



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: September 30, 2015

To: All Approved Single Family Mortgagees

Mortgagee Letter 2015-22

Subject New Standards for Energy Efficient Homes (EEH) “Stretch Ratio” Policy:
Incorporating the Department of Energy’s (DOE) Home Energy Score

Purpose This Mortgagee Letter updates the Federal Housing Administration’s (FHA) EEH program, minimum energy efficiency standard, to the most recent International Energy Conservation Code (IECC) adopted by HUD for mortgages on new construction homes and adds the use of the Home Energy Score option for mortgages on existing construction homes. FHA’s EEH program recognizes the savings of energy efficiency in the overall cost of home ownership and allows borrower’s income qualifying ratios to be increased by two percentage points above the standard limits (stretch ratios) for homes that meet the energy efficient standards.

Accordingly, this Mortgagee Letter announces a new partnership between FHA and the DOE that incorporates the use of DOE’s innovative Home Energy Score into FHA’s EEH program.

Background FHA’s existing EEH policy allows stretch ratios for homes that are built or retrofitted to the 2000 International Energy Conservation Code (IECC). For standard FHA loans, debt-to-income (DTI) ratios are limited to 31 percent (front-end) and 43 percent (back-end). Under FHA policy for the EEH mortgage, these DTI ratios can be increased to 33 percent and 45 percent respectively. To increase opportunities for homeowners to achieve and benefit from an energy efficient home, FHA is adding a new threshold for existing construction homes based on the Home Energy Score scale.

The DOE developed the Home Energy Score as a low cost and reliable method for estimating the energy use of a home and providing a corresponding “score” to rate the relative energy efficiency of the home based on area location. The Home Energy Score uses a systematic approach to provide a reliable and scientifically-based analysis of a home’s energy characteristics and overall energy efficiency.

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Background (continued)

This calculation methodology takes into account local climate, applies standard assumptions regarding occupant behavior, and provides a consistent, national, standardized approach that allows an “apples-to-apples” comparison of homes. The calculations are based on the Lawrence Berkeley National Laboratory’s DOE-2 model, which provides a detailed, hourly, whole-building energy analysis and is widely recognized as an industry standard.

The Home Energy Score uses a 10-point scale with a “1” applying to homes likely to use a large amount of energy and a “10” corresponding to the most energy efficient homes. An average home in the United States will score a “5” on the scale.

Effective Date

The provisions of this Mortgagee Letter are effective for case numbers assigned on or after January 25, 2016.

EEH Standard on New Construction

For mortgages on new construction homes, borrowers will be eligible for the EEH stretch ratios when their homes meet or exceed the higher of:

- the 2006 IECC,
 - any successor energy code standard that has been adopted by HUD for its Minimum Property Standards (MPS), or
 - the applicable IECC year used by the state or local building code.
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Options for Obtaining EEH Stretch Ratios on Existing Homes

For mortgages on existing construction homes, the mortgagee may apply EEH stretch ratios when the property meets either of the following conditions:

- 1) Homes that *currently* score a **“6” or higher** on the Home Energy Score scale; or
- 2) Homes where documented cost-effective energy improvements, as identified in the Home Energy Score Report, would increase a home’s score to a **“6” or higher** are completed prior to closing, or in association with an FHA program for the escrowing of repairs.

Escrow accounts must be established in accordance with FHA’s repair completion escrow requirements associated with the respective program.

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Home Energy Score Report

The Home Energy Score Report includes a detailed analysis of the home's energy profile including the Home Energy Score, Home Facts, and Recommendations. The Home Energy Score reflects the energy efficiency of a home based on the home's structure and heating, cooling, and hot water systems. The Home Facts provide details about the current structure and systems, as well as the annual estimated energy use of the home. Recommendations show how to improve the energy efficiency of the home to achieve a higher score and save money.

