previously financed energy efficiency improvements, what documentation is required?

If the borrower is paying off a PACE loan, documentation must be provided showing that the funds are solely being used to pay off the PACE loan obtained for energy improvements on the subject property. A pay-off statement from the PACE program is sufficient to document the outstanding balance to be paid off.

If the payoff is for other secured or unsecured debt that was used to finance energy-related improvements, the borrower must provide copies of invoices or receipts documenting the cost of the energy-related expenses. The borrower must also provide an energy report per the requirements in *Selling Guide* section B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties.

Q11. Can the payoff of other previous energy improvements include items paid with cash?

No. Consumers may only refinance debt including home equity loans, PACE financing, or other debt used for energy improvements.

Q12. Will the lender receive the $500 LLPA credit for a limited cash-out refinance to pay off previously financed energy efficiency improvements (including PACE)?

Yes. The lender must deliver the loan with Special Feature Code (SFC) 375 to receive the $500 LLPA credit.

Q13. Is an energy report required when utilizing HomeStyle Renovation for energy improvements?

When combining the HomeStyle Renovation mortgage with HomeStyle Energy, an energy report must be obtained per the requirements of *Selling Guide* section B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties. Lenders will receive the $500 LLPA credit only if Special Feature Code 375 is delivered.

Homeowners may also choose to finance energy improvements through the HomeStyle Renovation product without using HomeStyle Energy. When energy improvements are done as part of the overall renovation, the lender is not required to obtain an energy report. The lender will not deliver the loan with Special Feature Code 375 and will not receive the $500 LLPA credit.

Q14. May a HomeStyle Renovation loan be used to pay off a PACE loan greater than 15% of the "as completed" appraised value of the property?

For limited cash-out refinances of a PACE loan originated prior to July 6, 2010, the entire limited cash-out refinance loan amount may be used to pay off the PACE loan.

For a PACE loan originated on or after July 6, 2010, or other debt used for energy improvements, the payoff of the existing PACE lien is limited to 15% of the "as completed" appraised value of the property. All HomeStyle Renovation requirements related to the maximum loan amount also apply.

Q15. Can the lender combine other home renovations with the HomeStyle Energy program?

Yes, only if those improvements are done through HomeStyle Renovation. The lender must have special lender approval to sell and service HomeStyle Renovation loans.