U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-0001

THE SECRETARY

August 24, 2015

Dear Governor,

In light of President Obama's recent announcement regarding new energy efficiency programs for Property Assessed Clean Energy (PACE) financing and Home Energy Score, I am writing to let you know about the options the Federal Housing Administration (FHA) offers to make it easier for consumers to undertake energy efficiency improvements in their homes, and for owners and developers to improve the energy efficiency and install renewable energy projects on HUD assisted and insurance properties.

Benefits of Energy Efficiency Investments
Residential energy efficiency can be a good investment. Several studies show that the additional cost of many energy efficiency measures typically pay for themselves within the life of the equipment and over the life of a mortgage. However, despite the benefits, consumers don't always invest in the most energy-efficient equipment or products when they buy or renovate a home, for two primary reasons: they don't have the funds to cover the initial cost of energy-efficient measures, and they lack the information about the most cost-effective improvements.

Residential PACE Guidance
As the President announced FHA will allow homeowners to benefit from energy efficiency improvements while preserving the marketability of properties with PACE loans. FHA will make financing available for single family homes with existing subordinated Property Assessed Clean Energy (PACE) loans as long as they meet certain conditions. PACE is an innovative way to finance energy efficiency and renewable energy upgrades to buildings. Property owners receive financing for energy efficiency upgrades, which are repaid as a property tax assessment for up to 20 years. While PACE-enabling legislation has been enacted in 30 states plus Washington, D.C., this financing option has not been well-integrated with the mortgage markets, thereby limiting its traction in the marketplace. FHA will provide guidance to lenders that will outline the conditions under which FHA-insured mortgages may be used to finance properties with existing PACE liens. A preliminary statement indicating the conditions under which borrows purchasing or refinancing properties with existing PACE assessments can be found at [insert link]. FHA stands ready to work with you and your staff to get this important program off the ground.

Energy Efficient Home Program and Home Energy Score
The second initiative the President announced amends FHA's Energy Efficient Home (EEH) program which allows consumers to qualify for a higher loan amount due to cost savings associated with energy efficiency improvements. FHA will provide flexible underwriting to recognize the reduced costs of utilities when those costs are established through the use of the Department of Energy's (DOE) Home Energy Score. DOE's new Home Energy Score is a low-cost, reliable method for estimating the energy

use of a home. The score is the equivalent of an automobile's easily-understood "miles per gallon" label for homes. The score measures the energy efficiency of homes on a scale of 1-10. FHA will be providing a two-percentage-point "stretch ratio" for FHA-insured mortgages on homes that achieve a score of at least 6. This means that FHA borrowers will be able to borrow slightly more when they buy or refinance a home with an above-average Home Energy Score.

Single Family FHA Energy Efficient Financing Options

FHA offers a range of financing options to assist homebuyers and homeowners who wish to invest in energy efficiency improvements. First, the FHA 203(k) rehabilitation loan program allows borrowers to purchase or refinance a home and include energy efficiency improvements such as insulation, double pane windows, etc., in the cost of rehabilitation. Buyers may finance the purchase price and all repair costs with one new loan.

Also, FHA's solar and wind technologies policy allows borrowers to add the cost of a solar- and wind-driven energy system improvements to the loan amount as long as these enhancements meet certain conditions. Similarly, FHA's weatherization policy allows borrowers to finance up to $3,500 to pay for basic weatherization items as part of a standard FHA loan. Consumers may use these funds to finance thermostats, insulation, storm windows and doors, weather-stripping and caulking, and similar improvements.

And through the Energy Efficient Mortgage (EEM) Program, FHA borrowers may finance up to 5% of the appraised value of a home to invest in energy efficiency improvements as long as the energy savings are more than the cost of the improvements.

PowerSaver

Along with these new additions announced by the President, FHA is significantly enhancing its energy efficiency second-lien program, PowerSaver. Homeowners will be able to use FHA's PowerSaver to obtain a loan for clean energy and/or energy efficiency improvements. Though the original PowerSaver program is currently expired, FHA is planning updates to this program to make it easier for homeowners to borrow up to $25,000 for energy efficiency improvements.

Multifamily Energy Efficiency Efforts

Multifamily properties also represent important opportunities to increase energy efficiency. A number of studies have shown that retrofitting the multifamily building stock is cost-effective. One recent study, conducted by Stewards of Affordable Housing for the Future and Bright Power, found that energy savings measures from HUD's Green Retrofit Program produced estimated electricity and gas savings of $213 per unit for an annual savings total of $3.1 million.

HUD has also partnered with DOE to enhance energy efficiency in multifamily housing through the Better Buildings Challenge, a voluntary leadership initiative that asks building owners, developers, and managers to make a public commitment to energy efficiency and share data and strategies as models for others to follow. More than 85 multifamily organizations, impacting more than 390,000 households have made energy commitments through the Better Buildings Challenge. These organizations are helping us to identify new ways to bring access to capital and technical know-how to the multifamily sector.

These voluntary initiatives are an important step toward better addressing energy efficiency as part of the mortgage underwriting process and toward supporting energy-related investments in single and

multifamily homes. These initiatives are also timely in light of the recently published Clean Power Plan rule, aimed at lowering the nation's carbon emissions by 32% by 2030. Energy efficiency and clean energy initiatives such as these will play a key role in helping us achieve that goal. We look forward to working with you to implement strategies to save energy costs and increase efficiency across America.

Sincerely,

Julián Castro
Secretary
U.S. Department of Housing and Urban Development