



Fannie Mae®

HomeStyle® Energy Mortgage

Finance energy, water, and resiliency improvements as part of a home purchase, renovation, or refinance loan.



An important note about the seminar content

While every effort has been made to ensure the reliability of the session content, Fannie Mae's *Selling* and *Servicing Guides* and their updates, including *Guide* Announcements and Release Notes, are the official statements of Fannie Mae's policies and procedures and control in the event of discrepancies between the information in this seminar and the *Guides*.





How we'll spend our time together today

- Introduction to HomeStyle Energy
 - Opportunity and Use Cases
 - Working with Real Estate Professionals and Contractors
 - Using the Home Energy Report
- HomeStyle Energy In-Depth
 - Eligible Improvements
 - Eligibility Parameters
 - HomeStyle Energy Process
 - Underwriting, Pricing, Committing, Delivery, and Servicing
 - HomeStyle Energy Resources



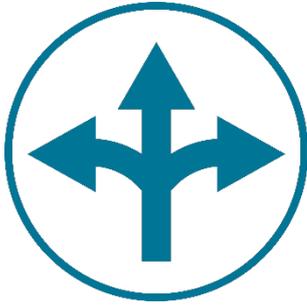
What is HomeStyle Energy?

HomeStyle Energy enables borrowers who are purchasing or refinancing to include energy, water, and resiliency improvements with their first-lien mortgage and make those improvements after closing the loan.

HomeStyle Energy is a unique opportunity to finance these improvements at a lower interest rate than many other options.



Why Offer HomeStyle Energy?



Flexible

Wide variety of energy-related improvements across all property types



Affordable

Benefit of lower interest rate mortgage financing for cost-effective improvements



Simple

Energy reports easy to obtain, and some projects do not require one

No special approval needed!

HomeStyle Energy mortgages can be originated by any Fannie Mae lender.



Big Opportunity for Lenders and Borrowers



Almost 80 percent of the nation's 137 million homes are now at least 20 years old and 40 percent are at least 50 years old. **The aging of the US housing stock has been a boon to the home improvement industry.**

According to a [recent report done by Joint Center for Housing Studies of Harvard University](#), homeowners spent **\$233 billion** on home improvements in 2017 and **17% of homeowners cited energy efficiency as the motivation**, up from 11% in 2013.

"Green" is growing!

How can lenders use HomeStyle Energy?

Green homes are better for your borrowers' **wallet**, their **health and comfort**, and the **environment**

- Brand your own green mortgage product
- Help borrowers refinance existing PACE loans or energy improvement debt
- Combine with HomeStyle Renovation to make a "Ren-Energy" loan!
- Create strategic partnerships with solar vendors or home improvement companies
- Grow new relationships with real estate agents to help homebuyers turn a fixer-upper into a dream home

HomeStyle Energy enables borrowers to **finance energy improvements with a mortgage** and make those improvements after closing the loan, a unique opportunity to finance **at a lower interest rate** as compared to other options.



Use HomeStyle Energy as your Green Mortgage option to help borrowers make energy efficiency improvements when purchasing a home

Borrowers can

- **Upgrade** windows, doors, hot water heaters, HVAC and major appliances **to Energy Star.**
- Tighten the **thermal envelope** with air and duct sealing and insulation.
- Add **solar** panels or upgrade to **low-flow toilets** and **smart thermostats.**
- And lenders get a **\$500 LLPA credit**



When a home energy report is part of the MLS listing, an expert has assessed the home and made recommendations. The energy report presents a great opportunity to have a discussion with your borrower about making those recommended improvements and financing them as part of their mortgage.



When a borrower is applying to refinance their mortgage, it's a great time to discuss energy upgrades

Borrowers can

- Make major or minor **renovations**
- **Refinance existing energy debt**, including **PACE** loans
- Add **solar** panels
- Upgrade to **low-flow toilets** and **smart thermostats**
- Upgrade windows, HVAC...to **Energy Star**
- And lenders get a **\$500 LLPA credit**



Homeowners who have lived in their homes are likely to know how they would like to improve their homes, including improvements addressing energy efficiency.

