



FHA PowerSaver

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FHA HOME ENERGY IMPROVEMENT LOAN PILOT PROGRAM

DECEMBER 16, 2010

HOME ENERGY IMPROVEMENTS

- ✘ The need for affordable financing
 - + Helping homeowners make money-saving home energy improvements is a top priority of the Administration.
 - + Home energy improvements can save families hundreds of dollars a year – while creating jobs and reducing pollution.
 - + More home owners want to make home energy improvements, according to industry forecasts.
 - + But a lack of affordable, available financing remains a major barrier for many consumers.
 - + A market need exists for a financing option.

NEW OPTION FOR THE MARKET

- ✘ PowerSaver is designed to support home energy improvement loans through mainstream lenders to consumers who can afford to make proven, energy saving measures.
- ✘ The lien, if any, securing the loan must hold no less than second lien position. The lien must be in second lien position unless there is no first lien.
- ✘ FHA has two goals for PowerSaver:
 - + Create a mainstream mortgage product that can be scaled in the market through private capital, through liquidity for lenders and affordable rates for borrowers.
 - + Evaluate the costs and benefits of home energy improvements – in energy use reduced, dollars saved and value created.

POWERSAVER PILOT PROGRAM

- ✘ FHA is seeking a limited number of lenders to participate in a two-year pilot program to deliver PowerSaver loans.
- ✘ Interested lenders are asked to submit to FHA nonbinding Expressions of Interest to participate by January 31, 2011.
- ✘ Participating lenders must be FHA-approved Title I lenders – FHA-approved Title II lenders can be approved to become an FHA Title I lender on an expedited basis.
- ✘ FHA is also accepting public comments on PowerSaver through December 27.
- ✘ FHA plans to announce the final program and participating lenders in early 2011.

KEY FEATURES OF POWERSAVER

- ✘ Based on FHA Title I Property Improvement Program.
- ✘ Insurance and claims process.
- ✘ Potential liquidity opportunities for lenders.
- ✘ New incentives for lenders to participate and lower costs for consumers.
- ✘ New underwriting/credit requirements and uses of eligible funds.
- ✘ Priority targeting to communities that have taken steps to encourage home energy improvements.

UNDER THE FRAMEWORK OF TITLE I

- ✘ Title I Program consists of two components:
 - + Property Improvement Loans
 - ✘ PowerSaver utilizes the framework of Title I Property Improvement loan program.
 - + Manufactured Housing Loans
- ✘ Title I operates under the obligation of the General and Special Risk Insurance fund – not the fund that supports FHA’s core single family program.

TITLE I INSURANCE FEATURES

✘ Features that apply to PowerSaver

- ✘ Premiums are 1% of loan amount x loan term and paid annually.
- ✘ First years premium is billed when the loan is registered for insurance.
- ✘ Costs may be passed on to the borrower and cannot be financed.

+ Example

- ✘ \$10,000 loan, payable over 15 years = $\$100.00 \times 15 = \1500.00
- ✘ Servicer is billed each year \$100

TITLE I INSURANCE FEATURES

- ✘ Co-insurance feature
 - ✘ Federal insurance covers up to 90% of loan against default.
 - ✘ Lender is accountable for the remaining 10% balance of each loan.
- ✘ Portfolio cap
 - ✘ Maximum federal insurance coverage of 10% in aggregate of the total amount of a lender's Title I loan portfolio.

INSURANCE PORTFOLIO CAP

- ✘ 10% is added to the lenders Insurance Reserve Account for each new loan:
 - + Lender makes 10, \$10,000 Title I Property Improvement – or PowerSaver – loans.
 - + FHA credits the lenders “insurance coverage reserve account” with \$10,000 (10% for each loan).
- ✘ Claim payments are subtracted from the reserve account.
- ✘ A reserve account is how you determine the amount available to file claims against.
- ✘ If a lenders reserve account amount is less than a claim amount, the claim payment will be less than 90% and the lenders share will be greater than 10%.

EXAMPLE OF CLAIM COVERAGE

- ✘ The claim payment based on:
 - + 90% of valid claim amount, and
 - + Sufficient amount of insurance reserve coverage.
- ✘ Example
 - + Valid claim filed is \$9,000.
 - + FHA verifies that the reserve account balance is sufficient to cover \$8100 (90% of valid claim amount.)
 - + If the reserve balance is \$10,000, then the full \$8100 is paid, leaving a balance of \$1900 in the reserve account.
 - + If the reserve account balance is \$5000, then the claim payment is \$5000, leaving a balance of \$0 in the reserve account.
 - + The lender cannot collect the difference from the borrower.

