

# FHA ENERGY EFFICIENT GUIDELINES



<b>PRODUCT CODE</b>	<b>FHA30EEM</b> <ul style="list-style-type: none"> <li>• FHA Fixed 30 Years</li> <li>• Investor-Specific Required (at no cost)</li> </ul>
<b>PROGRAM DESCRIPTION</b>	<p>The Energy Efficient Mortgage (EEM) Policy is applicable for:</p> <ul style="list-style-type: none"> <li>• Purchase and Rate and Term loans only</li> <li>• Standard FHA 203(b) loan program</li> <li>• No special Underwriting of credit package</li> <li>• No special Underwriting of the appraisal</li> </ul>
<b>INELIGIBLE PRODUCTS</b>	<ul style="list-style-type: none"> <li>• FHA CalPLUS/ZIP/ECTP</li> <li>• MyHome</li> <li>• CHF30 Platinum</li> </ul>
<b>PROPERTY TYPE</b>	<ul style="list-style-type: none"> <li>• New Construction 1-4 units</li> <li>• Existing Construction 1-4 units</li> <li>• Owner occupied Only</li> </ul>
<b>FICO SCORE</b>	<ul style="list-style-type: none"> <li>• 640</li> </ul>
<b>UNDERWRITING</b>	<ul style="list-style-type: none"> <li>• DU             <ul style="list-style-type: none"> <li>○ Approve/Eligible - Limited to 50% DTI with EEM</li> </ul> </li> <li>• Manual Underwrites allowed             <ul style="list-style-type: none"> <li>○ With Corporate Approval <u>ONLY</u></li> <li>○ Limited to 40/50% DTI with EEM (per FHA 4000.1 Manual Underwriting guidelines)</li> </ul> </li> <li>• No MCCs allowed.</li> </ul> <p>The DE underwriter must calculate the borrower's debt ratios using the initial Base loan amount plus the Upfront Mortgage Insurance Premium (UFMIP).</p> <p><b>(A) TOTAL Mortgage Scorecard</b></p> <ul style="list-style-type: none"> <li>• When submitting to TOTAL, the underwriter must use the initial base loan amount <u>prior</u> to the addition of the financeable energy package.</li> <li>• If the underwriter receives an Accept or Approve that does not include the financeable energy package, FHA will recognize the risk rating from TOTAL and permit the increase to the mortgage payment without re-underwriting or rescoring.</li> <li>• The underwriter completes a 92900-LT <i>without</i> the financeable energy package, showing the qualifying ratios</li> <li>• A second form 92900-LT must be completed by the underwriter showing mortgage amount calculation <i>with</i> the financeable energy package included. This second form must be kept in the file.</li> <li>• The underwriter must attest on the second 92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the mortgage and the property to be in compliance with FHA's underwriting instruction.</li> </ul>

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<p><b>UNDERWRITING, CONTINUED</b></p>	<p><b>(B) MANUAL</b></p> <ul style="list-style-type: none"> <li>• The underwriter must provide a 92900-LT without the financeable energy package, showing the qualifying ratios.</li> <li>• A second 92900-LT must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package. This second form must be kept in file.</li> <li>• The underwriter must attest on the second 92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the mortgage and the property to be in compliance with FHA's underwriting instruction.</li> </ul> <p><u>For both TOTAL and Manual underwriting all other standard FHA 4000.1 guidelines for credit, assets, and income still apply.</u></p>
<p><b>EEM CALCULATION WORK SHEET</b></p>	<ul style="list-style-type: none"> <li>• Form is located on the intranet under FHA Energy Efficient Guidelines             <ul style="list-style-type: none"> <li>○ FHA Energy Efficient Mortgage Interactive Worksheet</li> </ul> </li> </ul>
<p><b>EEM ESCROW HOLDBACK</b></p>	<ul style="list-style-type: none"> <li>• Pull and review from Quick Look &gt; Policy and Procedures Manual:             <ul style="list-style-type: none"> <li>○ Escrow Holdback Guidelines</li> </ul> </li> <li>• Pull forms from Quick Look &gt; Policy and Procedures Manual &gt; Forms:             <ul style="list-style-type: none"> <li>○ Escrow Holdback Request</li> <li>○ Escrow Holdback Agreement - Borrower</li> <li>○ Escrow Holdback Agreement – Seller</li> </ul> </li> </ul>
<p><b>BASE LOAN (LTV) &amp; MAXIMUM LOAN AMOUNT (CLTV)</b></p>	<ul style="list-style-type: none"> <li>• <b>Base loan amount must meet FHA 203(b) guidelines:</b> <ul style="list-style-type: none"> <li>○ 3.5% minimum required cash investment for purchases</li> <li>○ New Construction Properties less than one year old</li> <li>○ Acquisition cost if owned less than one year</li> <li>○ Rate and Term LTV 97.75%</li> </ul> </li> <li>• <b>Maximum Loan Amount:</b> <ul style="list-style-type: none"> <li>○ Maximum Base loan amount (96.5%) + Home Energy Rating System (HERS) allowable credit + UFMIP</li> <li>○ Maximum loan can exceed the county loan limits by Energy Efficient Mortgage (EEM) and UFMIP ONLY</li> <li>○ Maximum loan amount will be determined after receipt of Home Energy Rating System (HERS) Rater completed report.</li> <li>○ Maximum LTV/CLTV 105%</li> <li>○ New Construction – the cost of the financeable energy package must be subtracted from the sales price when computing the adjusted value.</li> </ul> </li> </ul>

