The need for affordable financing

- Helping homeowners make money-saving home energy improvements is a top priority of the Administration.
- Home energy improvements can save families hundreds of dollars a year -- while creating jobs and reducing pollution.
- More homeowners want to make home energy improvements, according to industry forecasts.
- But a lack of affordable, available financing remains a major barrier for many consumers.
- A market need exists for a financing option.
NEW OPTION FOR THE MARKET

- PowerSaver is designed to support home energy improvement loans through mainstream lenders to consumers who can afford to make proven, energy saving measures.
- PowerSaver loans are generally secured by mortgages -- and are always in second lien position, unless there is no first mortgage.
- FHA has two goals for PowerSaver:
  - Create a mainstream mortgage product that offers liquidity for lenders, affordable, available financing for consumers and can be scaled in the market through private capital.
  - Evaluate the costs and benefits of home energy improvements -- in energy use reduced, dollars saved and value created.
FHA is seeking a limited number of lenders to participate in a two-year pilot program to deliver PowerSaver loans.

Interested lenders are asked to submit to FHA nonbinding Expressions of Interest to participate by December 27.

Participating lenders must be FHA-approved Title I lenders – FHA-approved Title II lenders can be approved on an expedited basis.

FHA is also accepting public comments on PowerSaver until December 27.

FHA plans to announce the final program and participating lenders in early 2011.
KEY FEATURES OF POWERSAVER

- Based on FHA Title I Property Improvement Program.
- New underwriting/credit requirements and uses of eligible funds.
- New incentives for lenders to participate and lower costs for consumers.
- Potential opportunities for liquidity for lenders.
- Priority targeting to communities that have taken steps to encourage home energy improvements.
Title I Program consist of two components:

- **Property Improvement Loans**
  - PowerSaver utilizes the framework of Title I Property Improvement loan program
- **Manufactured Housing Loans**

Title I operates under the General Insurance (GI) fund fund not Mutual Mortgage Insurance (MMI) fund
Features that apply to PowerSaver

- Premiums are 1% of loan amount and paid annually.
- First years premium is billed when the loan is registered for insurance.
- Costs may be passed on to the borrower and cannot be financed.

Example

- $10,000 loan, payable over 15 years = $100.00 x 15 = $1500.00
- Servicer is billed each year $100
Co-insurance feature
- Federal insurance covers up to 90% of loan against default.
- Lender is accountable for the remaining balance of each loan.

Portfolio cap
- Maximum federal insurance coverage of 10% in aggregate of the total amount of a lender’s Title I loan portfolio.
ILLUSTRATION OF CO-INSURANCE/PORTFOLIO CAP STRUCTURE

- Lender makes 10, $10,000 Title I PI – or PowerSaver – loans.
- FHA credits its “insurance coverage reserve account’ with $10,000 (10% for each loan).
- If a loan defaults with an unpaid principal balance of $9,000, the lender is responsible for $900 (10% of $9,000).
- The lender will receive an $8,100 insurance claim payment from FHA (90% of $9,000).
- The lender will have $1,900 in its reserve account ($10,000 - $8,100).

Note: If lender “reserve account” amount is less than a claim amount, the FHA claim payment will be less than 90 percent and the lender share will be greater than 10%.
LENDER INCENTIVES

- Streamlined claims payment procedures.
  + The holder of the note will be accountable to HUD for origination/underwriting errors.
  + The servicer will be accountable to HUD for servicing errors.
  + If a claim would be denied due to servicing errors, FHA will pay the claim to the holder of the note and seek recovery of its losses from the servicer.
LENDER INCENTIVES

- Grant Payments
  - Lenders may apply for grant funds to lower loan interest rates.
  - Lenders who originate and service loans may also use funds to lower servicing costs.
  - FHA will consider other uses of funds.
  - Any use of funds must deliver bona fide benefit to borrowers.
  - FHA will closely monitor use if grant funds.
## PRIMARY FEATURES