It's worth repeating that homeowners spent \$233 billion on improving their homes in 2017.



When doing a renovation loan, combine HomeStyle Renovation with HomeStyle Energy for added savings

Borrowers can

- **Finance a home energy report** with the loan and choose to make all or some of the energy **improvements recommended** on the report
- Add solar or geothermal
- Upgrade to low-flow toilets
- Replace refrigerators, freezers, washers and dryers with **Energy Star** models
- And lenders get a **\$500 LLPA credit**



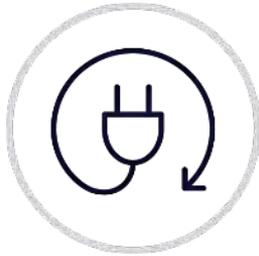
One of our Renovation lenders said as much as 80% of their renovation loans contain an energy related improvement!

You're probably already doing these loans and you're missing out by not identifying the energy related improvements.

Note: HomeStyle Renovation loans have recourse.



What Are Eligible HomeStyle Energy Improvements and Features?



Energy and water efficiency and renewables

- Heating and cooling systems (HVAC)
- Windows and doors
- Water-saving devices
- Basic weatherization and insulation
- Solar panels and other renewable sources of energy



Resiliency, radon and pay off existing energy debt, including PACE

- Home resiliency to improve the home's ability to withstand natural disasters
- Repairs from such disaster damage
- Radon remediation devices
- Pay-off existing energy improvement debt, including PACE loans



Appendix: HomeStyle Energy In-Depth



HomeStyle Energy

Improvements which do not require an Energy Report:

- **Basic weatherization up to \$3,500**, including air sealing, weather-stripping, caulking, insulation, smart thermostats, replacement of windows and doors,
- **Solar**, wind and geothermal systems for renewable energy
- Water efficiency devices and Radon remediation
- **Disaster resiliency**, and repairs from natural disasters.
- Payoff of **existing energy-related debt**, including PACE

Any other improvement requires an Energy Report:

- Home Energy Report **must recommend the improvement** and lender must **determine improvement is cost-effective**
- Home Energy Report may be US Dept of Energy HES, Home Energy Rating System report, or similar

Amount Eligible for Financing:

- Up to 15% of “as-completed” appraised property value
- Existing PACE debt may be refinanced up to the maximum allowable LTV for the transaction and occupancy type



Eligible Energy Reports

When required, borrowers must obtain a residential or home energy report to identify recommended energy-related improvements and estimated cost savings.

The report must:

- Recommend improvements
- Estimate costs of improvements
- Provide the monthly energy savings for the borrower
- Verify improvements are cost effective
- Be dated within 120 days prior to mortgage note

Eligible report sources include:

- Home Energy Rating Systems (HERS) report completed by HERS rater (find raters via www.resnet.us)
- U.S. Department of Energy (DOE) Home Energy Score Report completed by an approved assessor (find assessors via www.energy.gov)
- Report by independent and certified energy consultant or auditor that meets specified standards



Energy Report Example

U.S. DOE Home Energy Score Report

Better Buildings
U.S. DEPARTMENT OF ENERGY

Home Energy Score

12345 Honeysuckle Lane
Smithville, AR 72466

SCORE TODAY **3**

CONDITIONED FLOOR AREA: 1,500 ft²
YEAR BUILT: 1970



The U.S. Department of Energy's Home Energy Score assesses the energy efficiency of a home based on its structure and heating, cooling, and hot water systems. For more information visit HomeEnergyScore.gov.

Page 1 of 6 ASSESSMENT: Official | December 22, 2016 | ID# 1234567

U.S. DEPARTMENT OF
ENERGY



Home Energy Score

12345 Honeysuckle Lane
Smithville, AR 72466

SCORE TODAY **3**

Recommendations

The Home Energy Score's Recommendations show how to improve the energy efficiency of the home to achieve a higher score and save money. When making energy related upgrades, homeowners should consult with a certified energy professional or other technically qualified contractor to ensure proper sizing, installation, safety, and adherence to code. Learn more at HomeEnergyScore.gov.