Obtaining a Home Energy Score

A Home Energy Score must be completed by a qualified Home Energy Score Assessor (Assessor) using the Home Energy Scoring Tool. To generate an official DOE recognized Home Energy Score, the Assessor must collect and submit a standard set of data inputs regarding the energy related features of a home, including but not limited to its heating, cooling, and hot water systems, as well as its structural envelope, e.g. foundation, insulation, walls, windows and roof. Borrowers and/or Mortgagees are encouraged to locate a Home Energy Score Assessor using a searchable database available at www.homeenergyscore.gov.

Financing Options

Borrowers may purchase or refinance a home utilizing any Title II Single Family forward mortgage program. FHA's Weatherization program may also be used with these financing options. FHA does not set the fees for the Home Energy Score and they cannot be included in the loan amount to be financed.

To view a list of eligible improvements, and the average cost of each improvement, please refer to the National Residential Efficiency Measures Database located at http://www.nrel.gov/ap/retrofits/group_listing.cfm.

FHA Connection

FHA intends to update FHA Connection to capture Home Energy Score data. Upon completion and announcement, Mortgagees will be required to provide a Home Energy Score in FHA Connection, for all applications utilizing the Home Energy Score report for stretch ratios. FHA will allow and encourages Mortgagees to report Home Energy Score data on all mortgages to allow FHA to analyze the effects of energy efficiency in association with all FHA mortgages.

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Required Documentation

The following documents must be included in the case binder submitted for endorsement:

- For loans on existing homes, a copy of the Home Energy Score Report.
- For new construction loans, a copy of the Builder's Certification, form HUD-92541 to evidence the IECC code, successor code or local/state building code used.

TOTAL Scorecard

TOTAL Scorecard is not presently calibrated to analyze energy efficient cost savings under the current EEH program.

Sample Scenarios

The following scenarios illustrate how an FHA borrower can qualify for EEH stretch ratios using Home Energy Score thresholds:

Scenario 1

In this example, a starting score of 7 (Figure 1) qualifies the borrower for 2% stretch ratios since the home only needs to score a 6 or higher to qualify.

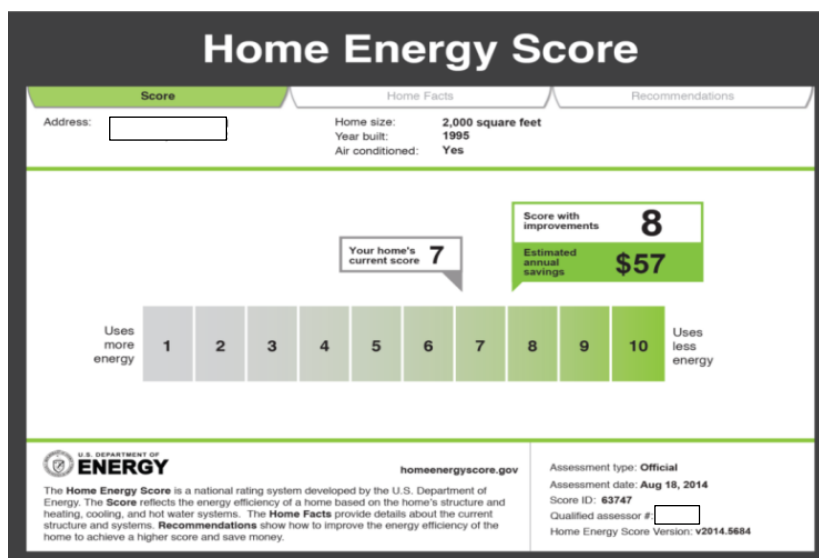


Figure 1. Example of a home with a starting score of 7 and a potential score of 8

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Sample Scenarios (continued)

Scenario 2

In this example, documented energy efficiency improvements are made to the home as recommended by the Home Energy Score Report—increasing attic insulation to at least R-30, adding insulation around ducts in unconditioned spaces to at least R-6, professionally sealing the ducts to reduce leakage, replacing the furnace and central air units with ENERGY STAR options, and adding insulating sheathing underneath the siding to R5—to bring the home from a score of 3 to the minimum qualifying score of 6 (Figure 2). By reaching a score of 6, the borrower (either homeowner or buyer) qualifies for the EEH stretch ratios mentioned above.

