



The SAVE Act:

The role of U.S. mortgage policy in encouraging energy efficiency

Institute for Market Transformation

January 19, 2010

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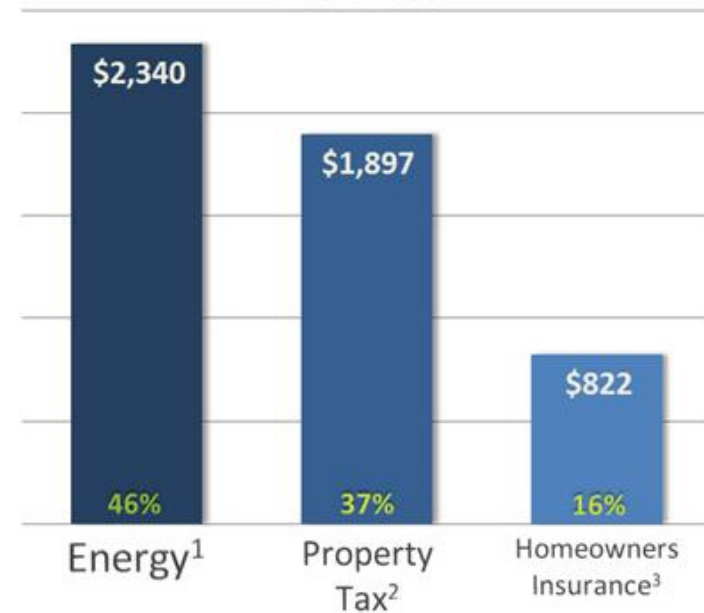
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The SAVE Act: Sensible Accounting to Value Energy

- A homeowner who spends less on utilities will have more money to make mortgage payments
- For a typical house :
 - Median home price - \$175,000
 - Average 30-year commitment to energy costs - \$70,000
- The SAVE Act, proposed federal legislation championed by **Senator Michael Bennet (D-CO)** seeks to correct this energy “blind spot” in mortgage underwriting.

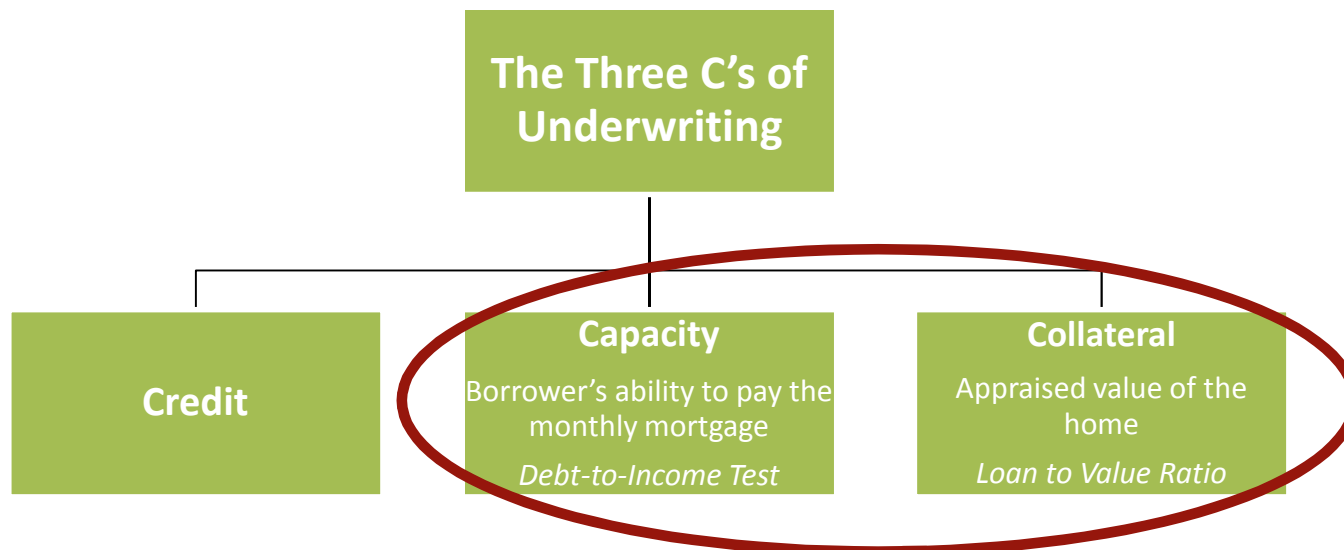
Average U.S. Homeowner Costs
2007-2008



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Mortgage Underwriting:

- Process a lender uses to determine the risk of offering a mortgage loan to a particular borrower
- Fannie Mae, Freddie Mac, FHA, and other federal agencies publish guidelines for originating loans that will be eligible for purchase or guarantee



