

# Understanding and Overcoming the Energy Mortgage Barrier: Financing Energy Improvements in Existing Homes

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## ABSTRACT

Helping consumers finance home energy improvements as part of their mortgage on existing homes has been a challenging endeavor. In 1999 the total residential mortgage market was 13 million loans; less than 1/10 of 1% of these incorporated an energy efficiency component (Farhar, 2000).

Success with energy improvement mortgages (EIMs) is limited to the few contractors astute enough to understand the market potential, become educated in mortgage financing and create a new business model to “facilitate” EIMs. Our organization has created and implemented a new model that does not necessarily rely on such contractors, has succeeded at selling and financing a significant servicing fee, and has gained an understanding of the motivations of lenders and home buyers to make EIMs happen. At the same time, we have been able to create consumer demand.

This paper reviews the obstacles surrounding the use of EIMs, identifies “problem-solving” opportunities for these nationally-available but scarcely-used products, and provides a description of the successful implementation of EIM services by an independent, non-contractor organization. Research on the attitudes and motivations of participating mortgage lenders, along with quantitative impacts of completed EIMs are presented. The paper covers the “turn-key” services, including customer sales, a home energy rating, lender liaison, contractor selection, and contract management. The paper concludes with a model for replication of the EIM service elsewhere.

## Introduction

In December 1979, as part of attempting to deal with “the energy crisis”, President Carter issued an executive order to secondary market lenders to institute what was ultimately termed the “Energy Efficient Mortgage”. (For this paper, I will use the more descriptive term “Energy Improvement Mortgage” or EIM to refer to mortgage financing of energy improvements in existing homes.<sup>1</sup>)

Since that time, there has been general agreement among energy professionals that the concept of using mortgage financing to pay for the cost of energy improvements makes good sense; loan terms are long, interest rates are the lowest available, and interest payments

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<sup>1</sup> In order to be clear when talking with housing professionals, we refer to all mortgage products that incorporate an energy provision as “Energy Mortgages”. These include two types: mortgage products that ease qualifying requirements and/or offer some sort of interest rate or closing cost incentive for already-efficient (i.e. new) homes we call “Energy *Efficient* Mortgages”, and mortgage products that allow the upgrading of energy improvements as part of the mortgage as “Energy *Improvement* Mortgages”.

are tax-deductible. These provisions allow homebuyers to maximize energy investments while placing them in the strongest cash-flow position; energy savings can more than pay for the incremental cost of the energy improvements in most situations. However, very few EIMs have actually been closed in the last 20 years.<sup>2</sup>

There are a number of barriers to overcome when trying to use EIMs, and these have stymied many well-intentioned homebuyers and program deliverers. However, a few astute contractors, primarily in California,<sup>3</sup> figured their way through the EIM maze, worked with advocates nationally to repair EIMs on the secondary mortgage market level, determined what motivates lenders and real estate agents. They have succeeded at using the EIM with limited or no subsidies in the marketplace to finance and install energy improvements through mortgages in existing homes. In addition, they are able to make a profit while homeowners save money and lenders and real estate agents sell more homes. Borrowing from their model, Energy Rated Homes of Vermont (ERH-VT, a project of the non-profit Vermont Energy Investment Corporation or VEIC) has been able to implement a successful market-based EIM service in Vermont.

## Barriers

Efforts to implement EIMs have been fraught with problems, which is the reason more have not been closed. Understanding the obstacles to making EIMs work is critical to designing and implementing a successful EIM program. Some of the key barriers include:

