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EEMs and EIMs help buyers finance energy efficient homes

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A young couple has their hearts set on building a new "green" home.

They would like to have lower energy bills, create better indoor air quality for their children and also do their part to help protect the environment by reducing their family's carbon footprint. However, they are concerned they will not be able to afford to construct the amount of s/f they need for their growing family and also incorporate the Energystar recommended energy improvements that they are attracted to.

These well informed buyers, who have educated themselves on "green" home building, know that the cost increase to build a "green" home compared to a traditional custom home is as low as 2%. But they have been hearing negativity about how lenders are cracking down on exceeding allowable debt to income ratios.

Will they be able to get a mortgage big enough for this "green" dream home?

Another couple, first time buyers, would like to buy an existing home. They have fallen in love with a fixer upper but are concerned about the fact that the structure has an outdated HVAC system and its windows are inefficient. They know energy prices will be going up in the future; they need to be careful about buying a house that they cannot afford to cover the mortgage and utility bills. The price of this home puts them at their maximum income to debt ratio for a mortgage. With only enough cash saved for the deposit for this home, they have no extra left over to finance the energy upgrades.

Will they have to walk away from this home purchase?

It is not surprising that these homebuyers are concerned. Financing real estate purchases can be challenging these days and there are numerous mortgage "bears" in the press reporting sub prime melt down gloom and doom. No doubt, some buyers will be cut out of the market as sub prime loan opportunities disappear. Lenders will be less willing to find "programs" to finance borderline applicants who want to buy a little beyond their means.

There is good news for both of these home-buying couples with mortgages created to help them finance their "green" homes and "green" upgrades: it is called an Energy Efficiency Mortgage (EEM) or an Energy Improvement Mortgage (EIM).

Available to all buyers who can qualify for a traditional home loan, an EEM or EIM makes it easier for a borrower to qualify for a loan to purchase a house that features cost effective energy improvements or to renovate an existing home to be energy efficient.

What exactly makes an EEM or an EIM different?

These mortgage products have special underwriting guidelines that distinguish that lower monthly utilities bills allow a mortgager to pay a higher monthly mortgage payment. Instead of sending a bigger check to a utility company each month, the buyer is approved for a higher mortgage and can issue a larger check to the mortgage company because of a smaller monthly payment for utilities.

The EEM and EIM are available through the Federal Housing Administration (FHA), the VA as well as Freddie Mac and Fannie Mae and can be applied to most home mortgages. They can allow a homebuyer to stretch their debt to income ratios by up to 2% on new homes that are certified as energy efficient by a third party auditor, such as an Energystar auditor, or for existing homes which are to be renovated to be energy efficient and then certified by a certified energy auditor.

Although EEMs and EIMs have been around for over a decade, they have only recently come in to the mainstream via the green building movement. When speaking to local lenders, a buyer can reference FHA 203 B, 234 C, 203 K, or 203 H as product reference numbers. Major lenders such as Countrywide and Wells Fargo should be familiar with the EEMs and EIMs but certainly, the market is not limited to these two sources.

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