INSURANCE CLAIMS PAYMENT

- ✘ Streamlined claims payment procedures.
 - + The holder of the note will be accountable to HUD for origination/underwriting errors.
 - + The servicer will be accountable to HUD for servicing errors.
 - + If a claim would be denied due to servicing errors, FHA will pay the claim to the holder of the note and seek recovery of its losses from the servicer.

LIQUIDITY OPTIONS

- ✘ FHA is working with Ginnie Mae and other parties to develop appropriate secondary market options for lenders who so not wish to hold PowerSaver loans they originate.

LENDER INCENTIVES

✘ Grant Payments

- + Lenders may apply for grant funds to lower loan interest rates.
- + Lenders who originate and service loans may also use funds to lower servicing costs.
- + FHA will consider other uses of funds.
- + Any use of funds must deliver *bona fide* benefit to borrowers.
- + FHA will closely monitor use of grant funds.

PRIMARY FEATURES

Attribute	Eligible
Loan Amount Maximum	•\$25,000
Loan Term	•15-years (standard energy improvements) •20-years (renewable energy improvements)
Transaction Types	•No cash-out
Combined-Loan-to-Value	•100%
Appraisal Type	•Exterior inspection or •Other FHA accepted method of property valuation
Property Types	•Single Family detached <u>Ineligible</u> •Attached dwellings •Condominiums •Co-operatives •Manufactured Homes
Number of Units	•One

PRIMARY FEATURES

Attribute	Eligible
Occupancy	<ul style="list-style-type: none">•Owner-occupied <p><u>Ineligible</u></p> <ul style="list-style-type: none">•Second Homes•Non-Owner-Occupied
Borrower Ownership	<ul style="list-style-type: none">•1/2 interest minimum
Decision Credit Score	<ul style="list-style-type: none">•660 minimum
Debt-to-Income Ratio	<ul style="list-style-type: none">•45% maximum (compensating factors allowed to offset)
Use of Proceeds	<ul style="list-style-type: none">•Measures that improve home's energy performance•Repairs necessary to make those improvements
Disbursement of Proceeds	<ul style="list-style-type: none">•50% maximum at closing•50% upon completion of the work
Discount Points	<ul style="list-style-type: none">•Third parties may pay and•Must be bona fide

TARGET MARKETS

- ✘ Participating lenders will be required to target markets that have already taken affirmative steps to expand home energy improvements.
- ✘ There are many suburban, rural and urban areas that will be eligible on this basis – provided a participating lender serves their market.
- ✘ Communities that received grants under the Better Building program are automatically eligible for participating lenders to serve.
- ✘ FHA will approve other communities as eligible in consultation with the Department of Energy.

HOW LENDERS APPLY TO PARTICIPATE

- ✘ Basic Requirements
 - + FHA approved Title I. FHA-approved Title II lenders can be approved on an expedited basis to become Title I approved.
 - + Experience or demonstrated capacity.
 - + Technology capabilities.
 - + Ability to work in public-private partnerships.
 - + Audit and delinquency reporting.
- ✘ Expressions of Interest to Participate
 - + Anticipated loan volume and target markets.
 - + Product plan and business model.
 - + Collaborative capacity to work with public sector agencies, non profits, utilities, and/or home improvement contractors.
 - + Consumer benefit.
- ✘ Send Expressions of Interest to Participate to FHAPowerSaver@hud.gov as stated in the Federal Register Notice.

RESOURCES

- ✘ On the Title I Home Page
http://www.hud.gov/offices/hsg/sfh/title/ti_home.cfm
 - ✘ Industry Fact Sheet
 - ✘ FAQ for Lenders
 - ✘ FAQ for Consumers
 - ✘ Federal Register Notice containing all program details
- ✘ Lender Approval Information for Title I
<http://www.hud.gov/offices/hsg/sfh/lender/title1ap.cfm>
- ✘ Community partners with DoE for building retrofit projects
<http://www.eere.energy.gov/betterbuildings/>

ADDITIONAL INFORMATION

- ✘ For additional information as stated in the Federal Register Notice, contact:
 - + Patricia McBarron
 - + Office of Single Family Housing Development
 - + patricia.a.mcbarron@hud.gov
 - + 202.708.2121

Questions?