

# The SAVE Act – S.1106

## Sensible Accounting to Value Energy

Senator Michael Bennet (CO), Senator Johnny Isakson (GA)

The SAVE Act would improve federal mortgage underwriting by including a home's expected energy cost savings when determining the value and affordability of energy efficient homes. Utility bills are usually larger than either real estate taxes or homeowners insurance, but they are currently ignored in mortgage underwriting. Better information about a home's expected energy cost savings will, at no cost to taxpayers or the current deficit:

- **Enable better mortgage underwriting**
- **Provide affordable financing for home energy improvements**
- **Reduce utility bills for American homeowners**
- **Spark job creation in the housing industry**

### Background

Current federal underwriting and appraisal practices do not fully consider the value of energy efficient features. This makes it increasingly difficult for moderate and middle income homeowners to finance the upfront cost of efficiency improvements, even though the features will save them money over time. With no government subsidy or mandate, the SAVE Act would strengthen federal underwriting policy, help finance energy efficient homes and retrofits, and create vitally needed jobs in local markets.

### How Would It Work?

The SAVE Act instructs the Department of Housing and Urban Development (HUD) to issue updated underwriting and appraisal guidelines for borrowers who submit a qualified home energy report. The bill would cover any loan issued, insured, purchased, or securitized by FHA and other federal mortgage loan insurance agencies or their successors. These agencies collectively guarantee more than 90 percent of all new loans. The bill has three components:

#### Debt-to-Income Adjustment

Instructs lenders to account for expected energy cost savings as an offset to other expenses in the debt-to-income qualifying ratio, which tests the borrower's ability to afford monthly mortgage payments. If no qualified energy report is provided, the DTI will not be adjusted.

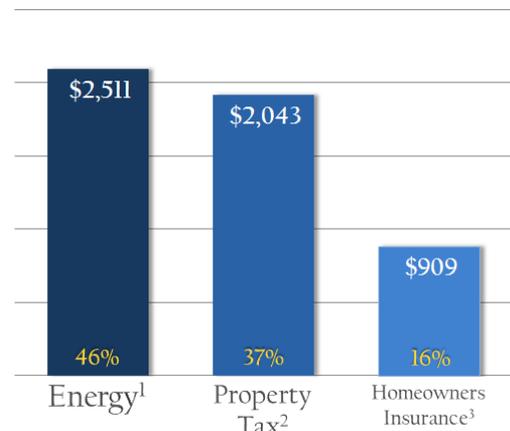
#### Loan-to-Value Adjustment

Instructs lenders to add the present value of expected energy savings when calculating the loan-to-value ratio, where not already accounted for in the home's appraisal report. If no qualified energy report is provided, the valuation will not be adjusted.

#### Consumer Information

Instructs lenders to inform loan applicants of the costs and benefits of energy efficiency and resources for improving the energy efficiency of a home.

### Average U.S. Homeowner Costs: 2010



Sources: EIA Annual Energy Outlook 2013; 2010 American Community Survey; National Association of Insurance Commissioners, 2010 Annual Homeowners Insurance Report

### How does this SAVE Act differ from bill introduced last Congress?

Several features of the SAVE Act have been modified since its introduction as S.1737 in the 112<sup>th</sup> Congress. The fundamental features – LTV and DTI adjustments – are now entirely optional for homeowners who choose to submit a qualified home energy report. Conditions pertaining to a home without an energy rating have been eliminated, i.e. no default energy cost would be assigned to a conventional home. A consumer notification was added to increase homeowner access to information on home energy efficiency and guidance for including financing for energy improvements in the mortgage.

## What Are the Benefits?

### ▪ **No cost to the taxpayers**

The bill does not add to the current deficit or rely on taxes or fees; instead it removes current obstacles holding back more efficient building and remodeling of our homes. A recent study of more than 70,000 mortgages found that mortgages on energy efficient homes were 32% less likely to be in default. The study provides strong evidence that the SAVE Act is good credit policy and would help protect lenders and taxpayers from the risk of mortgage default.

### ▪ **Remove an impediment to home energy efficiency from federal mortgage policy**

Investments in energy efficiency can offer impressive returns to homeowners, paying for themselves in utility bill savings while also increasing a home's comfort and mitigating the risks of energy price volatility. These improvements are rarely recognized in home appraisals, however, preventing homebuilders and homeowners from recovering the cost of efficiency investments at the closing table.

### ▪ **Drive business and job growth in the construction and manufacturing sectors**

By removing barriers to energy efficiency investments by home owners and builders, the SAVE Act will increase the supply of and demand for energy-efficient new homes and improvements, putting people in the construction, remodeling, and manufacturing sectors back to work. The SAVE Act is expected to create 83,000 jobs and provide \$1.1 billion in energy savings

### ▪ **Lower utility bills for American households**

The typical U.S. homeowner pays \$2,500 on home energy bills each year. A small upfront investment in energy efficiency upgrades could reduce a home's energy bills by 30% or more and protect against energy price shocks, all while improving the comfort and value of the home. The energy dollar savings, re-directed to main street businesses and manufacturers, would produce a multiplier effect, generating additional economic activity and jobs.

### ▪ **Expand the accessibility and affordability of energy efficient homes**

The SAVE Act would allow American home owners to finance cost-effective home energy upgrades as part of their traditional mortgage, improving access to the comfort and money-saving benefits of efficiency without increasing the cost of homeownership. The result is better and cheaper access to capital to invest in making homes better.

### ▪ **Appeals to a broad, diverse coalition**

The bill brings together a broad and diverse coalition of supporters ranging from the National Association of Manufacturers and US Chamber of Commerce to the Natural Resources Defense Council and Alliance to Save Energy.

## Coalition of Supporters:

*For a complete list, please see [www.imt.org/SAVE-Act](http://www.imt.org/SAVE-Act)*

#### Real Estate / Buildings

- ◆ American Institute of Architects
- ◆ Appraisal Institute
- ◆ ASHRAE
- ◆ EcoBroker
- ◆ Green Builder Coalition
- ◆ International Association of Certified Home Inspectors
- ◆ International Code Council
- ◆ Leading Builders of America
- ◆ National Association of Homebuilders
- ◆ National Association of Realtors
- ◆ National Housing Trust
- ◆ The Real Estate Roundtable
- ◆ U.S. Green Building Council

#### Business

- ◆ American Chemistry Council
- ◆ Blow In Blanket Contractors Association
- ◆ Council of the North American Insulation Manufacturers Association
- ◆ E2 Environment Entrepreneurs
- ◆ Efficiency First
- ◆ International Economic Development Council
- ◆ National Association of Manufacturers
- ◆ National Electrical Manufacturers Association
- ◆ Residential Energy Services Network
- ◆ U.S. Chamber of Commerce

#### Energy and Public Policy

- ◆ Alliance to Save Energy
- ◆ American Council for an Energy-Efficient Economy
- ◆ American Gas Association
- ◆ American Public Gas Association
- ◆ Center for American Progress
- ◆ Center for Neighborhood Technology
- ◆ Consumer Federation of America
- ◆ Energy Programs Consortium
- ◆ Environmental Defense Fund
- ◆ Institute for Market Transformation
- ◆ Natural Resources Defense Council
- ◆ National Association of State Energy Officials

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