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<p><b>APPRAISAL VALUE &amp; ENERGY EFFICIENT PACKAGE</b></p>	<ul style="list-style-type: none"> <li>The appraisal does not need to reflect the value of the energy package that will be added to the property for either new or existing construction</li> <li>The exclusion applies to the Energy Efficient Mortgage (EEM) and NOT to the items financed under the Weatherization or Solar System Programs</li> <li>If the appraisal reflects the energy package, the value must be subtracted from the property value when computing the Adjusted Value.</li> <li>1004D is required either the EEM Rater or FHA Fee Inspector may inspect the installation of the improvements</li> <li>Borrower may pay for the inspection fee.</li> </ul>
<p><b>ENERGY EFFICIENT MORTGAGE CALCULATOR TOOL</b></p>	<ul style="list-style-type: none"> <li>The Energy Efficient Mortgage (EEM) Calculator is located in FHA Connection on the Case Processing screen: <ul style="list-style-type: none"> <li><b>Case Processing</b></li> <li>203k Calculator (with FHA Case Number) <ul style="list-style-type: none"> <li>Borrower/Address Change</li> <li>CAIVRS Authorization</li> <li>Case Query</li> <li>Case Transfer</li> <li>Conditional Commitment</li> <li><b>EEM Calculator</b></li> </ul> </li> </ul> </li> <li>The maximum amount of the energy package that can be added to the Base Loan Amount is the <u>lesser</u> of: <ul style="list-style-type: none"> <li>The dollar amount of the a cost-effective energy package as determined by the home energy audit; or</li> <li>The lesser of 5% of: <ul style="list-style-type: none"> <li>The adjusted value;</li> <li>115% of the median area price of a single family dwelling; <b>or</b></li> <li>150% of the national conforming (Fannie Mae/Freddie Mac) limit (150% x \$453,100 = \$679,650)</li> </ul> </li> </ul> </li> </ul>
<p><b>ENERGY PACKAGE</b></p>	<p>The energy package includes:</p> <ul style="list-style-type: none"> <li>Home Energy Rating System (HERS) audit report (must be completed by a HERS EEM Rater)</li> <li>Energy-efficient-related improvements as outlined in the Home Energy Rating System (HERS) audit report</li> <li>General Contractor (sometimes called EEM Facilitator) <ul style="list-style-type: none"> <li>When the total energy package is to be added into the FHA loan exceeds the net present value of the energy savings, the excess cost may be used under Weatherization Program (if applicable), or paid by the borrower from his/her own funds</li> <li>If Seller-paid Energy Efficient-related costs, then Seller paid items rules (IPCs) will apply.</li> </ul> </li> </ul>

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<p><b>COST EFFECTIVE TEST - ENERGY IMPROVEMENTS</b></p>	<ul style="list-style-type: none"> <li>• A cost-effective energy package is one where the cost of the improvement, including maintenance and repair, is less than the value of the energy saved over the estimated useful life of those improvements.</li> <li>• Cost –effectiveness is not used for items factored into the sales price or appraised value, such as items under Solar or Weatherization Programs.</li> </ul> <p>The home energy report must:</p> <ul style="list-style-type: none"> <li>• Reflect energy –savings improvements that the borrower is financing</li> <li>• PBM must use the energy-savings from the home energy report to determine the cost effective test is met for financed package.</li> <li>• For New Construction, the financed portion of an energy package can include only those cost-effective energy improvements over and above the greater of the following:             <ul style="list-style-type: none"> <li>○ The 2006 IECC or a successor energy code standard as adopted by HUD or</li> <li>○ The IECC year used by state or local building code for New Construction</li> </ul> </li> </ul>
<p><b>TYPE OF ENERGY EFFICIENT AUDIT REPORTS</b></p>	<ul style="list-style-type: none"> <li>• The borrower must obtain a home energy assessment.             <ul style="list-style-type: none"> <li>○ The purpose of the energy assessment under the EEM program is to identify opportunities for improving the energy efficiency of the home and their cost-effectiveness.</li> </ul> </li> <li>• The Energy Efficient Audit must be completed by a qualified home energy rater using a tool known as a Home Energy Rating System (HERS).             <ul style="list-style-type: none"> <li>○ The Home Energy Rating System (HERS) must meet both the minimum requirements of the U.S. Department of Energy (DOE) approved ratings guidelines and must have achieved passing results from DOE’s building Energy Simulations Test (BESTEST) or subsequent testing requirements.</li> </ul> </li> <li>• Energy Raters/Assessors must be trained and certified and meet local or state jurisdictional requirements for conducting residential energy audits or assessments.             <ul style="list-style-type: none"> <li>○ Home Energy Rating System (HERS) raters can be located on the following website:                 <ul style="list-style-type: none"> <li>▪ <a href="https://www.calcerts.com/RaterSearch.php">https://www.calcerts.com/RaterSearch.php</a></li> <li>▪ The phone number of the Rater is located on the site.</li> </ul> </li> </ul> </li> <li>• Home Energy Rating System (HERS) Report <i>MUST BE OBTAINED</i> before the loan can go to an underwriter. This should be done by the processor at the beginning of the loan process.</li> <li>• Underwriter will determine final loan amount from the results of the Home Energy Rating System (HERS) report allowable Energy Efficient Mortgage expenses.</li> <li>• Confirm the Cost of the Energy Efficient Mortgage (EEM) Home Energy Rating System (HERS) Report and Inspections with the Rater you will be using.</li> <li>• Initial fees range from \$450-\$750 and will take 4-6 hours.</li> <li>• Final inspection can be ½ of the original fee \$250-\$375.</li> <li>• These fees can be added to the final loan if they meet the cost-effective Home Energy Rating System (HERS) requirements</li> </ul>

