HOMESTYLE ENERGY MORTGAGES

OVERVIEW

There are a number of HomeStyle Energy financing options available to a borrower who wishes to improve the energy and/or water efficiency of an existing property and decrease its related utility costs. HomeStyle Energy may also be used to create home resiliency for environmental disasters such as floods, storms, and earthquakes, or to repair damage from these types of disasters.

There is no minimum dollar amount for the energy improvements; the maximum dollar amount depends on the type of HomeStyle Energy activity and the transaction, described in the table below.

HomeStyle Energy Activity	Maximum Amount to Finance Energy-Related Items
Renovation of an existing property to make energy-related improvements	For purchases or limited cash-out refinances up to 15% of the "as completed" appraised value of the property
Payoff of non-PACE secured or unsecured debt that financed energy-related improvements	For limited cash-out refinances up to 15% of the appraised value of the property. **Note**: If a HomeStyle Energy loan includes both new energy-related improvements and payoff of previously acquired energy-related debt, the total of both cannot exceed 15%
Payoff of existing PACE loan	For purchases or limited cash-out refinances: All outstanding PACE debt may be paid off up to the maximum allowable LTV for the transaction and occupancy type.

- PBM may deliver a HomeStyle Energy loan with eligible improvements as soon as the loan is funded. The eligible improvements do not have to be completed when the mortgage is delivered to Fannie Mae.
  - HomeStyle Energy loans are not subject to recourse.
- PBM must establish a completion escrow for incomplete energy improvements. The improvements must be completed no later than 180 days from the date of the mortgage note.
  - For requirements related to the completion of the postponed improvements, including escrow accounts, disposition of funds after work completion, and title reports, see *B4-1.2-03 Requirements for Postponed Improvements* in Fannie Mae Selling Guide.

PRODUCT CODES	• CF30HSFN: Conforming 30 year fixed • CF15HSFN: Conforming 15 year fixed • CF30HBHSFN: High Balance 30 year fixed • CF15HBHSFN: High Balance 15 year fixed

ELIGIBLE ENERGY-RELATED IMPROVEMENTS	• In addition to energy and water efficiency improvements, HomeStyle Energy can be used to repair homes damaged in a natural disaster or by an environmental hazard and to install resiliency or preventative improvements, including the following:
	  ○ Storm surge barriers;
	  ○ Foundation retrofitting for earthquakes;
	  ○ Hazardous brush and tree removal in fire zones;
	  ○ Retaining walls to address mud or water flows; and
	  ○ Other items specifically needed to either repair environmental hazard damage or improve the home’s ability to withstand environmental hazards such as hurricanes, tornadoes, or wind storms, earthquakes, flooding, landslides, and wildfires.
	• Installation of radon remediation systems is also an eligible improvement under HomeStyle Energy

ELIGIBLE PROPERTY AND OCCUPANCY TYPES	• All one-to four-unit existing properties are eligible for HomeStyle Energy. ○ Manufactured Homes are not eligible • All occupancy Types are permitted.

PRODUCT ELIGIBILITY	• Energy-related improvements are permitted on existing properties in conjunction with all standard Fannie Mae products and features offered by Provident Bank Mortgage, including, but not limited to:
	  ○ High-balance loans,
	  ○ Community Seconds,
	  ○ Loans with deed restrictions (including programs that allow below market rate mortgages),
	  ○ Down payment assistance programs,
	  ○ HomeReady loans, and
	  ○ Community Land Trusts
	• Loans with energy-related improvements are subject to the applicable LTV, CLTV, and HCLTV ratios found in Provident Bank Mortgage’s Classic Conforming Fixed/ARM Matrix and Fannie Mae High Balance Matrix (which can never exceed an LTV ratio of 95%
	• Energy-related improvements cannot be financed in the loan amount of a DU Refi Plus loan.

