

Analytic Studies Brief

National Projects Link Energy-Efficient Mortgages with Home Energy Ratings

Special Financing Encourages Energy Efficiency

A recent report published by the National Renewable Energy Laboratory describes evolving national and state programs that rate the energy efficiency of new and existing homes so that lenders can take energy cost savings into account when underwriting mortgage loans.

Energy-Efficient Mortgages and Home Energy Rating Systems: A Report on the Nation's Progress (NREL/TP-461-5478) summarizes progress throughout the nation in establishing voluntary programs that link home energy rating systems (HERS) with energy-efficient mortgages (EEMs) as of fall 1993. In addition to encouraging lenders to finance the purchase

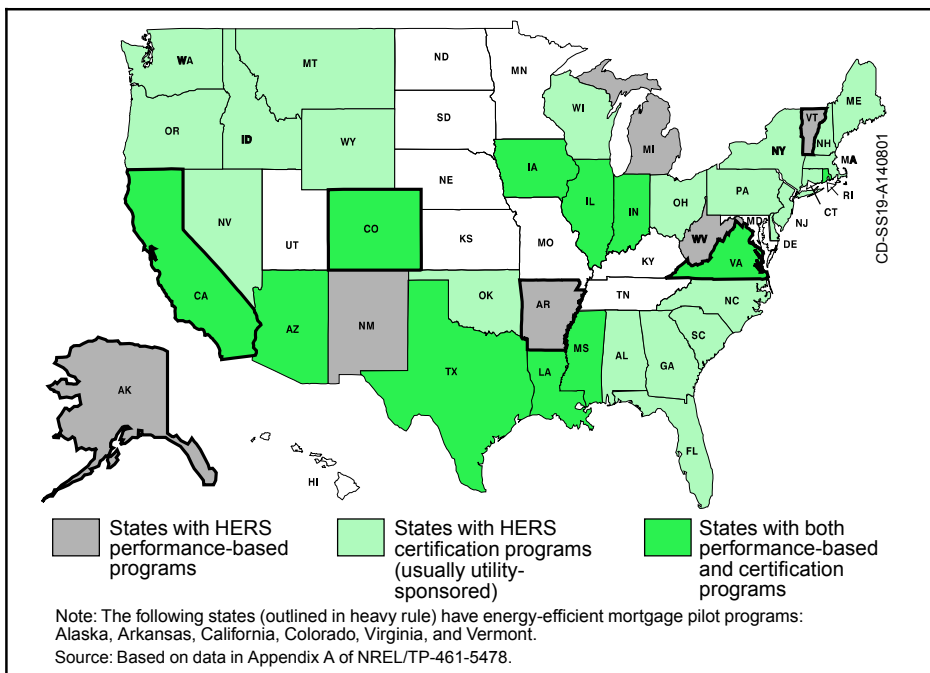
of energy-efficient homes, HERS and EEMs programs encourage lenders to finance cost-effective energy efficiency improvements to existing homes. The money saved on utility bills over the long term more than offsets the cost of such energy efficiency improvements.

HERS programs exist in nearly 40 states and are being developed or considered in the rest; about 30 states are working actively to link HERS and EEMs. The acceleration and linkage of the HERS and EEMs programs, which have existed at various state and national levels for more than a decade, are being directed by three 1992 laws: the Energy Policy

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Act (EPACT), the Housing and Community Development Act, and the Veterans Home Loan Program Amendments.

EPACT directs the U.S. Department of Energy (DOE) to develop guidelines for a uniform, voluntary HERS and requires federally assisted housing to comply with residential building standards established by the Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture. The Housing and Community Development Act calls for a five-state EEMs Pilot Program for existing housing to be implemented by HUD; Alaska, Arkansas, California, Vermont, and Virginia were the states selected. The Veterans Home Loan Program Amendments include provisions for energy improvements in veterans' housing to be financed in all 50 states.



States with HERS programs (either statewide, local-area, or both).

Collaborative on HERS and EEMs, composed of members from 25 organizations. In 1992, the Collaborative released *A Blueprint for Action*, which contained the group's findings and recommendations for a voluntary national HERS/EEMs program.

The National Collaborative recommended that participation in HERS/EEMs programs be voluntary, and that all stakeholders (lenders, the government, utilities, energy organizations, and others) be involved in forming linkages between HERS and uniform EEMs processes. The Collaborative and the network formed from it have been springboards for activities by HUD, DOE, Congress, the states, and some 25 stakeholder groups to advance the use of HERS and EEMs in the United States.

The HERS Council, HUD Task Force, and Other Programs

After the National Collaborative released *A Blueprint for Action*, a group representing HERS providers, energy organizations, and others formed the HERS Council in early 1993. The HERS Council has members from more than 50 organizations (including utilities, government, environmental and consumer groups, and members of the real estate, finance, and building industries).

The council's mission is to increase energy efficiency in housing by serving as an education and research resource and by recommending guidelines for a nationwide voluntary accreditation and certification program for rating HERS systems and the tools used to assign HERS ratings. Currently, the HERS Council is developing protocols for certifying HERS tools.

Summary of Voluntary Activities

In addition to federal and state legislation, the following voluntary HERS and EEMs activities have been initiated:

- Establishment of the HERS Council
- Edison Electric Institute's Three-E Program
- FNMA's EEMs Pilot Program
- Analyses of HERS and EEMs data by Energy Rated Homes of America (ERHA), FNMA, and FHLMC
- Training initiatives for lenders (Federal Housing Administration/HUD) and raters (ERHA)
- Regional Good Cents round tables (utilities programs)
- Contributions by agencies and stakeholders to EPACT and to national policy on HERS and EEMs.

Both performance-based and certification HERS programs assess the energy performance of a home. Performance systems estimate the relative energy efficiency of a home based on the thermal performance of the building envelope and on the operation of heating, ventilating, and air-conditioning equipment. Certification programs are usually operated by utility companies, builders, and nonprofit groups and either pass or fail a home based on an inspection of its energy efficiency.

A HUD task force assembled in 1992 is developing a plan for achieving national uniformity for EEMs. The task force consists of representatives from HUD, DOE, the Farmers Home Administration, the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and other organizations.

In addition to voluntary HERS and EEMs programs, many states are engaged in supporting activities. Nearly 20 states have statewide building codes that meet standards

established by the Council of American Building Officials for energy efficiency. And 41 states have at least one utility demand-side management program that encourages energy efficiency and the use of alternative energy sources to reduce demand on conventional power plants, which could become a critical institutional link between regional HERS and EEMs programs.

Progress is being made on many fronts. This progress testifies to the widespread interest in the potential of HERS and EEMs to save energy, protect the environment, improve the quality and affordability of housing, and strengthen the nation's economy.

For More Information

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