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<p><b>AGE OF HOME ENERGY RATING SYSTEMS (HERS) AUDIT</b></p>	<ul style="list-style-type: none"> <li>• The Home Energy Rating System (HERS) audit report may be <u>NO OLDER THAN 120 DAYS</u> prior to the date of closing.             <ul style="list-style-type: none"> <li>○ 180 days for New Construction prior to the date of closing.</li> </ul> </li> </ul>
<p><b>HOME ENERGY RATING SYSTEM (HERS) REPORT</b></p>	<ul style="list-style-type: none"> <li>• Must be in the credit package placed behind form HUD 92900-LT</li> </ul>
<p><b>WEATHERIZATION ITEMS</b></p>	<ul style="list-style-type: none"> <li>• Weatherization items apply only to EXISTING properties</li> <li>• The amount of energy-related installed cost that exceeds maximum Energy Efficient Mortgage calculation in FHA Connection may be used under Weatherization policies</li> <li>• The mortgage amount may be increased if the cost of energy-related weatherization items paid by the borrower is added to the property:             <ul style="list-style-type: none"> <li>○ Air-sealing (including weather-stripping doors, caulking windows and plumbing penetrations)</li> <li>○ Insulation (attic, floors, walls, basement)</li> <li>○ Duct sealing and insulation</li> <li>○ Smart thermostats and equipment controls</li> <li>○ Windows and doors</li> <li>○ Low flow water fixtures</li> <li>○ Carbon monoxide monitors and other combustion appliance safety measures</li> </ul> </li> <li>• Energy-related amount that can be added to both the sales price (for purchases) and the appraised value (for refinances) is             <ul style="list-style-type: none"> <li>○ \$2000 (not to exceed actual cost) without a separate value determination;</li> <li>○ \$3,500 (not to exceed actual cost) if supported by a value determination by an approved FHA Roster Appraiser or a Direct Endorsement (DE) underwriter; or</li> <li>○ No limit (not to exceed actual cost) if:                 <ul style="list-style-type: none"> <li>▪ Supported by a value determination made by an approved appraiser or underwriter; and</li> <li>▪ A separate on-site inspection is made by an FHA Roster Inspector or DE staff appraiser.</li> </ul> </li> </ul> </li> <li>• Any weatherization costs used must be added to both sales price (for purchase) and appraised value to calculate the maximum mortgage amount</li> <li>• Escrow withhold for energy-efficient improvements under the Weatherization Program is allowed per Provident Bank Mortgage Escrow Hold Back Guidelines.</li> </ul>

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## FUNDING AND CLOSING STATEMENT

- **NO CASH BACK** allowed at closing from loan proceeds.
- Principal reduction **MUST** be noted for any cash back due at closing from loan proceeds
- If escrow withhold is required on Energy Efficient Mortgage (EEM) closing, all Provident Bank Mortgage Escrow Hold Back guidelines are to be followed
- Escrow withholds may not include cost for labor or work performed by the borrower (sweat equity)
- Escrow withholds will require the Home Energy Rating System (HERS) Rater or an FHA Fee Inspector to inspect the installation of the improvements.
- The borrower may be charged for the Home Energy Rating System (HERS) fee on the Closing Statement
- Work completed after closing will need to be completed within 90 days
- If not completed within 90 days PBM will apply the EEM funds as a principal reduction.