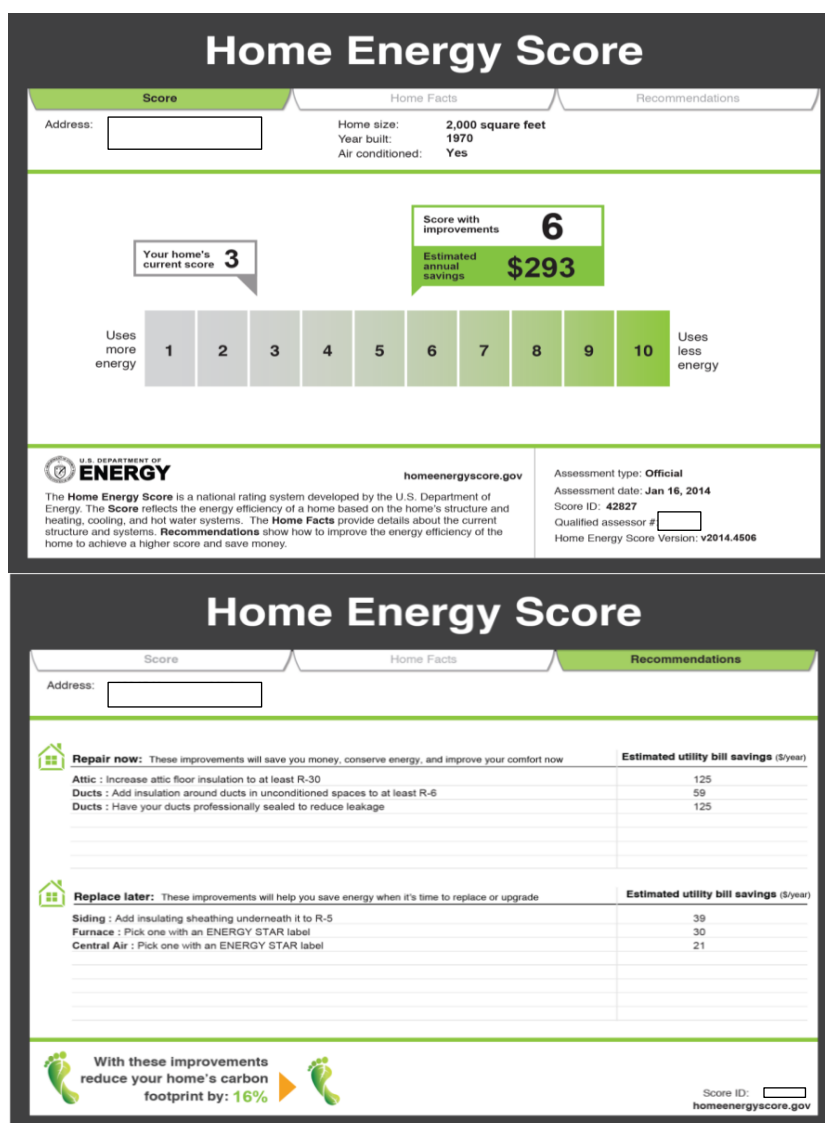


Figure 2. Example of a home with a starting score of 3 and a potential score of 6; associated recommended improvements to bring the home up to its maximum potential score of 6

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4000.1 FHA Single Family Housing Policy Handbook

The provisions of this Mortgagee Letter are incorporated into the Single Family Housing Policy Handbook 4000.1 and can be viewed separately on the [FHA Single Family Housing Policy Handbook Information Page](#).

Information Collection Requirements

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Questions

Please address any questions about the topics addressed in this Mortgagee letter to the FHA Resource Center at 1-800-225-5342. Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Information Relay Service at 1-800-877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers.

Signature

Edward L. Golding
Principal Deputy Assistant Secretary for Housing
