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## Energy efficient mortgages can be heart(h) warming

By [Cari Noga](#) • Bankrate.com

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Think a thick sweater and dialing down the thermostat are the only ways to save on what's expected to be a budget-busting winter heating season?

A relatively unknown financing option called the "energy efficient mortgage" might help you keep your home cozy as well as keep the bills down. And after the first of the year, Uncle Sam will even kick in incentives, in the form of tax credits, for home energy improvements.

Created by Fannie Mae, the EEM dates back to the Carter administration, though the program was updated in 2002. The tax credits are included in the 2005 energy bill.

With an energy efficient mortgage, a home is inspected and scored by a certified energy rater for about \$300.


Then, the cost of improvements, such as a new furnace, more insulation or newer windows that would improve the score, is rolled into the loan.

Even though mortgage payments are higher, lower utility bills result in a home that is cheaper to operate. Lower monthly bills also enable the homeowner to qualify for a larger mortgage.

Michelle Desiderio, senior product developer at Fannie Mae, thinks the energy bill and the energy efficient mortgage program can work together for the benefit of homeowners.

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Under the new energy bill, homeowners can also claim a tax credit of 10 percent of the cost of certain energy improvements, up to \$500 total. Homeowners who install solar technology [get more generous credits](#): 30 percent of the cost, up to \$2,000. Such tax credits, which can be claimed on 2006 and 2007 tax returns, can be considered as additional income in loan qualification, Desiderio says.

"There's a great market impetus as a result of this new energy bill," she says. "If you're looking to buy a home next year, you could look to an EEM either for purchase or refinance and get the double benefit."

"It's a good marriage for existing homes," says Steve Baden, executive director of RESNET, a national organization of home-energy raters.

Last fall, Imelda Ramirez and her husband Felipe Lopez used an EEM to finance the purchase of their Lansing, Mich., home. The main energy improvement was a dual-fuel furnace, which switched between gas and electricity, depending on which was the most efficient. Ramirez said last winter's heating bills never even got into three digits.

The furnace and other improvements added \$5,000 to the couple's mortgage. But they expected to net an annual savings of \$740 thanks to the lower utility bills.

"We were really pleased at what we were paying in comparison with what other people were paying," says Ramirez.

### Expensive winter ahead

With high energy bills forecast nationwide, the programs could offer many more homeowners some timely relief. According to the government's September short-term energy outlook, homeowners can expect high prices due to Hurricane Katrina's disruption in Gulf Coast energy production. Depending on the severity of the winter, household natural gas prices are expected to be up more than 50 percent nationwide, led by a 71 percent projected spike in the Midwest.

Meanwhile, electricity expenditures for the winter are expected to be up 11 percent. For the year, total energy expenditures in the United States are expected to be \$1.08 trillion, about one-quarter more than in 2004.

Joel Wiese is a mortgage broker at Indigo Financial in Lansing, Mich., who specializes in EEMs. He handled the Ramirez-Lopez mortgage last year. Michigan and other upper Midwest states are expected to see the greatest increases, since the 2004 winter was relatively mild, according to the government. Since Katrina, Wiese said he's seen an increase in inquiries about EEMs from both home buyers and builders -- and not just from gung-ho environmentalists who would be attracted to an EEM in any case.

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"It seems there's a higher percentage than of average people who are thinking about it," he says. "Americans don't change until they feel pain, and this is going to be a painful winter on heating bills."

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Imelda Ramirez says she's grateful that her family made their energy improvements with the EEM, given the grim outlook.

"Just looking at the numbers, if it does go up 40 percent, that's something we can support. I'm just not worried about it," she says.


To encourage customers to check out the EEM, Wiese says his office is considering offering a challenge to customers: He'll pay closing costs if they don't save money.

"We feel pretty confident we can do it in every case," he says.

EEMs are available as fixed-rate and adjustable-rate mortgages. Buyers can also refinance their current loan with an energy efficient mortgage.

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While interest rates generally remain low, buyers should run the numbers to insure that the energy savings will offset the costs associated with the new loan. EEMs typically provide the most savings on older homes.

### The fine print

Saving money is in fact a requirement of an EEM. Borrowers can spend up to 15 percent of the value of the home on energy improvements. They must deliver greater energy savings than the upfront cost.

EEMs are particularly attractive to buyers looking for lower-priced properties, either as buyers or investors. Lower prices usually mean older homes that are typically less well-insulated and are more likely to have leaky windows and doors and inefficient appliances. By fixing those flaws with EEM financing and realizing lower monthly operating costs, a buyer can afford a bigger house.

Also, the cost of the improvements is added to the appraised value, rather than taken out of equity, giving the buyer an immediate stake in the property.

The key with both an EEM and the new tax credits is making improvements that will save on energy costs. Those usually aren't visible or otherwise considered an enhancement to the home -- things like tightening the house with weatherstripping and caulk, adding more insulation, and installing newer furnaces and air conditioners.

New windows are one of the improvements that can make both an aesthetic and functional difference. But the tax credit for them is capped at \$200. Other qualifying improvements, including new furnaces, air conditioners and water heaters, are capped at \$300.

"I think everybody should get their \$500," says Ed Pollock, team leader in residential building research at the Department of Energy. But since homeowners still are on the hook for 90 percent of the improvement cost, "People need to be intelligent about what they do," he says.

Baden says he expects that the tax credits will spur homeowners to use rater services, in order to decide what improvements are worthwhile.

"The smart homeowner would. It's their money. They're putting up 90 percent of the cost, and I think it would be well worth it for a smart homeowner to see what the best improvement is" he says. "Not all improvements are equal in terms of cost effectiveness."

Tax credits are also available to new home builders, but the bar is higher. A credit of up to \$2,000 is available if the home's heating and cooling load is reduced 50 percent, which must be verified by a third party like an energy rater. That's an aggressive threshold, Pollock says. "The builders I have talked to are not too excited about it."

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