REPAIR NOW. These improvements will save you money, conserve energy, and improve your comfort.



- ▶ **Air Tightness:** Have a professional seal all the gaps and cracks that leak air to save **\$110** / year
- ▶ **Ducts 1:** Add insulation around ducts in unconditioned spaces to at least R-6 to save **\$43** / year
- ▶ **Attic 2:** Increase attic floor insulation to at least R-19 to save **\$57** / year
- ▶ **Ducts 2:** Add insulation around ducts in unconditioned spaces to at least R-6 to save **\$23** / year
- ▶ **Ducts 2:** Have a professional seal all the gaps and cracks that leak air to save **\$74** / year

REPLACE LATER. These improvements will help you save energy when it's time to replace or upgrade.



- ▶ **Windows:** Choose those with an ENERGY STAR label to save **\$61** / year
- ▶ **Water Heater:** Choose one with an ENERGY STAR label to save **\$159** / year
- ▶ **Electric Heat Pump:** Choose one with an ENERGY STAR label to save **\$32** / year

Comments



Current local incentives may make this house a good candidate for a new water heater.

Estimates to be used in calculating present value of energy saved over the remaining useful life of the improvements



Source: Department of Energy

Energy Report Example

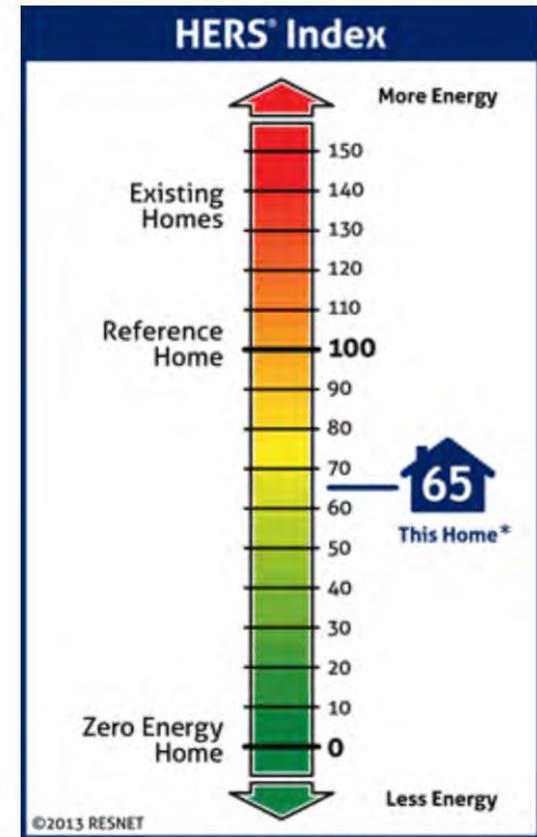
HERS Index

How Does the HERS Index Work?

To calculate a home's HERS Index Score, a certified RESNET Home Energy Rater will do a home energy rating and compare the data against a 'reference home' - a design modeled home of the same size and shape as the actual home, so the HERS Index Score is always relative to the size, shape and type of house you live in. The lower the number, the more energy efficient the home.

A typical resale home represents 130 on the HERS Index while reference home (a standard new home built in 2006) is rated at 100.

- A home with a HERS Index Score of 70 is 30% more energy efficient than a standard new home.
- A home with a HERS Index Score of 130 is 30% less energy efficient than a standard new home.



*Sample rating representation.