ENERGY REPORT REQUIREMENTS	• Borrowers are required to obtain a residential or home energy report to identify the recommended energy improvements to the property and the estimated cost savings associated with those improvements when they are using funds for new energy-related improvements.
	• The energy report must be reviewed by the underwriter and must
	  ○ Identify the recommended energy improvements and expected costs of the completed improvements;
	  ○ Specify the monthly energy savings to the borrower; and
	  ○ Verify that the recommended energy improvements are cost-effective. Energy improvements are determined to be cost-effective when the cost of the improvements, including maintenance, is less than the present value of the energy saved over the useful life of the improvements. (The cost-effectiveness of the improvements may be assessed in the aggregate and are not required to be assessed separately for each energy improvement.)
	• The report must meet at least one of the following standards:
	  ○ A Home Energy Rating Systems (HERS) report completed by a HERS rater who is accredited under the Mortgage Industry National Home Energy Rating Standards (HERS Standards), as adopted by the Residential Energy Services Network (RESNET®). A list of accredited HERS raters by stated can be located at **RESNET's Website** http://www.resnet.us/ A list of acceptable organizations can be found on the **DOE website** http://energy.gov/eere/buildings/home-energy-score-information-interested-assessors
	  ○ A rating report completed by an independent and certified home energy consultant or auditor, comparable in rating methods and scope of the HERS or Home Energy Score evaluation, and that is permitted under a local or state level home energy certification or audit program.
	• The energy report must be dated no earlier than 120 days prior to the note
	• If the cost of the energy report is paid for by the borrower, the cost may be financed as part of the mortgage by including it in the cost of the energy improvements. The cost must be included on the settlement statement if it is financed in the mortgage loan.
	• **Exceptions to Energy Report Requirements**: Energy reports are not required in certain circumstances. Alternative documentation (other than an energy report) is acceptable in the following circumstances.
	  ○ Weatherization items- If the mortgage transaction only involves financing the purchase of basic weatherization items (such as programmable thermostats and insulation) or water efficiency devices (such as low-flow showerheads) totaling up to $3,500, a residential energy report is not required. Acceptable documentation includes, but is not limited to, a copy of invoices or receipts for energy-related expenses or copies of contractor invoices for completing the basic weatherization items.

ENERGY REPORT REQUIREMENTS, CONTINUED	○ Payoff of PACE loans- Documentation must show that the funds are used solely to pay off the PACE loan obtained for energy improvements on the subject property. ○ Payoffs of non-PACE energy-related debt – Documentation must show the funds were used solely for the purchase and installation of eligible energy-related improvements on the subject property ○ Energy improvements related to the installation of renewable energy sources including water efficiency devices, solar panels, wind power devices, and geothermal systems – Acceptable documentation includes, but is not limited to, a copy of invoices or receipts for installing the systems or devices. ○ Improvements to install a radon remediation device – Documentation for the cost of the system and its expected impact on the radon levels in the home must be obtained. ○ Environmental hazard damage repairs or resiliency improvements – Acceptable documentation includes, but is not limited to, a copy of invoices or receipts for the expenses or copies of contractor invoices for completing the repairs or improvements.
PURCHASE TRANSACTIONS	• **Purchase Transactions:** In a purchase transaction, the proceeds can be used to finance the acquisition of the property and the cost of energy-related improvements or the amount to payoff PACE debt. The LTV ratio is determined by dividing the original loan amount by the lesser of: ○ the "as completed" appraised value of the property ○ the sum of the purchase price of the property plus the cost of the energy-related improvements, or ○ the sum of the purchase price plus the total amount of PACE debt to be paid off.
LIMITED CASH-OUT REFINANCE TRANSACTIONS	• **Limited Cash-out Refinance Transactions:** When a mortgage loan is originated as a limited cash-out refinance, the loan must meet all of the standard requirements for limited cash-out refinances (as described in Fannie Mae section B2-1.2-02, Limited Cash-Out Refinance Transactions.) • Energy-related improvements may be financed in the loan amount. Proceeds may also be used to pay off an existing PACE loan or other debt (secured or unsecured) that financed any energy-related improvements. The standard cash back allowance of the lesser of 2% of the loan amount or $2,000 is permitted on these loans. • For limited cash-out refinance transactions, the LTV ratio is determined by dividing the original loan amount by the "as completed" appraised value of the property when the mortgage is being delivered prior to the completion of the improvements. • If the appraisal was completed after the completion of the improvements, then the LTV ratio is determined by dividing the original loan amount (including the cost of energy improvement debt to be included in the loan amount) by the appraised value of the property.