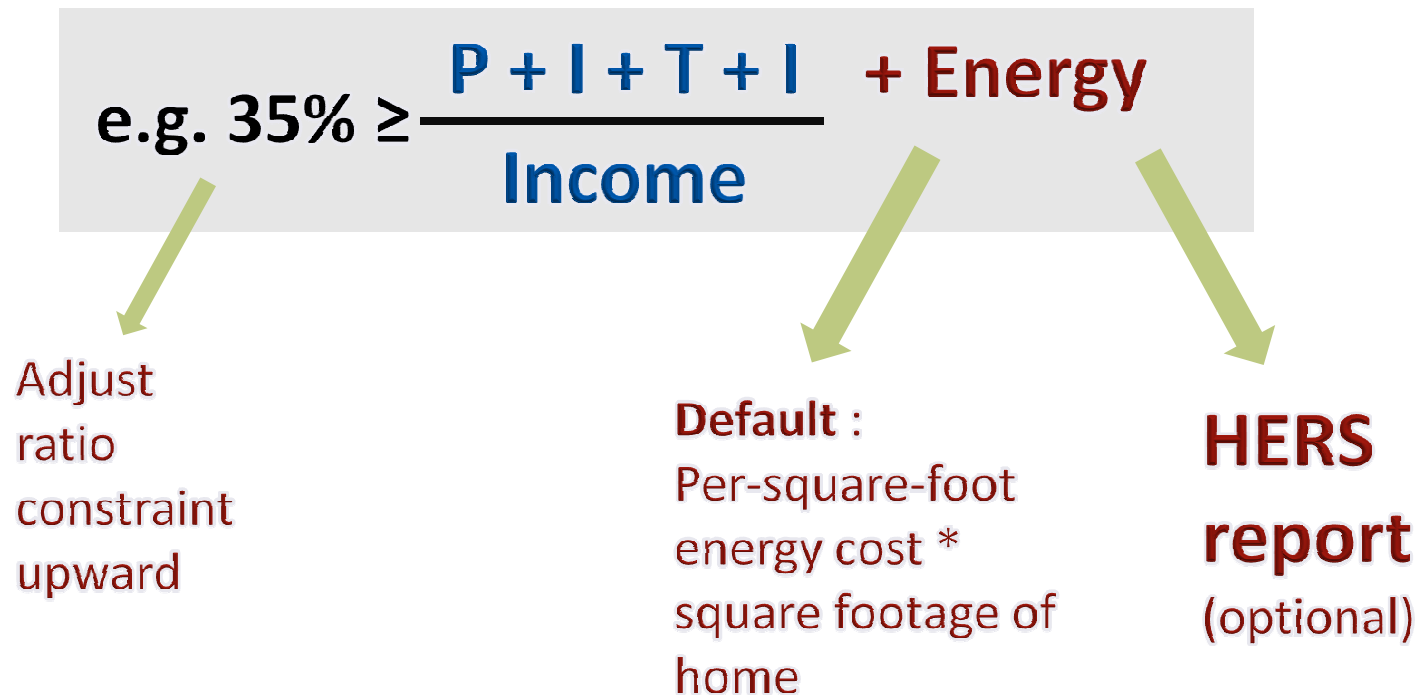
Energy “blind spot”

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Capacity:

Lender uses a series of **eligibility tests** to determine the borrower's ability to pay a monthly mortgage payment. Energy costs are regularly excluded from these tests.

E.g. Debt-to-Income Ratio:



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Collateral:

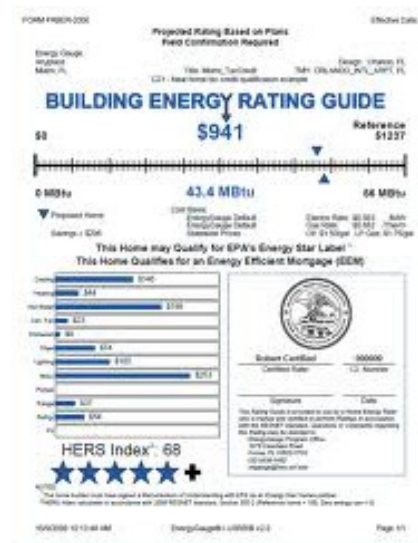
- Lender arranges to have a professional appraiser estimate the market value of the house.
- Residential appraisers rarely account for energy efficiency
 - Lack of awareness, expertise, incentive
 - Appraisers rely on “comps”
- Little agreement on how to value energy efficiency.

Appraised Value

The image shows a 'UNIFORM RESIDENTIAL APPRAISAL REPORT' form. It includes sections for 'Property Description', 'Location', 'Appraisal Information', and 'General Observations'. The form is a standard industry document used by appraisers to document property characteristics and value.

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NPV of energy savings



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Consider a family with two choices:

Home A:

Home price \$300,000

Mortgage payment	\$1,600
<u>Utility bills</u>	<u>\$300</u>
Total monthly	\$1,900

Home B: ^{Energy}Efficient

Home price \$305,000

Mortgage payment	\$1,627
<u>Utility bills</u>	<u>\$150</u>
Total monthly	\$1,777

Existing underwriting standards would make the energy efficient home look more “risky” and perhaps deny the consumer a loan on Home B.

The SAVE Act

Expected Benefits:

Greatly **accelerate** the supply of and demand for **energy-efficient homes**

Improve the **affordability** of **energy efficient homes**

Reduce the vast amount of **energy consumed in buildings**

Improve the **quality** of mortgage **underwriting**

Immediately place **real financial value** on energy efficient houses

Put people back to work renovating and constructing energy-efficient homes and products

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WHY NOW?

- Mass foreclosures and short sales
- Huge inventory of unsold homes
- Regulatory overhaul of mortgage market
- Federal Housing Finance Agency (FHFA) controls GSEs
- Paradigm shift in loan quality standards
- Biden Commission initiatives
- Employment stimulus needed at the local level

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For more information, please visit
www.imt.org/SAVE-Act
or contact Sarah Stellberg, IMT
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