

U. S. Department of Housing and Urban Development  
Washington, D.C. 20410-8000

August 24, 1993

OFFICE OF THE ASSISTANT SECRETARY  
FOR HOUSING-FEDERAL HOUSING COMMISSIONER  
Mortgagee Letter 93-26

TO: ALL APPROVED MORTGAGEES

SUBJECT: Single Family Loan Production - Implementation of Section  
101 of the Energy Policy Act of 1992

The purpose of this Mortgagee Letter is to provide guidance with regard to Section 109 of the Cranston-Gonzalez Affordable Housing Act as amended by Section 101(c) of the Energy Policy Act of 1992 (Act).

Under Section 109, for a newly constructed one to four family structure (other than a manufactured home) to be eligible for HUD insured mortgage financing on or after October 24, 1993, it must have been constructed to comply with or exceed the energy conservation standards of the Council of American Building Officials (CABO) 1992 Model Energy Code (MEC).

Accordingly, a single family dwelling whose start of construction is on or after October 24, 1993, must be built in accordance with the CABO 1992 MEC to be eligible for HUD insured financing. (Start of construction is deemed to commence when there is placement of permanent construction on the site.) However, in order to not disrupt home builder ongoing operations, HUD will insure mortgages on properties where construction starts on or after October 24, 1993 and the home is not built to the CABO 1992 MEC if:

1. A Form HUD 92800.5B (Direct Endorsement Statement of Appraised Value) or a Direct Endorsement Master Appraisal, is issued prior to October 24, 1993 and construction of the property begins within six months of the date of issuance of the Form HUD 92800.5B or Master Appraisal, or

2. The Department of Veterans Affairs issues a Certificate of Reasonable Value (VA/CRV) or Master Certificate of Reasonable Value (VA/MCRV) before October 24, 1993 and construction of the property begins within six months of the date of issuance of the VA CRV/MCRV.

If the start of construction for a property is on or after October 24, 1993 and it does not meet the CABO 1992 MEC or the two exceptions explained above, then it will not be eligible for insured financing until one year after the "completion of construction."

Recognizing the energy savings that will accrue to mortgagors who purchase the new houses which comply with the CABO 1992 MEC requirements, the Department will permit the use of two percent "stretch" ratios for

qualifying prospective mortgagors. The new qualifying stretch ratios will be 31/43 percent instead of the standard 29/41 percent ratios. Stretch ratios may also be used on subsequent sales of a property constructed according to the CABO 1992 MEC, provided that the lender obtains adequate documentation showing that the property was originally constructed according to this standard.

For a property that must meet the CABO 1992 MEC, the builder will now have to certify that the property complies with the CABO 1992 MEC, whether or not stretch ratios are used. The Form HUD-92541, Builder Certification, is being reprinted to include this certification. Until the new Builder Certification form becomes widely available, the builder may just submit to the lender a written certification that the house complies with the CABO 1992 MEC.

For properties that are newly built or under construction and presently meet the CABO 1992 MEC, the Department is revising its instructions, effective immediately, to also permit the use of the two percent stretch borrower qualifying ratios. The builder must certify that the house meets the CABO 1992 MEC. Properties on which construction was commenced prior to October 24, 1993, that do not meet CABO 1992 MEC, will not be eligible for stretch ratios unless the property complies with the requirements of Mortgagee Letter 89-25, dated October 20, 1989.

The Department plans on publishing a final rule on this matter in the near future. However, if the rule is not published and effective by October 24, 1993, the requirements stated above will be effective on October 24, 1993, because the Act establishes the CABO 1992 MEC as the minimum requirement in the absence of a rule.

Questions concerning this Mortgagee Letter should be directed to your local HUD Office.

Sincerely yours,

Nicolas P. Retsinas  
Assistant Secretary for Housing  
- Federal Housing Commissioner

\*U.S. G.P.O.:1993-342-362:80176