Energy-efficient homes are less likely than others to have problem loans

By Kenneth R. Harney, Published: March 28 | Updated: Friday, March 29, 2:30 AM

If you buy or own an energy-efficient house, are you less likely to default on your mortgage? Is there a connection between the monthly savings on utility costs and the probability that you'll pay your loan on time?

A new study by the University of North Carolina suggests that the answer to both questions is a resounding yes. Using a massive sample of 71,000 home loans from across the country that were originated between 2002 and 2012, researchers found that mortgages on homes with Energy Star certifications were, on average, 32 percent less likely to default than were loans on homes with no energy-efficiency improvements. Energy Star homes, which can be renovated dwellings or newly built units, provide documentable savings of 15 percent or higher on utility bills compared with houses containing minimal energy improvements.

Researchers took pains to statistically separate out factors other than energy-efficiency savings that might account for the strikingly different performances by borrowers on their mortgages. They controlled for house size; age of the house; neighborhood income levels; house values relative to the area median; local unemployment rates; borrowers' credit scores; loan-to-value ratios; electricity costs; and even local weather conditions.

The sample came from a giant mortgage data repository managed by CoreLogic, a California-based company that has access to millions of loan files and payment records supplied by major banks, lenders and servicers. The average sale price of both the energy-efficient homes and the others was approximately $220,000, removing the possibility that the energy-efficient properties were high-end houses purchased by families less likely to default.

So why the big difference in payment performance among borrowers during the roller-coaster decade that saw the mortgage bubble, the housing price boom, the calamitous bust and the start of a recovery? To Cliff Majersik, executive director of the Institute for Market Transformation, a Washington think tank that sponsored the research, there's no question.

"It stands to reason," he says, "that energy-efficient homes should have a lower default rate because the owners of these homes save money on their utility bills, and they can put that money toward their mortgage payments."

Connect with the Post Real Estate

Email the Editor

Local Rates
National Rates

	Avg Rate DC	1 Wk Prior
$10K Money Market Account	0.47%	0.47%
$30k Home Equity Loan	5.57%	5.57%
1 Year CD	0.46%	0.46%
15 Yr Fixed Mortgage	2.81%	2.78%
30 Yr Fixed Mortgage	3.62%	3.68%

In light of the superior performance of mortgages on certified energy-saving houses, what discounts or preferences can borrowers or owners of such houses expect at the bank when they go in for a loan? After all, a key component of the interest rate you pay on a mortgage is compensation for default risk — that is, the possibility that you'll go belly up, walk away, end up in foreclosure and produce big losses for the lender or bond investor.

For example, if you have a low FICO credit score of 620, you present a high risk of nonpayment to the lender and are virtually guaranteed to be charged a higher rate. On the other hand, if you have a platinum 800-plus FICO score, you're likely to be quoted the best rates and generous underwriting terms — all because your statistical risk to the lender is lower.

But here's the problem with the way the mortgage system treats energy efficiency: Under current practices, you'd be hard-pressed to find any lenders who'll give you a better rate quote on your mortgage application, even if you showed them your Energy Star certification along with documentation that your house saves buckets of money on utility bills.

The authors and sponsors of the study think lenders should start factoring energy efficiency into their underwriting. They've also begun meeting with officials from the mortgage industry, Congress and government agencies to suggest how to do it: If not a lower interest rate, they argue, then at least give loan applicants who can demonstrate significant energy-bill savings a break on upfront fees or debt-to-income ratios, or maybe some wiggle room on minimum down payments. It just makes sense.

Bob Sahadi, a mortgage industry veteran who now works for the Institute for Market Transformation, said in an interview that lenders "have wanted hard evidence" that energy savings reduce defaults.

Now they've got it.

Steve Baden, executive director of Resnet, a national nonprofit group that helps homeowners with energy-efficiency improvements, takes the issue one step further. He argues that if mortgage lenders — confronted with statistical proof that borrowers who buy houses that save on energy outlays are at lower risk of default — decline to start recognizing this fact with more favorable pricing, they "are indeed overcharging consumers."

Sounds right.

Ken Harney's e-mail address is kenharney@earthlink.net.

Reprints

0 **Comments** Discussion Policy | FAQ | About Discussions | About Badges

No comments are available at the moment. Leave a comment

More from The Washington Post

- Fannie Mae, Freddie Mac set no-doc mortgage modifications for borrowers
- A year after losing faith, atheist pastor finds a new calling
- NJ police find emaciated boy, 4, at home with body of mom believed to have died 5 days earlier
- Learn the ins and outs of investing in condos
- In redoing Adams Morgan rowhouse, less is more for boomers

	Current	1 Yr Prior
Federal Funds	0.25	0.25
Prime Rate	3.25	3.25
U.S. Unemployment	7.7	8.3
1-Month LIBOR	0.20	0.24
3-Month LIBOR	0.28	0.47

Data Provided by Interest.com

Real Estate Business Directory

- DC Realtors
- DC Real Estate Agencies
- DC Real Estate Appraisers
- DC Real Estate Attorneys
- DC Moving Companies
- DC Real Estate Managers
- DC Real Estate Brokers

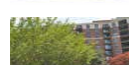
Search

Browse the full business directory
Powered by Local.com

Rental Listings

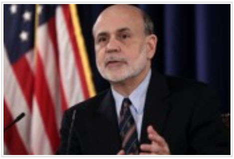
$1,295 - $2,120, 1-3 bedrooms
Yorkshire
Silver Spring, MD

$779 - $935, 2-3 bedrooms
Monmouth Woods
King George, VA



$1,625 - $3,600, Studio-2 bedrooms

Top Realestate Stories | **Most Popular Videos**



Ben Bernanke: High unemployment into 2015