UNDERWRITING WITH DU	• Mortgage loans using HomeStyle Energy flexibilities can be underwritten manually or through DU. However, DU is not able to identify the transaction as having an energy-related improvements and as such, will not issue any specific verification messages. The underwriter must confirm outside of DU that all requirements of HomeStyle Energy are met. • For purchase transactions, the underwriter must include the cost of the energy-related improvements in the sales price in the online loan application in order for the cash to close and LTV ratio to be accurately determined. For limited cash-out refinance transactions, the inclusion of the cost of the energy-related improvements in the loan amount may make it appear that the borrower is receiving more than the allowable cash back at closing. • Because DU will be applying the standard limited cash-out refinance cash back policy, the loan casefile may receive an Ineligible recommendation when it appears the borrower is receiving more than 2%/$2,000 cash back. • The underwriter may underwrite the loan with the Ineligible recommendation and retain the DU limited waiver of underwriting representations and warranties provided the mortgage loan meets the requirements contained in this section (e.g., maximum cash back at closing) as well as those contained in (A2-2.1-04, Limited Waiver of Contractual Warranties for Mortgages Submitted to Desktop Underwriter)
MANUAL UNDERWRITING	• For loans involving energy-related improvements that are underwritten manually, a maximum debt-to-income ratio of 45% is allowed if the transaction satisfies all criteria in the Classic Conforming guidelines for a 45% DTI ratio on a manually underwritten loan. • When the transaction does not meet the requirements for an expanded DTI ratio up to 45%, the borrower may have a DTI ratio up to 38% (instead of 36% DTI ratio) when PBM obtains a DOE Home Energy Score Report on the subject property with a score of 6 or higher. • All other underwriting requirements, such as the down payment, credit score, and reserve requirements, are identical to those for a similar transaction with a maximum DTI of 36%. • If PBM obtained a comparable industry energy efficiency report that demonstrates the property has met the standards for increased energy efficiency, that report may be used to allow for a DTI ratio up to 38%. • This DTI ratio flexibility is not permitted on transactions for which no energy report was obtained. • **Note**: Manually underwritten loans require Corporate Underwriting review.

APPRAISAL REQUIREMENTS	• All HomeStyle Energy loans require an appraisal based on an interior and exterior property inspection and must be completed on the appropriate form depending on the property type. • When the mortgage is being delivered prior to the completion of the energy-related improvements, appraisers must determine the "as completed" value of the property subject to the improvements being completed. • A certification of completion is required when the mortgage is delivered prior to the completion of the improvements. For requirements related to the certification of completion, (see Fannie Mae B4-1.2-03, Requirements for Postponed Improvements) • Property Inspection Waivers (PIW) are ineligible
UNDERWRITER RESPONSIBILITIES	• The underwriter is responsible for ○ ensuring that the appraiser has been provided with a copy of the energy report, if one was required, and other required documentation described in these guidelines, ○ managing the completion escrow account in which improvement funds are held, and ○ monitoring the completion of the HomeStyle Energy improvement work. See the requirements related to the energy-related improvement feature in (B4-1.2-03, Requirements for Postponed Improvements.) • The underwriter must maintain a copy of all the documentation in the individual mortgage file that supports the energy-related improvement work, such as the energy report, "as completed" appraisal, home improvement contract, certification of completion, and title insurance endorsements or updates (if applicable).
FANNIE MAE SPECIAL FEATURE CODE	• **When underwriting a mortgage loan with financed energy-related improvements, the underwriter must include SFC 375 as part of the delivery information.** ○ HomeStyle Energy Improvement: Used to identify a loan that is used to finance energy-related improvements and that needs the requirements of Fannie Mae's energy improvement feature.

REQUIREMENTS FOR POSTPONED IMPROVEMENTS	**Requirements for HomeStyle Energy Improvements on Existing Construction** The table below provides the postponed improvement requirements for a loan with HomeStyle Energy improvement feature(s).

