

Energy Reduction Mortgage Incentive

Energy Efficiency Stimulus Fund Proposal

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NCC
Northern
California
Collaborative



Stimulus Funding Proposal

- **California Energy Commission, CEC, has \$220M in Federal Stimulus to distribute over 36 months**
- **Objectives include:**
 - Stimulate Economy
 - Provide Green Jobs
 - Reduce Energy Usage by 30% in 29,000 homes
 - Leverage Stimulus dollars with other funding sources
 - Create sustainable programs



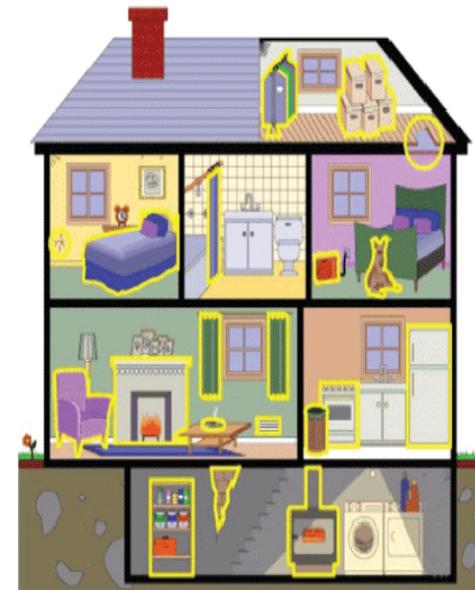
Today's Mortgage Challenge

- Income documentation
 - Self employed bury income
- Home values have fallen
 - FHA heralds 96.5% LTV
- Credit Scores



Residential Energy Retrofits

- **Energy Efficiency upgrades... 1st Step**
 - “Whole House” approach
 - Average cost \$15K
 - Heating, passive solar, windows, venting, insulation
 - Seal it up and Vent it Right
 - Home Performance Contractors
- **Can achieve 30% energy reduction**
- **\$1,500 Federal Tax Credit Incentive**
- **Reduce cost of Renewable source**



Items in yellow impact indoor air quality.

Image from treehugger.com

Renewable Energy Upgrades

- **Reduces energy use by providing renewable source on property**

	<u>Average cost</u>
– Solar water heaters	\$ 7,000
– Photovoltaic “PV”	\$20,000
– Wind turbines	\$18,000

- **Tax Credit 30% of total cost available**

FHA Funding for Renewables

- Solar Hot Water, PV and Wind are eligible
- FHA 203K Streamline
- Up to \$31,500 of bids
- 10% contingency needed
- Utilize 30% Tax Credit



AB811 Tax Assessment Innovation

- **AB811 excellent funding source up to**
 - \$40K @ 7.5% over 20 years
 - No income nor credit score required
 - In front of first mortgage on property
- **Provides energy savings & job creation**
 - Yet lacks major financial stimulus to homeowner
 - Lacks prescribed energy reduction
 - Nothing for new homebuyer
- **New government administration creation**
 - New infrastructure
 - Bond funding cost & delay
 - Current programs sold out immediately



Incentives to Homeowner?

- Reduce energy costs by \$50 to \$200 month
- One Time Tax Credit

Versus ??:

- Initial cash outlay or
- Increase indebtedness on property
 - Line of credit 5.5% interest 10 year amortization
 - Secured second loan 7.5% interest 20 year amortization
 - AB811 7.5% interest 20 year amortization
 - FHA 203K & EEM 5.5% interest 30 year amortization
- Little gain in monthly cost reduction

Energy Reduction Mortgage Incentive

- For those homeowners with equity & income..... Long term first mortgage cost reduction
- **Energy Reduction leads to Rate reduction**
 - Reduce interest rate on entire first mortgage
With verified energy reduction
 - 1.0% savings in rate on \$400K 30 year fixed
 - \$86,000 savings in interest
 - \$241 monthly mortgage savings
 - Plus Energy Savings!



Purchase or Refinance with Energy Reduction Mortgage

- Extra incentive to purchase EnergyStar home
- Foreclosed home retrofit w/ 203K Streamline
- Added focus on Energy Efficiency with an EEM to reduce by minimum 30%
- Interest rates drive borrowers
- Refinance for energy retrofit
 - Lower rate = Lower payment

Energy Reduction Mortgage (ERM)

- ***Any First mortgage*** for a residence certified with 30% energy reduction
- Certification by HERS, HPWES, or Greenpoint Raters
- Discount fee by Broker leveraged with:
 - State Energy Program Mortgage Incentive
 - (Stimulus \$)
 - FHA Energy Innovation Incentive
 - (budgeted for 2010)
- Subsidy for Energy Audits