1. *Lender and Real Estate Agent Motivations.* Greater than 90% of lenders and real estate agents--the key shepherds for consumers in the home buying process--are not interested in doing anything that will lengthen the time to closing, when they get their commission. EIM programs necessarily require more time, complicate the transaction and add an element of risk that is considered undesirable by many housing professionals. Understanding this basic fact leads to targeting aggressive housing professionals who are customer-focused and looking for a market niche. It also suggests that building consumer demand for EIMs may be a more successful approach than relying on the professionals to sell the program for us. If consumers understand these products, they will demand them.
2. *Competent Energy Raters and Project Managers/"Facilitators".* A knowledgeable energy rater skilled in building science, diagnostics and personal communication is key to identifying energy saving opportunities, foreseeing and solving problems and keeping all the interested parties apprized of job progress. Whether the rater is the same as the project manager (or "facilitator") or not, this individual needs to have a sound understanding of the mortgage process generally, terms, timeframes, mortgage products and the Energy Mortgage program specifically. Without these skills, there is no chance of a successful program.
3. *Relying on Buyers to Manage the Work.* After a number of years of trial and error, we learned the hard way that not being involved in an EIM from beginning to end is asking for problems. Estimating (i.e. guessing) what the energy improvements will cost can work some of the time. But as soon as your estimates

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<sup>2</sup> HUD/FHA and NREL estimate that less than 1/10<sup>th</sup> of 1% of homes have used an EIM.

<sup>3</sup> These include EEMs Inc., H&L Energy Savers, Federal Energy Services and CEMCO.

are low and there are no additional funds available to complete the work, be assured that the lender will not use the program again. The same is the case if the buyer takes charge of getting the work done by the brother-in-law for “a great deal” and you come out to inspect the work at the end to find it will not result in the savings you initially promised the lender. Delays, typical when homeowners are in charge of the work, can be another effective way to kill a lender relationship.

4. *Unworkable Mortgage Products.* When first made available, Energy Mortgages never really worked. They did nothing to adjust the appraised value of improved properties and thus required buyers to increase downpayments. They required buyers to qualify for the larger mortgage amount despite the promise of future energy savings. They increased the mortgage insurance premiums that sometimes resulted in an offsetting of the energy savings. Energy rating and related fees could not be financed. And, historically there has never been any sort of special rate or other incentive to attract buyers’ attention<sup>4</sup>.
5. *Qualified and Available Contractors.* Without contractors who can competently, courteously, cleanly and promptly provide firm bids and then carry out the work specified by the energy rater, customers and lenders will become frustrated and not refer the program to others. Contractors who own and know how to operate dense-pack cellulose blowing equipment and blower doors are required for locations with older housing stock.
6. *Definitions.* Although not as significant a barrier as those above, the definition of an “Energy Efficient Mortgage” has been unclear from the beginning and caused much confusion. This single name refers to two different mortgage products; one allowing a stretch of debt-to-income ratios for already-efficient (i.e. new) homes and the other for the upgrading of existing homes. Until we started using two names for these two different products (“Energy Efficient Mortgage” and “Energy Improvement Mortgage”), lenders and real estate agents never knew we offered any more of a service than stretching ratios for new homes.

## Successful EIM Models

Designing an approach that overcomes each of the obstacles outlined above is critical to a successful EIM program. Elements of successful programs include:

- No mortgage closing delays;
- Not significantly increasing the workload or stress level for everyone involved in the transaction;
- Creating positive working relationships with participating lenders, and, to a lesser extent, real estate agents;
- Providing opportunities for lenders and real estate agents to close more deals (and make more commissions);

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<sup>4</sup> There are now a number of special mortgage products designed to attract buyers’ attention for both new and existing homes from lenders such as GMAC Mortgage, Loanz.com, Chase-Manhattan, Milford (MA) Federal Savings and Loan, the Vermont Housing Finance Agency, and others.

- Taking full responsibility to manage and complete each job successfully (i.e. on time, on budget, and achieving all projected energy savings);
- Identifying and fostering successful contractors who are competent, courteous, clean and prompt, and paying them top dollar in a timely manner in order to ensure that they are available when asked to bid the next job; and
- Although not absolutely necessary, it certainly helps to have available a mortgage product with some sort of interest rate or cash-back incentive to entice participants.