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Eligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$25,000 maximum</td>
</tr>
<tr>
<td>Loan Term</td>
<td></td>
</tr>
<tr>
<td>- Standard energy-efficient</td>
<td>15 years</td>
</tr>
<tr>
<td>- Renewable-energy</td>
<td>20 years</td>
</tr>
<tr>
<td>Transaction Types</td>
<td>No cash-out</td>
</tr>
<tr>
<td>Combined Loan-to-Value</td>
<td>100 %</td>
</tr>
<tr>
<td>Appraisal Type</td>
<td></td>
</tr>
<tr>
<td>- Exterior inspection or</td>
<td></td>
</tr>
<tr>
<td>- Other approved method</td>
<td></td>
</tr>
</tbody>
</table>
### PRIMARY FEATURES

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Eligible</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property Types</strong></td>
<td>Single Family detached</td>
</tr>
<tr>
<td></td>
<td><strong>Ineligible</strong></td>
</tr>
<tr>
<td></td>
<td>- Attached Housing</td>
</tr>
<tr>
<td></td>
<td>- Condominiums</td>
</tr>
<tr>
<td></td>
<td>- Co-operatives</td>
</tr>
<tr>
<td></td>
<td>- Manufactured Homes</td>
</tr>
<tr>
<td><strong>Number of Units</strong></td>
<td>One</td>
</tr>
<tr>
<td><strong>Occupancy</strong></td>
<td>Owner-occupants</td>
</tr>
<tr>
<td></td>
<td><strong>Ineligible</strong></td>
</tr>
<tr>
<td></td>
<td>- Second Homes</td>
</tr>
<tr>
<td></td>
<td>- Non-owner occupant</td>
</tr>
<tr>
<td><strong>Borrower Ownership</strong></td>
<td>½ interest minimum</td>
</tr>
<tr>
<td><strong>Decision Credit Score</strong></td>
<td>660 minimum</td>
</tr>
<tr>
<td>Attribute</td>
<td>Eligible</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>Debt-to income Ratio</td>
<td>45%</td>
</tr>
<tr>
<td>Uses of Proceeds (see attachment)</td>
<td>▪ Measures that improve home’s energy performance</td>
</tr>
<tr>
<td></td>
<td>▪ Repairs necessary for those improvement</td>
</tr>
<tr>
<td>Fees and Charges (may be included in loan)</td>
<td>To be established</td>
</tr>
<tr>
<td>Disbursement of Proceeds</td>
<td>▪ 50% max at closing</td>
</tr>
<tr>
<td></td>
<td>▪ 50% upon completion</td>
</tr>
<tr>
<td>Discount Points</td>
<td>▪ Third parties may pay</td>
</tr>
<tr>
<td></td>
<td>▪ Must be bona fide</td>
</tr>
</tbody>
</table>
FHA is working with Ginnie Mae and other parties to develop appropriate secondary market options for lenders who do not wish to hold PowerSaver loans they originate.
TARGET MARKETS

- Participating lenders will be required to target markets that have already taken affirmative steps to expand home energy improvements.
- There are many suburban, rural and urban areas that will be eligible on this basis – provided a participating lender serves their market.
- Communities that received grants under the Better Building program are automatically eligible for participating lenders to serve.
- FHA will approve other communities as eligible in consultation with DOE.
HOW LENDERS APPLY TO PARTICIPATE

- Basic Requirements
  + FHA approved Title I. FHA-approved Title II lenders can be approved on an expedited basis to become Title I approved.
  + Experience or demonstrated capacity.
  + Technology and reporting capabilities.
  + Ability to work in public-private partnerships.
  + Delinquency reporting.

- Expressions of Interest to Participate
  + Anticipated loan volume and target markets
  + Business model
  + Capacity
  + Consumer benefit

- Send Expressions of Interest to Participate to FHAPowerSaver@hud.gov as stated in the FR Notice.
On the Title I Home Page
http://www.hud.gov/offices/hsg/sfh/title/ti_home.cfm
  - Industry Fact Sheet
  - FAQ for Lenders
  - FAQ for Consumers
  - Federal Register Notice [Docket No. FR-5450-N-01]

Lender Approval Information for Title I
http://www.hud.gov/offices/hsg/sfh/lender/title1ap.cfm

Community partners with DoE for building retrofit projects
http://www.eere.energy.gov/betterbuildings/
For additional information as stated in the FR Notice, contact:
- Patricia McBarron
- Office of Single Family Housing Development
- 202.708.2121