

# [S. 1737]

## Legislative Factsheet

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# The SAVE Act

## Sensible Accounting to Value Energy

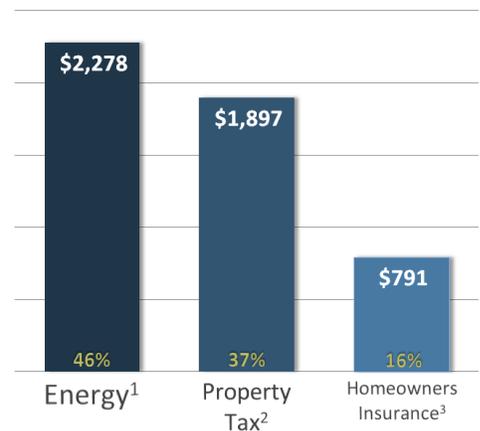
The SAVE Act is proposed federal legislation, introduced by Senators Bennet (D-Co.) and Isakson (R-Ga.) that would instruct federal loan agencies to assess a borrower's expected energy costs when financing a house. Better information about a homeowner's monthly expenses will, at no cost to taxpayers or the current deficit:

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

### Background

The U.S. mortgage crisis has made clear that to protect taxpayers' interests, mortgage underwriting and valuation must more accurately account for property values and borrowers' capacity to service debt. Energy efficiency is an important part of this picture. The average homeowner spends over \$2,000 each year on energy costs, more than on either real estate taxes or home insurance, both of which are regularly accounted for in mortgage underwriting. Yet, conventional underwriting ignores the value of energy savings. The SAVE Act would provide transparency to the homebuyer and lender of the expected energy costs of homeownership to improve the quality of mortgage lending.

Average U.S. Homeowner Costs  
2008



### How Would It Work?

The SAVE Act instructs the Department of Housing and Urban Development (HUD) to issue updated underwriting and appraisal guidelines for any loan issued, insured, purchased, or securitized by FHA and other federal mortgage loan insurance agencies or their successors. Collectively these agencies currently guarantee more than 90% of all new loans. The legislation has two components:

#### Affordability Test

Instructs lenders to account for expected energy costs along with other recurring payments in the debt-to-income qualifying ratios—typically calculated as PITI (Principal + Interest + Taxes + Insurance) + car or student loans + credit card debt and other recurring expenses—which test the borrower's ability to afford regular monthly mortgage payments. The maximum permitted DTI ratios would be adjusted upward to accommodate for the inclusion of expected energy costs.

#### Loan to Value Adjustment

Instructs lenders to add the net present value (NPV) of expected energy savings when calculating the loan-to-value ratio. If no qualified energy report is available, the valuation will not be adjusted. This will help ensure that the underwriting process consistently and accurately captures the added value of energy saving features, allowing homeowners to finance the cost of efficiency improvements as part of their mortgage.

#### How Are Energy Costs Calculated?

The SAVE Act establishes two methods for determining expected annual energy costs: (1) baseline calculation based on the average per square foot energy cost for properties of that building type in that region, derived from DOE's Residential Energy Consumption Survey (RECS) database, or (2) an optional, qualified, independent energy report of the subject property.

**Principal**  
+ **Interest**  
+ **Taxes**  
+ **Insurance**  
+ **Energy**

The Complete Cost  
of Homeownership

## What Are the Benefits?

### ▪ **Help protect taxpayers from another foreclosure crisis**

On average, a home's energy costs total more than \$60,000 over the life of a 30-year mortgage. Omitting these significant costs from mortgage underwriting presents a hidden risk factor. The SAVE Act will improve the quality of mortgage underwriting by providing a more complete picture of repayment risk and the expected costs of home ownership. With a better, more thorough assessment of home affordability, federal mortgage programs will produce better loans and more stable borrowers.

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

In 2008, the typical U.S. household spent \$2,340 on energy. A small upfront investment in energy efficiency upgrades could reduce a home's energy bills by 30% or more, saving homeowners hundreds of dollars each year while improving the comfort and value of their homes. The energy dollar savings, re-directed to main street businesses and manufacturers, would produce a multiplier effect, generating additional economic activity and jobs.

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

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 and owners 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.

### ▪ **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.

### ▪ **Reduce America's energy dependence**

Homes are responsible for nearly a quarter of all energy consumed in the U.S. – more than \$250 billion each year. The SAVE Act would dramatically ramp up home efficiency to save American consumers money, strengthen our nation's economy, reduce the need to build new power plants, protect our health and environment, and promote our energy independence.

## Key Supporters:

### REAL ESTATE / BUILDINGS

Leading Builders of America  
Appraisal Institute  
U.S. Green Building Council  
International Code Council  
EcoBroker  
Green Builder Coalition

### BUSINESS AND PROFESSIONAL

U.S. Chamber of Commerce  
National Association of Manufacturers  
American Chemistry Council  
Structural Insulated Panel Association  
American Society of Heating,  
Refrigerating and Air Conditioning  
Engineers  
The Residential Energy Services  
Network, Inc. (RESNET)  
Efficiency First  
E2 Environment Entrepreneurs

### ENERGY / PUBLIC POLICY

Alliance to Save Energy  
American Council for an Energy-  
Efficient Economy  
American Public Gas Association  
Center for American Progress  
Natural Resources Defense Council  
National Association of State Energy  
Officials  
Institute for Market Transformation

*A complete list of supporters is available at [www.imt.org/SAVE-Act](http://www.imt.org/SAVE-Act)*