Two successful EIM service models are currently in operation today: a contractor model and a third-party model. These both include most of the elements listed above and are described in more detail below.

### **The EIM Contractor Model**

Some of the oldest and most successful EIM service company models are operated by general contractors who not only carry out the lender liaison and customer sales, but then directly sub-contract out the improvement work or actually do it themselves.<sup>5</sup> Commonly referred to as “facilitators”, there are a handful of California firms that specialize and excel in a seamless EIM service business.

These firms are continually courting lenders and real estate agents: taking them out to lunch, stopping by their offices, hosting seminars, sending holiday gift baskets, etc. This relationship-building effort pays off with the leads it generates. The facilitators encourage lenders and real estate agents to pass along leads while asking them not to explain the EIM program in detail to the customer, knowing that they will do a better job selling their service themselves than relying on someone else to try to sell it for them. Some facilitators have also produced 10-minute videos explaining the EIM program that they provide to lenders and real estate agents to play for their customers in the waiting room or to send home with them. All of these techniques feed into building consumer demand, the key to these programs.

With a visit to the buyers’ home or other convenient location, the facilitator then provides a sales pitch complete with testimonials, success stories and all the overt and subtle techniques used in sales to close the deal. In many cases, the EIM sounds too good to be true and so buyers become skeptical that there is some hidden catch. How can you improve the house while making it more affordable, comfortable and safer at no cost while accessing financing that didn’t have to be qualified for nor require any additional appraisal? It does sound like a deal too good to be true, but it isn’t.

One of the major benefits of the contractor model is that there is no fee charged for the facilitation services. The only fee is for an independent third-party energy rating (typically \$200 to \$350). Because the facilitator is also the contractor who will ultimately do the work, all the costs of sales, marketing, lender liaison and subcontractor oversight and profit (typically totaling \$500 to \$800) can be buried in the cost of the energy improvements. As long as the energy rating report includes this service fee in the improvement measure costs and the resulting energy savings are greater than the increased mortgage costs, the deal flies.

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<sup>5</sup> EEMs Inc. was established in the early 1980’s.

Some of the California locations have the added benefit of very supporting HUD offices. They strongly encourage their participating lenders to offer EIMs and will commonly cover the rating fee for HUD repossessed homes, reducing the customers' fees to nothing when buying one of these homes and using a facilitated EIM. Some utilities also pay for all or part of the associated fees, a helpful step in generating more EIMs.

### **The Third Party EIM Model**

As an energy rating organization desiring to remain an independent third party working on behalf of the customer, ERH-VT has chosen not to become an installing-contractor when offering EIM services. After much trial and error, we determined we needed to offer a complete "turn key" service--not just energy ratings--if we were to be successful with EIMs. We wanted to be in a position to work on behalf of the customer in reviewing, selecting and overseeing contractors. The challenge was how to charge the fees required to cover our costs (typically 15 to 20 hours per job plus travel and marketing) in offering the service.

We chose to offer a single packaged service fee (\$800) that is added into the energy rating cash-flow calculation just like any other energy improvement. In order for the entire package of recommended energy improvements, including our fee, to be packaged in the mortgage, the bottom line needs to be "cost effective" (i.e. provide annual positive cash-flow to the customer).

We approached all of the major secondary mortgage market lenders to seek a determination that our fee would be considered as an eligible improvement that could be financed as part of the mortgage. We knew that if not able to be financed, borrowers would typically not have the cash to pay the fee as a closing cost out of pocket. We received approval from the Vermont Housing Finance Agency (VHFA), Freddie Mac and Fannie Mae. FHA and VA, were not so willing to make this allowance that would make it easier to utilize EIMs, but did leave the door open for future negotiations. Regardless of this determination, it is possible to finance most of this fee in a FHA or VA loan by calling it a "construction management" fee, similar to that of an architect's or general contractor's.

