

Legislative Factsheet

For more information,
please contact
Sarah Stellberg (IMT)
202-525-7005
sarah@imt.org

The SAVE Act

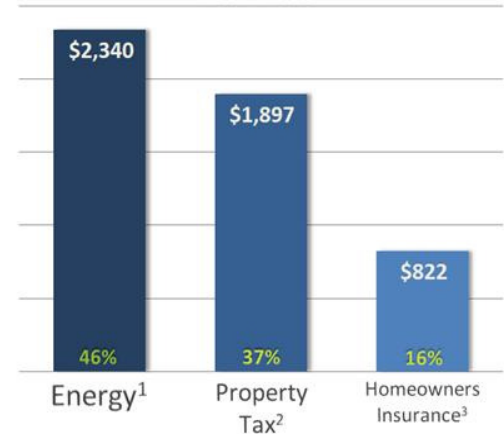
Sensible Accounting to Value Energy

The SAVE Act is proposed legislation 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 enable better credit policy decisions and increase the buying power of consumers of energy-efficient homes. This budget-neutral, market-driven proposal will help pull the economy out of its foreclosure-induced recession by promoting cost-effective investments in home energy efficiency, saving homeowners money, and putting people back to work renovating and building efficient homes and products.

Background

The U.S. mortgage crisis has made clear that to protect taxpayers' interests, mortgage underwriting and appraisal 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 eliminate this blind spot to improve the quality of mortgage lending.

Average U.S. Homeowner Costs
2007-2008



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 Fannie Mae, Freddie Mac, FHA, and other federal agencies. Collectively they 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)—which test the borrower's ability to afford regular monthly mortgage payments. This means a buyer of a house that is more efficient than average would be able to borrow more in recognition of the lower financial burden on the homeowner due to the reduction in monthly utility bills.

Loan to Value Adjustment:

Creates a consistent and accurate method for valuing energy efficiency in the valuation process by adding the net present value (NPV) of expected energy savings when calculating the loan-to-value ratios. This allows the lender to increase the allowable loan amount if a house has specific energy features that, according to a qualified energy report, make the house more energy efficient than average. This will help ensure that appraisal and underwriting processes capture the added value of energy saving features. If no qualified energy report is available, the valuation will not be adjusted.

How Are Energy Costs Calculated?

The SAVE Act establishes two methods for determining expected annual energy costs: (1) average utility costs, derived from the Department of Energy's Residential Energy Consumption Survey (RECS) database and adjusted for the square footage of the home, or (2) if available, a qualified, independent energy report of the subject property.

Principle
+ Interest
+ Taxes
+ Insurance
+ Energy

The Complete Cost
of Homeownership

What Are the Benefits?

- **Help protect taxpayers from another foreclosure crisis**

This omission of energy costs from mortgage underwriting presents a hidden risk factor. The SAVE Act would improve the quality of mortgage underwriting by providing a more complete picture of repayment risk and the expected costs of homeownership. With a better, more granular assessment of home affordability, federal mortgage programs will produce better loans and more stable borrowers.

- **Create jobs, drive demand for energy-efficient homes, renovation and manufacturing**

The SAVE Act would help restore a robust economy and job growth by driving investment in home energy efficiency by homebuilders and owners. The policy would greatly accelerate the supply of and demand for energy-efficient new homes and improvements and put people in the construction, remodeling and manufacturing sectors back to work renovating and building energy-efficient homes and products.

- **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.

- **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.

- **Advance America towards energy independence**

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 for building new power plants, protect our health and environment, and promote our energy independence.

Coalition of Supporters:

Alliance to Save Energy (ASE)
 American Council for an Energy-Efficient Economy (ACEEE)
 Building Energy Efficient Codes Network (BEECN)
 E2 Environment Entrepreneurs
 Earth Advantage Institute (EAI)
 EcoBroker
 Efficiency First
 Global Green USA®
 Green Builder® Coalition
 Institute for Market Transformation (IMT)
 International Code Council (ICC)
 Leading Builders of America (LBA)
 National Association of State Energy Offices (NASEO)
 Natural Resources Defense Council (NRDC)
 Northeast Energy Efficiency Partnership (NEEP)
 The Residential Energy Services Network, Inc. (RESNET®)
 Southeast Energy Efficiency Alliance (SEEA)
 Southwest Energy Efficiency Project (SWEEP)
 U.S. Green Building Council (USGBC)

A complete list of supporters is available at www.imt.org/SAVE-Act.

Energy Data | (2008 Figure EIA 2005 Residential Energy Consumption Survey. Average Expenditures by Fuels Used, 2005 Dollars per Household, adjusted for 2008 using BLS Household Energy Price Index | **Property Tax Data** | (2008 Figure) The Tax Foundation, *Property Taxes on Owner-Occupied Housing by County, 2005 - 2008, Ranked by Taxes as Percentage of Home Value* | **Homeowner Insurance Data** | (2007 Figure, latest available): National Association of Insurance Commissioners (NAIC), *Annual Homeowners Insurance Report*.