

COVER STORY

Financing and Loan Options for Energy-Efficient Upgrades

Cover water heaters, refrigerated air conditioners, evaporative coolers, double-paned windows, insulation, and roofing, and may range from \$2,500 to \$25,000 or more.

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The biggest issue for those considering energy-efficient upgrades is usually the upfront costs. Because local, state and federal governments are concerned about energy waste and efficiency, a number of finance programs have been initiated to encourage property owners to make energy-efficient upgrades. These programs often focus on making upgrades affordable by spreading their cost over a period of time.

One such program is the Property Assessed Clean Energy (PACE) program, a property tax financing scheme in which the loan for the energy upgrade is attached to the property, not to the person who originally purchased the upgrade. As discussed in an article titled “How PACE Financing Impacts REALTORS®” on pages 40–41 in the January 2015 issue of the *Orange County REALTOR®*, this financing scheme results in serious concerns when the property is sold.

But there are other financing options, including low-interest loan financing, energy efficiency mortgages (EEMs), and energy improvement mortgages (EIMs).

Single-Family Loan Programs

The Southern California Gas Company offers the Home Energy Upgrade Financing (HEUF) Program to its residential customers who are interested in making energy-efficient improvements to their homes. Customers can qualify for loans ranging from \$2,500 to \$20,000 to purchase and install energy-efficient upgrades. Terms range from one to twelve years. Eligible technologies include water heaters, refrigerated air conditioners, evaporative coolers, double-paned windows, building and equipment insulation, roofing, spa/pool heaters, insulated plantation shutters, and permanently installed natural gas barbecues.

These unsecuritized loans must be paid back by the borrower regardless of whether the home is sold. Typically, a borrower who sells the upgraded home before the loan is paid back will use some or all of the proceeds (if there are proceeds) from the sale to pay back the loan.

On-Bill Loan Repayment Programs

The California Housing Partnership Corporation has a program called the Ratepayer Integrated On-Bill Payment Program (RIOPP), whereby retrofit costs are included in a tenant’s energy bill to help pay the cost of an energy-efficient upgrade. RIOPP may be the first

of its kind in California to offer on-bill financing tailored to low-income multifamily rental properties for performance-based, whole-building energy-efficient retrofits. On-bill tenant financing may be a risky endeavor for both landlords and tenants because of the potential adverse financial consequences if the loan for the upgrade is not repaid on or before the date of termination of tenancy.

The California Legislature has considered other on-bill loan programs for property owners. All of those measures have been successfully opposed. Utility companies have expressed serious concerns about becoming lending institutions. Others point out that on-bill repayment loan terms and the repayment of remaining loan balances adversely affect the sale of property that is financed with this type of loan mechanism.

Energy Efficient Mortgage

Energy efficient mortgages (EEMs) give borrowers the opportunity to finance cost-effective, energy-saving measures as part of a single mortgage and stretch debt-to-income qualifying ratios on loans allowing borrowers to qualify for a larger loan amount and a better, more energy-efficient home. EEMs can be used to increase a loan amount for the purchase of a home that will have energy-efficient upgrades made to it (often called Energy Improvement Mortgage, or EIM), or can be used to finance energy-efficient upgrades to existing homes. EEMs allow borrowers to include the cost of energy-efficient improvements in the mortgage.

Both EEMs and EIMs typically require a home energy rating to provide the lender with the estimated monthly energy savings and the value of the energy efficiency measures—known as the Energy Savings Value. EEMs (and EIMs) are sponsored both by federally insured mortgage programs (the Federal Housing Administration and the U.S. Department of Veterans Affairs) and by the conventional secondary mortgage market. Lenders can offer conventional EEMs, FHA EEMs, or VA EEMs. These loans are considered mortgages and, as such, are required to be repaid at the time of sale.

FHA PowerSaver Loans

PowerSaver loans provide three financing options for home owners to make energy-efficient and renewable energy upgrades or improvements. These loans are available to borrowers with good credit and manageable overall debt, and are insured by the Federal Housing Administration.

PowerSaver Home Energy Upgrade—Up to \$7,500. This federal loan is for smaller projects, such as insulation, air and duct sealing, water heating, and upgrading or replacing heating and cooling equipment. It is an unsecured consumer loan that follows the consumer. No home appraisal is required.

PowerSaver Second Mortgage—Up to \$25,000. Larger retrofit projects that may include energy efficiency, solar photovoltaic, solar hot water, geothermal, or other renewable energy projects can be financed with this type of loan.

PowerSaver Energy Rehab—First mortgage up to FHA loan limits. This loan is for either home purchase or refinance. It can be used for energy-efficient improvements as part

of an FHA 203(k) rehabilitation first mortgage when purchasing a home or refinancing an existing mortgage.

Conclusion

In sum, there are various ways both to finance an energy-efficient upgrade. Upfront costs and finance strategies, however, should not be the only factors considered when deciding on an upgrade. A calculation of the return on investment is good place to start. Other factors to consider include the value of the upgrade to the owner and whether the owner can actually afford it.

One of the most important questions is how long the owner will own the property to reap the benefit of the upgrade. An owner who thinks he or she may sell the property within the next five to ten years has a number of factors to consider, including marketability of the upgrade, the impact of the upgrade on the value of the property, and the remaining loan debt incurred from making the upgrade.

So, before buying or leasing energy-efficient products or upgrades, explore options, compare products, assess the situation, and reach out to experienced professionals for sound advice.