We worked closely with our Vermont Housing Finance Agency to secure an interest rate break as an incentive for customers to utilize this service.<sup>6</sup> This incentive has worked well when customers are working with lenders who do not discourage them from using the program.

We secured an approval from the Vermont Board of Real Estate Appraisals to utilize Freddie Mac's and Fannie Mae's "Energy Appraisal Addendum" form 70B/1004C in their programs and in VHFA's. This form was key to making EIMs work in that it permitted appraisers to adjust their appraisal by the cost of the energy improvements to be installed. By doing so, borrowers could minimize or even eliminate any additional down payment required for the improvements, which has historically been a stumbling block for EIMs.

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<sup>6</sup> VHFA's YESS (Yearly Energy Savings System) EIM Program offers a stepped interest rate for borrowers who finance at least \$2,500 of "cost-effective" energy improvements (i.e. those that provide positive cash-flow) into their mortgage with the assistance of ERH-VT. The stepped rate starts at 1.5% below the VHFA going rate and steps up .5% each year until it is back at the going rate in year four. The rate is then fixed from years four through 30. This stepped rate translates into more than \$2,000 in interest rate savings on a \$75,000 mortgage.

With an understanding of successful EIM service company models from visiting a few of those operating in California, a determination that our fees could be financed as part of the mortgage, approval of a mechanism to adjust appraised values, and an interest rate incentive from the VHFA, we opened the doors. We have been busy with EIMs jobs ever since, despite the fact that we have done very little promotion. Our EIM Service includes the following elements:

1. *Sales.* Customers usually phone us on referral from a supportive lender, the VHFA hotline customer assistants, word of mouth, having seen us at a home show, or having visited our web site ([www.erhvt.org](http://www.erhvt.org)). Besides these rather limited efforts, very little additional marketing is done. With about 30 minutes of program description and a soft sell over the phone, most decide to proceed with the service if there is enough time until closing (a minimum of three weeks, with four or five preferable). In the majority of cases, they know they are buying a home with an energy problem (i.e. lacking insulation, dead heating system, electric heat, old and drafty, etc.). We pitch the service as a “problem solver” that will more than pay for resolving their problem, making the home more comfortable, healthy and valuable, while paying for itself through energy savings. Most ask what the hitch is and why more people don’t do this. We initially thought that the \$800 fee would turn people off, but it has not been an issue as long as people understand savings will pay for it, it can be financed and we guarantee the heating cost savings. For VA and FHA customers, selling the \$800 fee has been more of an issue since it can’t always be financed, but many people will still readily shell out the funds knowing that we will take care of everything to solve their energy problem. There are also a few creative ways to designate the fee as “construction management” or “contractor coordination” and include it in the list of improvements to be financed, if need be.
2. *Site visit.* One of our energy raters schedules a site visit and collects all the information necessary for completing an energy rating and writing work specifications.
3. *Preliminary rating.* The rater enters the house information into the rating software and reviews the cost-savings impacts. Many times, the customer has improvement ideas (like windows) that they want us to analyze as part of the rating. The rater reviews the preliminary results with the customer based on cost estimates/best-guesses in order to determine for which improvements to seek bids. Whenever available, historical energy use data is obtained to validate and true up the model.
4. *Bids.* The rater prepares detailed specifications for the desired improvements and faxes them out to contractors who have passed a due diligence screening. Included with the specs is a cover memo explaining the timeframe and site visiting details, along with a two-page summary of the contract that will be put into place if the contractor is selected. In order to meet the lenders’ deadline and have everything completed in time to be sent to mortgage underwriting, the contractor usually needs to have the firm-fixed bids returned within 10 days. With a booming economy, it can be difficult to find three contractors to bid on some jobs, and so follow-up phone calls are usually necessary to secure the bids. We have some weatherization assistance program (WAP) agencies that are

embarking on for-profit work and seem to be quite eager to bid and do the work. In locations without qualified blower door/dense-pack cellulose contractors, WAP organizations can be an excellent resource.