✓	Requirements for HomeStyle Energy Improvements On Existing Construction
	Mortgages may be delivered before the energy-related improvements are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that will not prevent the issuance of an occupancy permit.
	A certification of completion must be obtained to verify the work was completed and must: • Be completed by the appraiser • State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and • Be accompanied by photographs of the completed improvements
	PBM must establish a completion escrow for the postponed energy-related improvements by withholding funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
	PBM and the borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed
	The completion escrow may not adversely affect the mortgage insurance or title insurance
	Once a certificate of completion is obtained, PBM must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items. Any funds remaining in the escrow account after the work is completed must be applied to reduce the unpaid principal balance of the mortgage loan. The value of sweat equity and "Do It Yourself" improvements are not reimbursable.
	PBM must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, PBM must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien.

PROPERTY ASSESSED CLEAN ENERGY LOANS	
OVERVIEW	• Certain energy retrofit lending programs, often referred to as Property Assessed Clean Energy (PACE) programs are made by localities to finance residential energy improvements and are generally repaid through the homeowner's real estate tax bill. These loans typically have automatic first lien priority over previously recorded mortgages. The terms of the Fannie Mae/Freddie Mac Uniform Security Instruments prohibit loans that have a senior lien status to a mortgage.
ELIGIBILITY	• Fannie Mae will not purchase mortgage loans secured by properties with an outstanding PACE loan unless the terms of the PACE loan program do not provide for lien priority over first mortgage liens. Underwriters must monitor state and local law to determine which jurisdictions offer PACE loans that may provide for lien priority. • If the PACE loan is structured as a subordinate lien or unsecured loan, the first mortgage loan may be underwritten to Fannie Mae's standard guidelines. • However, for PACE loans originated prior to July 06, 2010, Fannie Mae waives the uniform security instrument prohibition against a PACE loan with lien priority if the corresponding mortgage loan was purchased before July 06, 2010 or is in an MBS pool with an issue date on or before July 01, 2010.
REFINANCING OPTION FOR PROPERTIES WITH A PACE LOAN	• The following requirements apply to borrowers with loans that are owned or securitized by Fannie Mae who seek to refinance and who obtained a PACE loan prior to July 06, 2010: ○ **Paying off the PACE loan:** The Underwriter must first attempt to qualify the borrower for either a cash-out or limited cash-out refinance option, with the PACE loan being paid off as part of the refinance. To mitigate the risk posed by PACE obligations that take lien priority over the mortgage, Fannie Mae requires that the borrowers with sufficient equity pay off the existing PACE obligation as a condition to obtaining a new mortgage loan. The prohibition against using the proceeds of a limited cash-out refinance to pay off a loan not used to purchase the property will not apply. ○ Loan casefiles underwritten in DU as a limited cash-out refinance may receive an Ineligible recommendation when it appears the borrower is receiving more than 2%/$2,000 cash back due to the payoff of a PACE loan. PBM may close the loan with the Ineligible recommendation and retain the DU limited waiver of underwriting representations and warranties provided that the mortgage loan meets Fannie Mae requirements, including (but not limited to) A2-2.1-04, Limited Waiver and Enforcement Relief of Representations and Warranties for Mortgages Submitted to DU

REFINANCING OPTION FOR PROPERTIES WITH A PACE LOAN	○ **Retaining the PACE loan:** If the borrower is unable to qualify for a cash-out or limited cash-out refinance with sufficient proceeds to pay off the PACE loan, the underwriter may underwrite the loan as a limited cash-out refinance or DU Refi Plus, as applicable, with the PACE loan remaining in place. In these cases, it will not be necessary to include the PACE loan in the calculation of the CLTV ratio, though it must be included in the monthly housing expense (PITIA) and debt-to-income calculation.
FANNIE MAE SPECIAL FEATURE CODE	• **For those eligible limited cash-out refinances where the PACE loan remains in place, the mortgage loans must be underwritten with SFC 173.**
FANNIE MAE GUIDELINES	• All other **PBM Classic Conforming Guideline**s apply that are not addressed in these guidelines.