Fannie Mae®

HomeStyle® Energy FAQs

The HomeStyle® Energy mortgage loan is designed to help lenders offer financing for homeowners to increase home energy efficiency and reduce utility costs. Borrowers can finance energy or water efficiency improvements or resiliency upgrades when purchasing or refinancing a home. HomeStyle Energy may be a more affordable financing solution than a subordinate lien, home equity line of credit, Property Assessed Clean Energy (PACE)[1] loan, or unsecured loan.

Simple Options

- Finance energy-related improvements up to 15% of the "as completed" appraised property value of a home.
- Finance improvements for water efficiency, renewable energy, radon remediation, resiliency, and repairs; as well as finance up to $3,500 for weatherization with no energy report.
- Pay off higher-interest energy-related improvement debt, including PACE loans.

General

Q1. May any Fannie Mae lender use the flexibilities offered by HomeStyle Energy?

Yes. HomeStyle Energy is available for use by any approved Fannie Mae lender, with no special approval required.

If using HomeStyle Energy to pay for future energy-related improvements, the lender must be able to operationally support the transaction, such as by administering escrow accounts and monitoring completion of the work. This operational support is not needed for the payoff of other existing energy-related improvement financing through the limited cash-out refinance option, as the improvements would have been completed prior to the transaction.

Delivery of HomeStyle Renovation loans continues to require special lender approval when the lender delivers loans to Fannie Mae prior to the completion of the renovation.

Q2. What types of improvements are eligible as energy-related improvements?

Energy-related improvements may include improvements that reduce a home's energy or water usage or that improve its efficiency, provide renewable sources of energy for the home, or that create greater home resiliency against natural disasters. Energy-related improvements may also include repairs made to a home damaged by a natural disaster. Additional details on these types of improvements can be found in *Selling Guide* section B5-3.3-01.

Q3. Is homeownership education required for mortgage qualification?

Fannie Mae believes that access to quality homeownership education and counseling can provide borrowers with the important information and resources to make informed decisions that support long-term homeownership sustainability.

For purchase transactions with LTV, CLTV, or HCLTV > 95%, if ALL occupying borrowers are first-time homebuyers, then at least one borrower must complete the Framework® online education program,

[1] *Refer to Selling Guide section B5-3.4-01, which discusses Fannie Mae's restrictions on PACE loans.*

regardless of the product chosen. The Framework course, available in English and Spanish, meets or exceeds industry standards and consistently receives high marks from learners.

Exceptions to the Framework course requirement:

- For loans that involve a Community Seconds® or down payment assistance program, buyers may instead complete the homeownership education course or counseling required by the Community Seconds or down payment assistance program as long as it is provided by a HUD-approved agency and completed prior to closing.
- The presence of a disability, lack of Internet access, and other issues may indicate that a consumer is better served through other education modes (for example, in-person classroom education or via a telephone conference call). In such cases, lenders should direct buyers to Framework's toll-free customer service line (855-659-2267), which can refer consumers to a HUD-approved counseling agency.
- Finally, buyers who have already completed housing counseling prior to entering into a sales contract (as evidenced by a completed Fannie Mae Form 1017) are not required to complete the Framework course.

For more information, refer to the homeownership education FAQs.

Energy Report and Documentation Requirements

Q4. Why is an energy report required only for certain transactions?

The energy report helps to identify and prioritize the cost-effectiveness of the energy-related improvements that will be the most beneficial to them. The energy report should identify recommended energy-related improvements, include the expected costs of the improvements, specify the monthly energy savings, and verify the cost-effectiveness of recommended improvements. Fannie Mae does not require an energy report for certain renewable energy products because many energy reports are designed to assess efficiency improvements rather than the impact of renewable energy devices. Although Fannie Mae does not require an energy report for basic weatherization up to $3,500, as described in Q6 below, or for water efficiency or renewable energy sources such as solar, wind power, and geothermal systems, the borrower can benefit from the assessment it will provide. An energy report is also not required for improvements related to radon remediation installation, environmental hazard damage repairs, or resiliency because these are items not addressed in energy reports.

Q5. How does the borrower or lender find a qualified assessor to complete an energy report?

The borrower or lender may visit the DOE Home Energy Score website (http://energy.gov/eere/buildings/home-energy-score-information-interested-assessors) or the HERS website (www.resnet.us) to locate a local qualified energy assessor. Additionally, there may be a local or state home energy certification or audit program that provides a report comparable to the DOE Home Energy Score or HERS report. In such cases, the energy report can be completed by an independent home energy consultant or auditor certified by such a local or state program. Refer to *Selling Guide* section B5-3.3-01, HomeStyle Energy for Energy Improvements on Existing Properties for further details.

Q6. May the cost of the energy report be incorporated into the borrower's loan amount?

Yes. The cost can be included in the total eligible amount of financing available, up to 15% of the "as completed" appraised value of the property. Loans with energy-related improvements are subject to the applicable LTV, CLTV, and HCLTV ratios shown in the Eligibility Matrix.

Weatherization Improvements up to $3,500

Q7. What types of improvements would be covered under the $3,500 allowance for weatherization?

Basic weatherization items may include, but are not limited to:

- air sealing (including weather-stripping doors, caulking windows and plumbing penetrations)
- insulation (attic, floors, walls, basement)
- duct sealing and insulation
- smart thermostats and equipment controls
- replacement of windows and doors

Q8. Is the lender required to escrow funds when utilizing the $3,500 allowance for weatherization?

Yes. The lender must establish a completion escrow for the incomplete improvements. These must be completed no later than 180 days from date of the mortgage note. For requirements related to completion of the postponed improvements, including escrow accounts, disposition of funds after work completion, and title reports, see the *Requirements for HomeStyle Energy Improvements on Existing Construction* table in the *Selling Guide* section B4-1.2-03, Requirements for Postponed Improvements.