Source: RESNET

Benefits of HomeStyle Energy

Lender

- No special approval needed
- Expanded market
- Offer of valuable product to meet homeowners' growing desire for more energy efficient homes
- No recourse during improvement period (unlike HomeStyle Renovation)
- Loan Level Price Adjustment (LLPA) credit of \$500 to lender

Borrower

- Complete improvements as part of purchase or limited cash out refinance transaction
- Wide variety of energy and water improvements are eligible
- Resiliency improvements can help protect home from natural disasters
- No minimum loan amount required
- Pay off PACE or other energy improvement loans
- Long-term savings on energy and water efficiencies



Energy Report Waivers

Energy reports are not required for the following:

- Basic weatherization items up to \$3,500
- Water efficiency devices
- Payoff of other energy debt
- Improvements for renewable energy sources such as solar, wind power devices and geothermal systems
- Radon remediation devices
- Resiliency improvements and repairs from natural disasters



Eligibility Parameters

Borrowers

- Individual homebuyers or homeowners

Occupancy and Property Types

Occupancy Type

- 1- to 4-unit owner-occupied properties
- 1-unit second homes
- 1- to 4-unit investor properties

Property Type*

- Existing properties. New construction not permitted.
- Condos, co-ops and PUDs
- Manufactured Homes (cannot be used for structural changes)

*Refer to *Selling Guide* for more details on eligibility guidelines for property types

Loan Type/Term

- FRM: all standard terms
- ARM: all standard terms

Note: This summary is intended for reference only. All criteria are subject to the formal terms and conditions of the Fannie Mae Selling Guide and Servicing Guide. In the event of any conflict with this document, the Selling Guide and/or Servicing Guide will govern.



Eligibility Parameters (cont.)

Loan Purpose

- Purchase
- Limited cash-out refinance (cash-out refinance not permitted)

Insurance

- Standard MI coverage applies and must cover “as completed” value and be in-effect at closing
- Hazard insurance must be in-effect at closing and cover “as completed” value
- Title insurance policy must be dated concurrently with the recording of the mortgage; must equal the principal amount, and have Fannie Mae’s mortgage as first lien

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LTV Ratios

Principal Residence		DU LTV ratios
Purchase Limited Cash-Out Refinance	1 Unit	FRM: 97%* ARM: 95%
	2 Units	FRM/ARM: 85%
	3-4 Units	FRM/ARM: 75%
Second Homes		
Purchase Limited Cash-Out Refinance	1 Unit	FRM/ARM: 90%
Investment Property		
Purchase	1 Unit	FRM/ARM: 85%
	2-4 Units	FRM/ARM: 75%
Limited Cash-Out Refinance	1-4 Units	FRM/ARM: 75%

**For LTVs of 95-97%: On purchase transactions, at least one borrower must be a first-time home buyer unless combined with HomeReady; for LCOR transactions, the loan must be owned or securitized by Fannie Mae.*

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Homeownership Education Requirement

For purchase transactions with LTV, CLTV, or HCLTV > 95%, if ALL occupying borrowers are first-time homebuyers, homeownership education is required for at least one borrower, regardless of the product chosen.*

The **Framework**[®] **homeownership education course** is a simple and convenient way for most home buyers to fulfill the requirement.

Exceptions to Framework homeownership course requirement

1. Purchase loans that involve a Community Seconds[®] or down payment assistance program
2. If a borrower has a lack of Internet access or other circumstances that make an online course unsuitable, Framework can refer the borrower to a HUD-approved counseling agency.
3. Borrowers who have **already** completed one-on-one housing counseling are not required to complete the Framework course. Counseling should occur as early as possible. Required components of counseling **must** be completed before a buyer enters into a contract to purchase a home.

* Prior to December 7, 2019: Homeownership education was not required on HomeStyle Energy loans with the characteristics above.



Framework Online

Homeownership Education Course

- Customer feedback is consistently positive:
 - 95% say they have learned as much or more than they expected
 - 91% say they increased their understanding of the home buying process
- The mobile-first course features bite-sized topics for quicker comprehension, improved accessibility, more downloadable resources, and user-driven design.
- On October 23, 2019 Fannie Mae began waiving the Framework homeownership \$75 course fee, removing the cost burden and potential cost hurdle for borrowers.
- To receive the \$75 Framework course fee waiver, borrowers must register through educate.frameworkhomeownership.org or homeready.frameworkhomeownership.org. Borrowers registering through other URLs may be charged a non-refundable \$75 fee.
- Visit educate.frameworkhomeownership.org to learn more.
- Download the Framework Overview for Home Buyers at fanniemae.com/content/fact_sheet/homeready-framework-overview.pdf