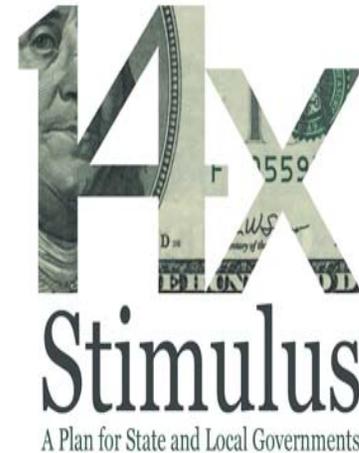
Stimulus Request to CEC



- **One Point Discount in fee to borrower for 20% energy reduction**
 - **Borrower Choice: Pay Closing Costs or .375% Reduction in Rate**
 - Quarter Percent Mortgage Banker Discount
 - Half Percent State Energy Program SEP Stimulus \$
 - Quarter Percent FannieMae or FHA Rebate
- **Subsidy for Energy Audit cost at close of escrow**

Rate Reduction Model

- Architecture 2030
- Federal program before Senate
- State & local EECGB utilization
- For every \$1 of Stimulus
 - \$14 of income produced
- No Escrow holdback (too complicated)
- HERS inspector & contractor list at bank



Who is using 14X?



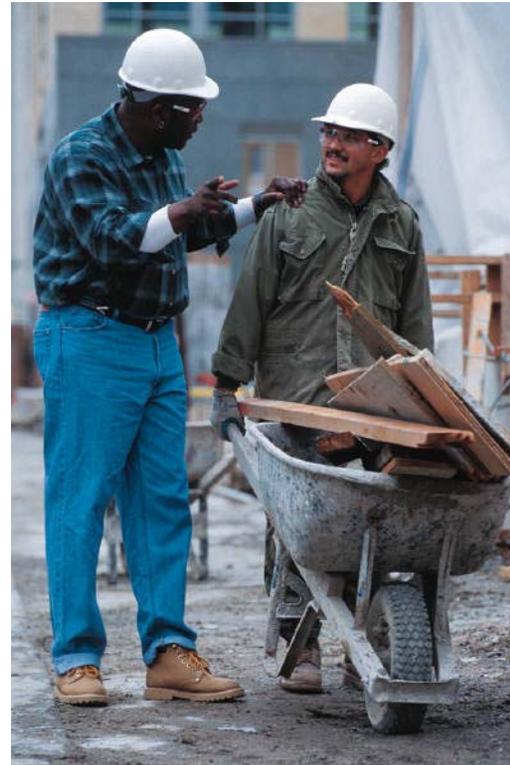
- **State of IOWA & ARKANSAS**
 - Wells, Bank of the West, Bankers Trust
- **City of Santa Barbara**
 - Local Banks
- **Your City can use EECGB funds**
 - Program is well developed
- **And the Rest of Us? Statewide program?**

Residential Energy Retrofits Provide Economic Stimulus

- **Every \$100,000 in remodeling:**
 - New economic income of \$89,667
 - New federal taxes of \$23,656
 - New state & local taxes of \$6,561
- **Productive jobs increase in hard hit:**
 - Construction, manufacturing, transportation
 - Finance, Real Estate
 - NAHB estimates 2008

Green Job Development

- Residential retrofits create job demand
- CBPCA training & sponsorship of apprentices
- Expand workforce to meet demand
- Conversion of contractors to new building paradigm



Energy Reduction Mortgage Basics

- **Any First mortgage for a residence certified to obtain**
 - 20% or 30% energy reduction
- **Refinance or purchase transaction**
- **Certification by HERS inspectors**
 - Project elements defined by inspector and given to approved contractors
 - Funding at reduced rate is given to borrower to cover retrofit costs
- **Final inspection to confirm results**



Energy Reduction Mortgage, ERM Incentive Benefits

- **Energy Reduction Leads to Rate Reduction**
- **Mortgage Incentive for entire first mortgage when invests in energy efficiency**
 - No new tax assessment on refinance
 - Save money on mortgage & energy
- **Creates new jobs & income**
- **Sustainable funding with taxes & building permit fees back to government**

Energy Reduction Mortgage, ERM Incentive Benefits

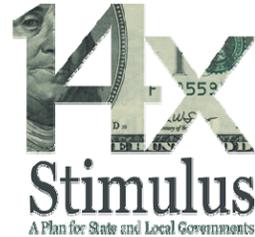
- **Establishes value of HERS Energy Audit**
 - Homebuyers, Realtors, Appraisers
- **Purchase incentive for Energy Efficient homes**
- **Upgrade incentive at time of sale**
- **Utilizes established Mortgage & Inspector infrastructure**

Stimulus Funding Request to CEC

- **Residential Energy Retrofits**
 - 1,500 (5% of CEC goal) homes
 - Resulting \$24 Million in Stimulus
- **Home Purchase Retrofits**
 - 1,000 Homes
 - Resulting \$16 Million in Stimulus
- **\$40 Million Stimulus** will produce
\$560 Million Income (14X)



Local



Programs Ready

- **Established, simple program**
 - www.architecture2030.com
- **Coordinates with National Program**
- **Effective use of Energy Efficiency Community Block Grant (EECGB) funding**
- **Talk to your city, now!**

Conclusion

- *Energy Reduction Leads to Rate Reduction*
- Homeowners save on mortgage & energy!!
- 14X use of Stimulus funding
- Seeking like minded lenders to network

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