5. *Rating package.* The bids are reviewed and compiled in a one-page spreadsheet. A recommendation is then made to the homebuyer, usually over the phone after checking to make sure the package will still be “cost effective”.<sup>7</sup> Based on the customers’ budget and the particular EIM program’s requirements on minimum and maximum improvement costs, a final package of improvements is selected. The rater then runs the energy rating, completes the required lender and appraiser forms, includes copies of the selected firm-fixed bids and distributes the pieces where needed in time for the lender to forward the paperwork on for underwriting.
6. *Closing.* The lender closes the loan and sets aside the amount specified in the rating in an escrow account for up to 120 days. If required by a contractor and permitted by the lender, the rater will request a down payment out of closing in order to start that aspect of the work. Typically we use two contractors: one for weatherization work and the other for mechanical (heating and hot water). Sometimes there is a third contractor such as an electrician or a roofer.
7. *Contracts.* The rater prepares contracts when notified that the closing took place. We use three-party contracts between the customer, the contractor and ERH-VT as construction manager. The specification bid on by the contractor is referenced in the contract as the scope of work. Work usually starts as soon as possible after closing and must be complete within 75 days (our policy), even though some of the EIM programs allow for longer periods. We want to be sure there is a cushion on the back end to resolve any problems that might occur. Sometimes the buyers want to do the work, which we will allow, but only if they have extensive experience and work in conjunction with another professional contractor.
8. *Completion.* Upon completion of all work, the rater schedules a post-improvement inspection. It is important to schedule the work so that all contractors are finished within a week of each other in order to avoid delays in inspection and payment of the contractor who finishes first. If the work meets the specs in the contract, the home is re-rated and approval is given to the lender to pay the contractors. At this time, we issue a one-year space heating guarantee to the customer. The lenders trust us as the experts and do not require an additional inspection by an appraiser or home inspector. If the work is not done as specified, the contractor is asked to come back and make it right before getting paid.

## Motivations

It is important to understand what motivates participants in order to market and expand the program or to set up a similar program in another location. Lender, homebuyer and real estate agent motivations are discussed below.

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<sup>7</sup> Cost-effectiveness varies by mortgage program. However, if the annual energy savings are greater than the annual increase in mortgage payments necessary to cover the cost of the improvements (i.e. positive cash-flow), then the improvements are generally eligible under any of the mortgage programs and also make sense from the customers’ perspective. With future energy cost increases and fixed mortgage payments, the customer will be in an even better cash-flow position in out years.

## **Lender Motivations**

Two of the EIM lenders who regularly send us jobs were interviewed and asked about their participation in the program. Their responses are enlightening and useful:

Why they use an EIM service:

- A way to reach out to more potential customers;
- It's another product to be able to offer when needed (it's not for everyone);
- It gives the lender who offers it an edge;
- It's an additional customer service to enable customers to do what they would want to do anyhow in the future, and the lender can help them secure the best deal by rolling the cost into the mortgage now;
- It is easy because ERH-VT does all the work; and
- If a home needs energy work, this is the program for them.

Why other lenders don't offer EIMs:

- They are afraid to use it because it is new and seemingly too complicated;
- Fear of the unknown;
- There are additional hassles with escrow accounts and follow-up after the closing; and
- The rating and bid process can delay closing by a couple weeks.

## **Customer Motivations**

Customers are the drivers in about half the EIMs jobs we complete. Their demand is critical for a successful program. They have learned about the program from word of mouth, non-profit homeownership center classes, the ERH-VT web site or by referral from a supporting housing professional (usually the Vermont Housing Finance Agency hotline staff). They then need to find a lender willing to participate. Their motivations usually fall into one or more of the following situations:

- The house they are buying has some obvious energy deficiencies or is old and has no signs of having been upgraded at any time in the past.
- The home inspector identifies a cracked heat exchanger or inadequate insulation and the secondary mortgage market lender requires they take care of it as a condition of the mortgage.
- The home has electric heat and the local utility provides an incentive to fuel switch, but not to do any other energy improvement needed in the house.
- They really want or need to qualify for the lower interest rate available through VHFA's YESS Mortgage Program.