Determining the Maximum Mortgage Amount: Purchase Transaction

Maximum Loan Amount is based on the lesser of:

- “As completed” appraised value, or
- Purchase price + improvement costs

For payoff of debt:

- Appraised value, or
- Purchase price + PACE debt to be paid off (if applicable)

Improvement costs can be up to 15% of “as completed” value

Eligible improvement costs can include:

- Labor and materials
- Soft costs (such as required permits and the cost of energy report)



Purchase Example:

- 1 Determine total purchase price including improvement costs:



Purchase Price
\$190,000

+



Energy-Related
Improvement Costs
\$18,000

=



Total Price
\$208,000

- 2 Compare total price vs. “as completed” appraisal valuation:

Purchase Price with Improvements= \$208,000

“As completed” Value= \$215,000

- 3 Ensure requested improvement costs are within 15% of “as completed” value

\$215,000 * 15% = \$32,250

- 4 Take lower amount from Step 2. Determine maximum LTV from Eligibility Matrix; multiply by LTV to calculate maximum loan amount:

\$208,000 x 97% = \$201,760



Determining Maximum Loan Amount: Limited Cash-Out Refinance

Maximum Loan Amount based on:

LTV x “As Completed” Appraised Value

(or, appraised value if appraisal was completed after the completion of the improvements)

Improvement costs can be up to 15% of “as completed” value and include:

- Labor and materials and soft costs
- Payoff of other debt (secured or unsecured) that financed energy-related improvements



Limited Cash-Out Refinance (LCOR) Example:

Appraiser reviews improvement plans to determine "As Completed" Value

"As Completed" Value = \$ 290,000

Calculate Total Loan Amount

LCOR Costs

Payoff of Mortgage	\$ 250,000
Improvements	\$ 12,000
Energy Debt Payoff	\$ 2,500
Contingency	\$ 2,400
Closing Costs	\$ 6,000

Total costs of Improvements
(Improvement costs can be up to 15% of ACV)

$$15\% \times \$290,000 = \$43,500$$

LCOR Total \$ 272,900

Calculate LTV to determine if it is within eligibility parameters

$$\$272,900 / \$290,000 = 94\% \quad \checkmark$$



High Level Loan Process Flow



Loan Prep

1. Borrower obtains eligible energy report (if applicable) identifying effective improvements to be made to the home.
2. Borrower works with contractor to develop plans and specifications for improvement work recommended.
3. Appraiser reviews plans and specifications, and determines “as completed” value after improvements are completed.

Improvements

4. Loan is closed and sold to Fannie Mae.
5. Funds for improvement are placed in escrow account.
6. Contractor begins work and requests funding. Work must be completed within 180 days from Mortgage Note date.

Eligible improvements do not have to be complete when mortgage delivered to Fannie Mae. Lender does NOT have recourse for HomeStyle Energy loans.

Phase 3

Completion

8. Contractor completes work.
9. Lender confirms work is completed and there is clear title and hazard and MI coverages are appropriate.
10. Lender provides funding for completed work. Any funds remaining in escrow account must be used to pay down UPB.
11. Lender obtains completion certificate (Form 1004d) and keeps in loan file.



Underwriting, Pricing, Committing, Delivery, and Servicing

Underwriting

- Loans can be underwritten via DU or via manual underwriting

Pricing and Committing

- Whole loan and MBS pricing is same as regular core business
- Standard Fannie Mae commitment rules apply, including pair off fees, extensions and other limits and conditions

Delivery

- HomeStyle Energy loans can be commingled into an MBS with non-HomeStyle Energy loans
- Lenders must deliver loan with Special Feature Code 375 (entering this code will also generate the \$500 LLPA credit for the loan)
- Lender must keep energy report appraisal, home improvement contract, certificate of completion and any other documents related to the improvements in loan file

