

**HOMESTYLE ENERGY MORTGAGES
&
PROPERTY ASSESSED CLEAN ENERGY LOANS
(FANNIE MAE ONLY)**

HOMESTYLE ENERGY MORTGAGES

OVERVIEW

There are a number of HomeStyle Energy financing options available to a borrower who wishes to improve the energy efficiency of an existing property and decrease its related utility costs.

These options include:

- Paying off a PACE loan or other debt incurred for energy-related improvements in a limited cash-out refinance (per Fannie Mae Limited Cash-Out Refinance Transactions), or
- Financing energy-related renovations up to 15% of the “as completed” value of the property in a purchase or limited cash-out refinance transaction.

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
Payoff of existing PACE loan	For limited cash-out refinances of: <ul style="list-style-type: none"> • a PACE loan originated prior to July 06, 2010, the entire limited cash-out refinance loan amount may be used to pay off the PACE loan. See Fannie Mae, Property Assessed Clean Energy Loans. • a PACE loan originated on or after July 06, 2010, or other debt used for energy improvements, limited to 15% of the appraised value of the property.
Payoff of other secured or unsecured debt that financed energy-related improvements	For limited cash-out refinances: <ul style="list-style-type: none"> • up to 15% of the appraised value of the property.
Renovation of an existing property to improve its energy efficiency	For purchase or limited cash-out refinances: <ul style="list-style-type: none"> • up to 15% of the “as completed” appraised value of the property.

- A loan may be sent to Fannie Mae as soon as the loan is closed.
 - The energy-related improvements do not have to be completed when the mortgage is delivered to Fannie Mae.
 - HomeStyle Energy loans are not subject to recourse.

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OVERVIEW (CONTINUED)	<ul style="list-style-type: none"> • The Underwriter must establish a completion escrow for incomplete energy improvements. The improvements must be completed not later than 180 days from the date of the mortgage note. <ul style="list-style-type: none"> ○ For requirements related to the completion of the postponed improvements, including escrow accounts, disposition of funds after work completion, and title reports, see <i>B4-1.2-03 Requirements for Postponed Improvements</i> in Fannie Mae Selling Guide.
PRODUCT CODES	<ul style="list-style-type: none"> • CF30HSFN: <u>Conforming 30 year fixed</u> • CF15HSFN: <u>Conforming 15 year fixed</u> • CF30HBHSFN: <u>High Balance 30 year fixed</u> • CF15HBHSFN: <u>High Balance 15 year fixed</u>
ELIGIBLE PROPERTY AND OCCUPANCY TYPES	<ul style="list-style-type: none"> • All one-to four-unit existing properties are eligible for the energy improvement feature with the exception of manufactured homes. • All occupancy Types are permitted.
ENERGY REPORT REQUIREMENTS	<ul style="list-style-type: none"> • An energy report is required when adding energy improvements to a property and financing the improvements through a new loan. This applies to both purchase and refinance transactions. • 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. • The energy report must be reviewed by the underwriter and must <ul style="list-style-type: none"> ○ Identify the recommended energy improvements and expected costs of the completed improvements; ○ Specify the monthly energy savings to the borrower; and ○ Verify 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: <ul style="list-style-type: none"> ○ 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/ and the DOE website http://energy.gov/eere/buildings/home-energy-score-information-interested-assessors

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ENERGY REPORT REQUIREMENTS	<ul style="list-style-type: none"> ○ 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 <ul style="list-style-type: none"> ○ no earlier than 120 days prior to the note date; or, ○ if related to expenses previously incurred and being paid off with a refinance transaction, within 120 days of the energy-related expenses. ● 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: Alternative documentation (other than an energy report) is acceptable in the following circumstances. <ul style="list-style-type: none"> ○ 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 less than \$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. ○ 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.
PRODUCT ELIGIBILITY	<ul style="list-style-type: none"> ● Energy-related improvements are permitted on existing properties in conjunction with all standard Fannie Mae products and features that are offered by Provident Bank Mortgage but not limited to: <ul style="list-style-type: none"> ○ High-balance loans, ○ Community Seconds, ○ Loans with deed restrictions (including programs that allow below market rate mortgages), ○ Down payment assistance programs, ○ HomeReady loans, ● Energy improvements cannot be financed in the loan amount of a DU Refi plus loan. <ul style="list-style-type: none"> ○ Loans with energy improvements are subject to the applicable LTV, CLTV, and HCLTV ratios found in the Provident Bank Mortgage’s Classic conforming Fixed/ARM Matrix and Fannie Mae High Balance Matrix (which can never exceed an LTV ratio of 95%)

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PURCHASE TRANSACTIONS	<ul style="list-style-type: none"> • Purchase Transactions: In a purchase transaction, the proceeds can be used to finance the acquisition on the property and the energy improvements. The LTV ratio is determined by dividing the original loan amount (including the cost of the energy improvements) the lesser of the ‘as completed’ appraised value of the property or the sum of the purchase price of the property and the cost of the energy improvements.
LIMITED CASH-OUT REFINANCE TRANSACTIONS	<ul style="list-style-type: none"> • Limited Cash-out Refinance Transactions: When a mortgage loan is originated as a limited cash-out transaction 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 (including the cost of the energy improvements) 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	<ul style="list-style-type: none"> • Mortgage loans with an energy improvement feature can be underwritten through DU. However; DU is not able to identify the transaction as having an energy improvement feature and as such, will not issue any specific verification messages. The underwriter must confirm outside of DU that all requirements of the energy improvements feature described in this section are met. • For purchase transactions, the underwriter must include the cost of the energy 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 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.

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<p>UNDERWRITING WITH DU (CONTINUE)</p>	<ul style="list-style-type: none"> 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)
<p>APPRAISAL REQUIREMENTS</p>	<ul style="list-style-type: none"> All mortgage loans with energy improvement features 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 improvements, appraisers must determine the “as completed” value of the property subject to the energy 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
<p>UNDERWRITER RESPONSIBILITIES</p>	<ul style="list-style-type: none"> The underwriter is responsible for <ul style="list-style-type: none"> ensuring that the appraiser has been provided with a copy of the energy report, managing the escrow account in which improvement funds are held, and monitoring the completion of the energy improvement work. See the requirements related to the energy 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 improvement work, such as the energy report, “as completed” appraisal, home improvement contract, certification of completion, and title insurance endorsements or updates (if applicable).
<p>FANNIE MAE SPECIAL FEATURE CODE</p>	<ul style="list-style-type: none"> When underwriting a mortgage loan with financed energy improvements, the underwriter must include <u>SFC 375</u> as part of the delivery information. <ul style="list-style-type: none"> 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.

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OVERVIEW	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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 a 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. Due to the complexity of data entry options in DU for limited cash-out refinance transactions must be manually underwritten. ○ 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 loans as a limited cash-out refinance, 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.

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FANNIE MAE SPECIAL FEATURE CODE	<ul style="list-style-type: none">• For those eligible limited cash-out refinances where the PACE loan remains in place, the mortgage loans must be underwritten with <u>SFC 173</u>.
FANNIE MAE GUIDELINES	<ul style="list-style-type: none">• All other PBM Classic Conforming Guidelines apply that are not addressed in these guidelines.