Customers then decide to pay the \$800 EIM service fee for any of the following reasons:

- It is required in order to access the particular program (VHFA's YESS Mortgage Program, for example).
- The lender will not allow the borrower to manage the project and insists that if they want to do the energy improvements, they must work with ERH-VT.

- The customer has no experience or desire to become an energy expert and locate contractors who know what they are doing, so they are looking for a construction manager to represent their interests and take care of getting the job done.

### **Real Estate Agent Motivations**

We used to spend a good deal of time marketing to and training real estate agents, but have learned that their motivations rarely line up with those of the buyers'. For the most part, real estate agents are interested in getting to closing as quickly as possible with minimal delays and hurdles along the way. Unless the agent is a buyer-broker working for the homebuyer, they will rarely suggest an EIM.

However, real estate agents will come to and even pay for accredited courses that provide them with continuing education credits (required every few year in most states) on energy issues, including EIMs. We think this is because they are generally tired of the same course offerings and just assume spend their required classroom time on a new topic.

### **Results**

ERH-VT has been supporting Energy Improvement Mortgages since the fall of 1997 and has been offering a full EIM service since the fall of 1998. Since that time, we have completed 41 jobs, 66% of which have been in 1999 and 2000. These 41 jobs are out of 64 that were initiated but did not either begin or complete for various reasons, ranging from the buyers' offer on the house not being accepted, to loan denial, to pressure from the seller to close faster than the EIM service permits.

An analysis of these jobs provides some impressive results in terms of investments in energy efficiency and energy and dollar savings. Given the huge number of existing homes in the U.S., offering EIM programs on a wider scale could significantly reduce U.S. residential energy consumption. Some of the results and findings of the jobs completed in Vermont are presented below.

**Table 1. EIMS Results (November 1997 – May 2000)**

<b>Metric</b>	<b>Results</b>
Number of completed EIM jobs	41
Average initial rating score	56.4 points (2 Stars +)
Average post-improvement rating score	73.8 points (3 Stars +)
Average rating score increase	17.4 points
Average annual energy savings	67.4 MMBtu
Average annual energy cost savings	\$1,075
Average financed investment in energy improvements (and fees)	\$7,194
- Mechanical systems financed investment	\$4,356
- Weatherization financed investment	\$2,596
Average annual mortgage increase	\$586
Average cash flow generated	\$489 (\$41/month)

As with any program, we have had our problem customers. But, by and large, most customers are satisfied or even ecstatic with the process and the results.

The EIMS work has progressed in our organization to where it could be almost full time for one person. At times, we have actually had to turn jobs away due to concerns that we could not meet the buyers' closing dates because of high EIM job volume. If promoted and with a number of raters able to provide the EIM services, this has the potential to become a viable business. The \$800 fee just covers our costs presently, but with streamlining efforts currently under way, may actually make us some money. Additionally, customers rarely question the fee, so there may be an opportunity to actually charge higher fees. Raters looking to expand their businesses may be able to use this service as one avenue for growth.

We have demonstrated that a fee-for-services EIM program can be promoted and delivered successfully. For this initiative, success should be defined as achieving significant energy savings while providing the customer with positive cash flow in a sustainable (i.e. profit-making) approach. From all accounts, success has been achieved.