Servicing

- Borrower must make mortgage payments, regardless of the life or status of the improvements
- No special servicing branch code is required and minimum servicing fee is 25 bps



Summary

By being able to finance up to 15% of the “as completed” appraised value of a home for improvements, homebuyers and homeowners can:

- Add new cost-effective energy and/or water improvements upgrades
- Add resiliency and make repairs to improve the home’s ability to withstand or recover from natural disasters, as well as add radon remediation systems
- Pay off higher-interest energy-related improvement debt, including PACE and other consumer loans

HomeStyle Energy offers flexibility, affordability and simplicity



HomeStyle Energy Resources

All resources for HomeStyle Energy can be found on Fannie Mae's website:

<https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/homestyle-energy-mortgage>

HomeStyle® Energy

The HomeStyle Energy mortgage helps borrowers improve the comfort, efficiency and resiliency of their homes. HomeStyle Energy is open to all Fannie Mae lenders; no special approval needed.



Watch Appraising Properties with Solar Panels Video



As homes age, it's more and more likely your borrowers will need to make energy or water efficiency upgrades to improve the comfort of their home. And while HomeStyle Energy can help borrowers save money on utility costs, projects that prevent damage from natural disasters, like retrofitting foundations, can also qualify. Borrowers can use HomeStyle Energy financing when purchasing a home or refinancing their current one.

Why HomeStyle Energy?

HomeStyle Energy is:

- **Flexible** – In addition to energy and water efficiency upgrades, HomeStyle Energy can be used to improve a home's resiliency to natural disasters or pay off existing energy-related debt, such as PACE loans.
- **Simple** - Borrowers can finance basic weatherization (up to \$3,500), renewable energy and resiliency upgrades without acquiring an energy report.
- **Affordable** - Energy efficiency may help save borrowers money on their energy bills and possibly through tax credits and rebates. HomeStyle Energy loans also qualify lenders for a \$500 loan level price adjustment (LLPA) credit.

Get Started With HomeStyle Energy

 Fact Sheet Learn the basics on financing for efficiency and disaster protection projects	 FAQs Get the lowdown on features, requirements and benefits	 Product Matrix Understand eligibility, underwriting, and pricing guidelines
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Prevent Damage from Natural Disasters

Finance features that protect your borrower's home from a natural disaster, such as:

- Storm surge barriers
- Foundation retrofitting for earthquakes
- Brush and tree removal in fire zones
- Retaining walls
- Radon remediation system installation

Bundle the Benefits

Combine HomeStyle Energy with other Fannie Mae products to offer borrowers more benefits:

- **HomeStyle® Renovation**: Use both HomeStyle loans together to maintain benefits like an LLPA credit and energy report waiver on weatherization improvements while funding additional projects that go beyond energy efficiency.
- **HomeReady®**: Our low down payment mortgage has lower rates and cancellable mortgage insurance (restrictions apply). Combine this mortgage with HomeStyle Energy to make financing upgrade projects even more affordable.

What's New

More flexibilities with HomeStyle Energy Feb 27, 2018
The February 2018 Selling Guide updated HomeStyle Energy to include resiliency upgrades and changed requirements regarding energy reports, LTV ratios, and more.

[Show All](#)

Industry Resources

Inspire borrowers to invest in energy efficiency

- U.S. Department of Energy | Home Energy Efficiency
- Need an Energy Report?
- Residential Energy Services Network | Home Energy
- U.S. Department of Energy | Home Energy Score

Selling Guide Reference

B5-3.3-01: HomeStyle Energy for Energy Improvements on Existing Properties

Related Links

- Appraising Properties with Solar Panels
- Mortgage Products and Options
- HomeStyle Renovation

33.8%

share of contractors reporting a recent increase in energy efficiency remodeling

\$11B

spent on disaster-related repairs in 2015

Source: "Demographic Change and the Remodeling Outlook" by the Joint Center for Housing of Harvard University, 2017



Thank you for attending

We value your opinion.

Please reach out to me or your Fannie Mae account representative with any feedback or questions

