

Energy Star Manufactured Homes Even More Cost-Effective with Energy Efficient Mortgages

The market for Energy Star manufactured homes is growing slowly and steadily, with several incentives, including the \$1,000 federal tax credit for manufacturers and several utility-sponsored programs across the nation providing cash rebates to home retailers and communities, adding to the move to Energy Star.



The Manufactured Housing Research Alliance (MHRA), the research arm of the manufactured housing industry, provides content for *Technologies*.

- *Technologies* highlights the research of MHRA and examines other research and development activities throughout the industry.
- For more in-depth information about research in the factory-built housing industry, or to find resources mentioned in *Technologies*, visit the MHRA Web site.



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Amid all these incentives, the major beneficiary of an Energy Star purchase is easily overlooked: the home owner.

Buying an Energy Star home has always been a prudent investment, with the value of the monthly energy savings exceeding the added mortgage cost of buying the additional energy features. This is financial leverage for the buyer: free cash flow that allows lenders to offer Energy Star buyers better mortgage terms.

Take, for example, the Federal Housing Authority's (FHA)'s Energy Efficient Mortgage (EEM) program. This program, offered to buyers of manufactured homes, recognizes that the improved energy efficiency of a home can increase its affordability by reducing its operating costs. Cost-effective energy improvements conserve energy, resulting in lower utility bills and, thus, make more income available for the mortgage payment. In the past, the cost of the Energy Star features would be included in the overall qualifying home purchase price, meaning that buyers were trading off energy-efficient measures, such as higher insulation, against popular amenities, such as a Jacuzzi tub. FHA's EEM program eliminates the need to make trade-offs by allowing the buyer to purchase more home, if it's an Energy Star home.

As outlined in FHA's Mortgage Letter 2005-21, the EEM program allows a borrower to finance 100 percent of the expense of a cost-effective "energy package," the features and improvements that make the house more energy efficient, and any soft costs related to demonstrating the home meets Energy Star requirements. A cost-

effective energy package is one where the cost of the improvements, including maintenance, is less than the present value of the energy saved over the useful life of those improvements. The borrower does not need to qualify for the additional financing or provide additional down payment. And how does FHA define "energy efficient" when it comes to manufactured homes: any home that carries the Energy Star label!



The process for qualifying for the EEM is simple. Once it is determined that both the borrower and the property are eligible for an FHA mortgage and the buyer selects an Energy Star home design, the home retailer and manufacturer simply fill out an application for an FHA EEM Manufactured Home Energy Report, which is available from the Manufactured Housing Research Alliance (MHRA).

MHRA, as the program administering agent for FHA and a HUD-approved home energy rater, uses the information provided by the manufacturer and retailer to determine the allowable increase in the mortgage amount. MHRA will estimate the energy costs of the home built with and without the Energy Star package, determine the present value of the energy savings that results from installation of the Energy Star features, and determine the dollar amount of the cost-effective energy package that may be added to the loan amount. This information is provided directly to the lender for completing the

loan application. There are no additional steps involved for the lender.

On average, MHRA projects that most Energy Star manufactured homebuyers will qualify for between \$1,800 and \$3,000 of additional home cost. The FHA EEM provides a win-win situation for the Energy Star manufactured homebuyer and the lender. The homebuyer qualifies for a larger mortgage but with lower monthly costs, and the lender underwrites an FHA-backed loan for a higher-priced home, with higher potential resale value.

A copy of FHA's EEM Mortgagee Letter, the letter from FHA approving Energy Star manufactured homes as eligible for the EEM and MHRA as a home energy rater, and the application for a Manufactured Home Energy Report can be downloaded from MHRA's Web site at www.mhrahome.org/pages/es_lender.htm. For more information, contact Jordan Dentz at 212-496-0900 x14 or jdentz@research-alliance.org.

More Energy Star Rebates for Retailers and Communities

To help build support for Energy Star, the Manufactured Housing Research Alliance (MHRA) will pay retailers and community owners a \$400 rebate for each new electrically-heated Energy Star qualified manufactured home they sell within the seven-state service area of the Tennessee Valley Authority (TVA).

TVA is sponsoring the rebate program to increase sales of Energy Star homes within their service territory. The program is a win-win-win for all involved, with the manufacturer

qualifying for the federal tax credit, the homebuyer realizing a windfall in energy savings and now the rebate for home retailers and communities. The rebates are available immediately.

TVA also has a companion program that provides a \$300 incentive to equipment suppliers to buy down the cost of a heat pump, a main component of Energy Star construction for electrically-heated homes.

To help retailers sell Energy Star homes, MHRA will provide marketing materials, including a sales DVD, posters, consumer brochures and window decals, to participating retailers and communities at no cost. For more information, visit MHRA's Web site www.mhrahome.org/pages/es_TVA.htm or contact Gwynne Koch at 212-496-0900 x12 or gkoch@research-alliance.org. ■

Manufactured homebuyers who qualify for an FHA-insured loan may have the following advantages with an energy efficient mortgage (EEM):

- Any FHA-approved lender can offer an EEM to a manufactured homebuyer.
- The EEM is initially underwritten as if the Energy Star package did not exist. When qualifying a homebuyer, the cost of the energy improvements is subtracted from the sales price of the home.
- The homebuyer qualifies for a 2 percent increase in their qualifying income ratios, and these ratios are calculated on the cost of the home before the energy improvements.
- Up to \$8,000 can be added to the loan amount, based on a calculation that takes the expected energy savings into account. The borrower does not have to qualify for the additional financing or make a higher down payment.
- The calculation for the private mortgage insurance premium is based on the cost of the home before the energy improvements.
- The home is not subject to an on-site home energy rating in order for a homebuyer to qualify for an EEM.