## **Recommendations**

After a year and a half operating Vermont's EIM program, we see that there are some aspects of our program that work well and some modifications that could be tested and incorporated to make things smoother and/or save time. In the next generation of an EIM service program, we would suggest considering at least some of the following elements:

- Build capacity in more than just a few raters in order to service a growing program.
- Focus on one or two EIM programs and the lenders that offer those instead of trying to be everything to everyone by servicing all available programs. With all of the subtle details, program differences and varying forms for each program, raters can easily make mistakes in providing information to the lender, which can result in delayed closings and upset participants.
- Actively promote the EIM service through lender liaison, trainings, lunch dates, attending association meetings, utility promotions etc. Time spent promoting the program always pays off with additional jobs. With so many available mortgage products, lenders need to be reminded of EIMs.
- Charge for the rating and turnkey service based on a percentage of the work, much like architects or general contractors do. We suggest a flat fee to cover the rating, plus 5% to 10% for the construction management.
- Simplify the EIM bidding process, including the following options:
  - Pre-select contractors with which to work and put in place a master contract up front covering all EIM jobs for a set period of time in order to avoid the contract circulation and signing process for each job.
  - Offer customers a lower cost/streamlined service by not having to go out to bid, but just working with pre-selected contractors. Secure assurances of competitive pricing (through established per square foot pricing or maximum mark-ups) from contractors along with assurances of timely availability for bidding jobs.

- Become a general contractor and take responsibility for all sub-contractors without going out to bid.<sup>8</sup> Bury the service fee in the mark-up of the sub-contractors' costs in order to avoid having to outwardly sell the full fee.
- Secure some sort of incentive to build consumer interest and demand. A federal tax credit for homes that improve at least 30% (6 points on the rating scale) has been proposed and would work well. Or, work with the state housing finance agency or other secondary mortgage market to create an interest or closing cost incentive. GMAC Mortgage offers a \$300 rebate in some states for customers who use an Energy Rated Homes of America energy rating, but this has not been utilized to its fullest potential.
- Line up utilities to promote the program, refer customers and cover some or all of the associated fees.

## Conclusion

The tools, knowledge and experience are available to implement successful and potentially profitable EIM programs anywhere in the U.S. Two models are currently in operation, with opportunities to mix and match the best features of each. New mortgage products for EIMs are becoming available,<sup>9</sup> lenders have begun to offer incentives to participate, and tax credits for energy improvements have been proposed by President Clinton<sup>10</sup> and introduced in Congress<sup>11</sup>. National Home Energy Rating System Accreditation Standards have been adopted, and a network of energy raters exists to service most states in the U.S. The stage is set for a growth industry, especially as energy prices rise and environmental concerns about energy use continue to grow.

The experience with EIM programs and EIM services in Vermont could be replicated elsewhere.<sup>12</sup> Key elements to starting similar programs include the following:

1. Approach federal secondary market lending agencies along with other interested parties to get third party facilitation costs able to be financed;
2. Identify an experienced, qualified, accredited local rating organization, preferably with construction management experience to support the initiative;
3. Obtain approval from the local appraisal regulatory agency to accept appraisal adjustment mechanisms;
4. Convince the local housing finance agency and/or lenders to create a niche product with a favorable interest rate or other desirable feature to generate attention;
5. Build relationships with dependable and reputable contractors and lenders and enlist them in the program;

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<sup>8</sup> Note that FHA states that “the contractor selected by the borrower to install the energy efficient improvements may not be related, directly or indirectly, to the HERS or energy consultant”. So, a rating organization choosing to offer an EIM service and be the contractor would not be able to use the FHA program.

<sup>9</sup> Fannie Mae has recently come out with their “Energy Efficient Mortgage Variance”, which is the newest and most workable of their programs for incorporating energy improvements into the mortgage.

<sup>10</sup> President Clinton, March 18, 2000 in national radio address.

<sup>11</sup> Rep. Thomas and Rep. Matsui each introduced tax credit legislation in the U.S. House in 1999.

<sup>12</sup> ERH-VT is assisting organizations in western Massachusetts to implement a similar EIM program.

6. Identify organizations with an interest in housing rehab, affordable housing or homeownership, train them, and enlist them to promote the program at every opportunity; and
7. Promote, publicize, network, educate and market.

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