Q9. How may a lender incorporate the $3,500 allowance for weatherization with no energy report in a purchase transaction?

The lender should work with the borrower to determine the cost of the improvements to be included in the mortgage up to a maximum amount of $3,500. The lender must determine that the LTV ratio does not exceed the allowable LTV per the Eligibility Matrix by dividing the loan amount (including the cost of the energy improvements) by 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-related improvements.

Q10. May a borrower receive more than $3,500 for weatherization improvements?

Yes. If the borrower needs additional funds to complete weatherization improvements, the lender may follow the guidelines that permit up to 15% of the "as completed" appraised value of the property to be used for energy-related improvements. Under this process, the lender works with the borrower to obtain an energy report to verify that the proposed improvements are cost-effective. The cost effectiveness can be evaluated in terms of the aggregate impact of the proposed improvements. This means not every energy-related improvement is required to meet the test for cost effectiveness, provided that all of the proposed improvements together meet the test for cost effectiveness.

Resiliency Improvements and Environmental Disaster Repairs

Q11. What types of resiliency improvements and environmental disaster repairs can be financed using HomeStyle Energy?

HomeStyle Energy can be used to repair homes damaged in a natural disaster or by an environmental disaster and to install resiliency or preventative improvements, including:

- storm surge barriers
- foundation retrofitting for earthquakes
- hazardous brush and tree removal in fire zones
- retaining walls to address mud or water flows
- other items specifically needed to either repair environmental disaster damage or improve the home's ability to withstand environmental hazards such as hurricanes, tornados or wind storms, earthquakes, flooding, landslides, and wildfires

Installation of radon remediation systems is also an eligible improvement under HomeStyle Energy.

Q12. Is there a certification or standard to which resiliency improvements or repairs must be made?

Repairs and improvements must be in compliance with local zoning and building codes. Repairs and improvements must be properly permitted when the local permitting authority requires permits for specific work or upgrades being completed. Lenders are encouraged to work with homeowners to identify solutions for repairing or improving the home that meet or exceed local standards for environmental or natural disaster remediation and resiliency.

Q13. Is an "as completed" appraisal required for resiliency improvements and environmental disaster repairs?

All mortgage loans with HomeStyle 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 repairs or improvements, appraisers must determine the "as completed" value of the property subject to the work being completed. A certification of completion is required when the mortgage is delivered prior to the completion of the improvements.

Q14. How does Fannie Mae's policy on disaster-related limited cash-out refinance flexibilities differ from HomeStyle Energy?

Fannie Mae's policy in the *Selling Guide*, section B5-4-02, Disaster-Related Limited Cash-Out Refinance Flexibilities, permits limited cash-out refinancing for the reimbursement of out-of-pocket expenses already incurred by the homeowner, or for consolidation of subordinate financing that was used for natural disaster repairs. It is also limited to principal residences in FEMA Disaster Areas that have been designated as eligible for Individual Assistance.

Under HomeStyle Energy, repairs are undertaken after securing the purchase or refinance mortgage financing and the lender releases funds from an escrow account directly to contractors. Eligible properties are not limited to properties located in areas with an official disaster declaration by any local, state, or federal agency.

Payoff of Previously Financed Debt for Energy-Related Improvements

Q15. If the borrower is paying off a PACE loan or other previously financed energy-related improvements what documentation is required?

If the borrower is paying off a PACE loan, documentation must be provided showing that the funds are solely being used to pay off the PACE loan obtained for improvements on the subject property. A pay-off statement from the PACE program is sufficient to document the outstanding balance to be paid off.

If the payoff is for other secured or unsecured debt that was used to finance energy-related improvements the borrower must provide copies of invoices or receipts documenting the cost of the related expenses.

Q16. Can the payoff of other previous energy-related improvements include items paid with cash?

No. Consumers may only refinance debt including home equity loans, PACE financing, or other debt used for energy improvements.

Q17. Will the lender receive the $500 LLPA credit for a limited cash-out refinance to pay off previously financed energy-related improvements (including PACE)?

Yes. The lender must deliver the loan with Special Feature Code (SFC) 375 to receive the $500 LLPA credit.

Combining HomeStyle Renovation and HomeStyle Energy Features

Q18. Can the lender combine other home renovations with the HomeStyle Energy program?

Yes, only if those improvements are done through HomeStyle Renovation. The lender must have special lender approval to sell and service HomeStyle Renovation loans when the lender delivers HomeStyle Renovation loans to Fannie Mae prior to the completion of the renovation.

Q19. Is an energy report required when utilizing HomeStyle Renovation for energy-related improvements?

Homeowners who choose to finance energy-related improvements as part of an overall renovation can combine the HomeStyle Renovation mortgage with HomeStyle Energy.

If one or more of the energy-related improvements financed through the HomeStyle Renovation product do not require an energy report to be eligible for HomeStyle Energy per the Selling Guide, then an energy report is not required and the lender may deliver the loan with the appropriate HomeStyle Renovation Special Feature Code and the HomeStyle Energy Special Feature Code 375 and receive the $500 LLPA credit.

If all of the energy-related improvements financed through the HomeStyle Renovation product require an energy report to be eligible for HomeStyle Energy per the Selling Guide, then an energy report is required and the lender may deliver the loan with the appropriate HomeStyle Renovation Special Feature Code and the HomeStyle Energy Special Feature Code 375 and receive the $500 LLPA credit.

Q20. May a HomeStyle Renovation loan be used to pay off a PACE loan greater than 15% of the "as completed" appraised value of the property?

For limited cash-out refinances of a PACE loan the entire limited cash-out refinance loan amount may be used to pay off the PACE loan.