

3. Energy Efficient Mortgages (EEMs)

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection c has been changed to delete references to “CRV.”
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a. What are EEMs?

EEMs are loans to cover the cost of making energy efficiency improvements to a dwelling. They can be made in conjunction with

- a VA loan for the purchase of an existing dwelling, or
- a VA refinancing loan secured by the dwelling.

Acceptable energy efficiency improvements include, but are not limited to

- solar heating systems, including solar systems for heating water for domestic use
 - solar heating and cooling systems
 - caulking and weather-stripping
 - furnace efficiency modifications limited to replacement burners, boilers, or furnaces designed to reduce the firing rate or to achieve a reduction in the amount of fuel consumed as a result of increased combustion efficiency, devices for modifying flue openings which will increase the efficiency of the heating system, and electrical or mechanical furnace ignition systems which replace standing gas pilot lights
 - clock thermostats
 - new or additional ceiling, attic, wall and floor insulation
 - water heater insulation
 - storm windows and/or doors, including thermal windows and/or doors
 - heat pumps, and
 - vapor barriers.
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b. Requirements

Funds for energy efficiency improvements are considered part of the total loan, which must be secured by a first lien.

If the labor is to be performed by the veteran, the loan increase will be limited to the amount necessary to pay for materials.

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3. Energy Efficient Mortgages (EEMs), Continued

b. Requirements
(continued)

A loan for existing property may be increased by up to \$6,000 for energy efficiency improvements at the option of the lender and veteran at any time up to loan closing without VA's prior approval.

The lender must determine that the proposed weatherization and/or energy conservation improvements are reasonable for the particular property. The lender must evaluate the veteran's ability to pay the increased loan payments caused by addition of energy efficiency improvements.

For energy efficiency improvements that will increase a loan amount by more than \$6,000, the amount of the increase must be supported by an increased valuation in an equal amount.

c. Borrower Notice on the NOV

Information on EEMs is provided to a veteran who applies for a loan which requires a NOV (that is, a loan for a home purchase or cash-out refinance). The NOV includes the following notice to the veteran:

“The buyer may wish to contact a qualified person/firm for a home energy audit to identify needed energy efficiency improvements to the property. In some localities, the utility company may perform this service. The mortgage amount may be increased as a result of making energy efficiency improvements such as: Solar or conventional heating/cooling systems, water heaters, insulation, weather-stripping/caulking, and storm windows/doors. Other energy related improvements may also be considered.

The mortgage may be increased by

- up to \$3,000 based solely on the documented costs
 - up to \$6,000 provided the increase in monthly mortgage payment does not exceed the likely reduction in monthly utility costs, or
 - more than \$6,000 subject to a value determination by VA.
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3. Energy Efficient Mortgages (EEMs), Continued

d.
Underwriting
Considerations

Energy efficiency improvements up to \$3,000:

The resulting increase in loan payments will normally be offset by a reduction in utility costs.

Energy efficiency improvements more than \$3,000, up to \$6,000:

The lender must make a determination that the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs. Rely on locally available information provided by utility companies, municipalities, state agencies or other reliable sources, and document the determination.

Energy efficiency improvements over \$6,000:

Lenders should exercise discretion and consider

- whether the increase in monthly mortgage payments exceeds the likely reduction in monthly utility costs, and
- whether the veteran's income is sufficient to cover the higher loan payment.

A VA Certificate of Commitment issued before the decision to make energy efficiency improvements over \$6,000 must be returned to VA for a determination that the applicant still qualifies.

Energy efficiency improvements in conjunction with an IRRRL:

If the monthly payment (PITI) for the new loan exceeds the PITI of the loan being refinanced by 20 percent or more, the lender **must** certify to having determined that the veteran qualified for the higher payment.

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3. Energy Efficient Mortgages (EEMs), Continued

**e.
Documentation
Required with
Closed Loan
Package**

Energy efficiency improvements up to \$3,000:

Evidence of the cost of improvements such as a copy of the bid(s) or contract itemizing the improvements and their cost.

Improvements more than \$3,000, up to \$6,000:

Evidence of the

- cost of improvements such as a copy of the bid(s) or contract itemizing the improvements and their cost, and
- the lender's determination that the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs.

Improvements over \$6,000:

- Documentation of VA's valuation of the energy efficiency improvements, and
- for prior approval loans, the Certificate of Commitment must reflect the additional amount.

IRRRL with significant increase in payments:

If the cost of the improvements causes the new loan payment (PITI) to be 20 percent or more higher than the old payment (on the loan being refinanced), then include the lender's certification that it has determined that the veteran qualified for the higher payment.

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3. Energy Efficient Mortgages (EEMs), Continued

**f. How to
Calculate
Guaranty and
Entitlement Use**

Guaranty is calculated on an energy efficient mortgage as described in the following table.

Step	Action
1	Calculate guaranty on the loan without the portion attributable to the energy efficiency improvements.
2	Calculate guaranty on the energy efficiency improvements portion by applying the same percentage used in Step 1.
3	Add the results of Steps 1 and 2 to arrive at guaranty on the entire loan.

However

The veteran's entitlement will **only** be charged the amount arrived at in Step 1; that is, based upon the loan amount **before** adding the cost of the energy efficiency improvements.

Example 1: If a veteran has full entitlement and applies for a loan of \$80,000, plus \$6,000 in energy efficiency improvements, VA will guarantee 40 percent of the full loan amount of \$86,000. Thus, the dollar amount of the guaranty will be \$34,400, even though the charge to the veteran's entitlement is only \$32,000.

Example 2: If a veteran with full entitlement applies for a \$144,000 loan to purchase a home, and adds \$6,000 in energy efficiency improvements, the 25 percent guaranty on the loan will only require the use of \$36,000 entitlement, but the dollar amount of guaranty will be \$37,500.

**g. How to
Calculate the
Funding Fee**

Calculate the funding fee based on the full loan amount including the cost of the energy efficiency improvements.

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3. Energy Efficient Mortgages (EEMs), Continued

**h.
Improvements
Not Completed
Before Closing**

If the energy efficiency improvements are not completed before closing, the lender may establish an escrow or earmarked account and close the loan.

- A formal escrow is not required.
- Only the amount needed to complete the improvements must be withheld.
- Check the appropriate block in item 23 [VA Form 26-1820](#), Report and Certification of Loan Disbursement.
- No additional documentation concerning the escrowed/earmarked funds must be submitted when reporting the closed loan.

Generally, the improvements should be completed within six months from the date of loan closing.

- Provide written notification to VA when improvements are completed and the escrow funds are disbursed, and
- assure the funds are properly applied to the costs of improvements.

If, after a reasonable time, the lender determines that the improvements will not be completed

- apply the balance of the escrowed/earmarked funds to reduce the principal balance on the loan, and
 - provide written notification to VA that this has been done.
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**i.
Reimbursement
of Veteran out
of IRRRL
Proceeds**

The veteran generally may not obtain cash proceeds from an IRRRL.

Note: There is **one** exception. Up to \$6,000 of IRRRL loan proceeds may be used to reimburse the veteran for the cost of energy efficiency improvements completed within the 90 days immediately preceding the date of the loan.
