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## Borrowers pick energy-efficient mortgages

By GENE MEYER  
Special to The Star

Knocking \$200 a month off your home's energy costs for the next 30 years sounds like a good idea.

But is it worth tacking an extra \$5,000 worth of conservation improvements on your mortgage to do it?

Your answer goes to the heart of a little-known type of mortgage that the federal government, environmentalists and a growing number of lenders are offering — the energy-efficient mortgage.

These so-called green mortgages come in several forms, but all generally reward borrowers for living in more energy-efficient homes.

The mortgages are designed to do one of two things: convert measurable energy savings that could potentially allow a buyer to borrow more money and purchase a higher-priced home, or allow homeowners to use the savings to pay for energy-reducing improvements to their current homes.

A number of lenders and government agencies are offering mortgage deals to people who borrow money to make their homes more efficient or who buy homes that meet high-efficiency standards. Some institutions offer a discount on the closing costs for a refinancing or new mortgage. Other plans offer a lower interest rate on the loan, sometimes a half point or more below the current market rate.

The plans have been available since the early 1990s. But few borrowers used them because the extra time and the \$300 to \$800 cost of documenting energy savings to get the loans didn't seem worth it when home prices were booming. Demand remains in a slump now because a slowdown in new home construction tempers demand for any kind of a mortgage.

Of the approximately 5 million homes bought and sold annually since 2007 in the U.S., fewer than 4,500 have been financed with green mortgages, and only 16 of those are in the Kansas City area, said Dale Gray, regional spokeswoman for the Department of Housing and Urban Development.

However, HUD expects the numbers to increase because Congress has removed an \$8,000 cap on the energy-saving benefits that borrowers can apply to their mortgage, Gray said. Now the maximum potential energy savings that homeowners can claim is 5 percent of the property's value, 115 percent of median single family



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home prices in the area, or 150 percent of loan limits on a conventional mortgage on the home, whichever is lowest.

Moreover, potential energy savings should provide an incentive for homeowners to get improvements done now because energy prices may become more of a burden over the next few years.

Despite the potential benefits, borrowers may encounter problems with energy-efficient mortgages, said Gary and Bobbi Walker of Napoleon, Mo. They recently tried unsuccessfully to become a green mortgage borrower.

The Walkers are dedicated environmentalists who are renovating a recently purchased farm home about 35 miles east of Kansas City. They want to turn the home into an environmentally friendly showplace using the latest eco-friendly technology and recycling strategies. They've been documenting the changes on a Web site, [www.playhavengreen.com](http://www.playhavengreen.com).

There's no question that the house would qualify for a green mortgage, Bobbi Walker said. A preliminary energy audit showed the home was only four points short of qualifying as an Energy Star home, which is the first step toward securing a green mortgage.

Their challenge has been finding a mortgage lender who is familiar and comfortable enough to write green mortgages, Walker said.

The Walkers couldn't agree with the first lender they approached, CitiMortgage, on financing for their dream. So they scaled back and began rehabbing the existing home to make it as ecologically advanced as possible.

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They found businesses such as GAF Materials Corp. and Kansas City Roofing Services LLC willing to offer discounts for some of the biggest work, such as replacing a hail-damaged leaking roof with an energy-saving new one that uses some of the same technology as new skyscrapers to cut heating and cooling costs.

But financing? "We ended up with a conventional mortgage," Bobbi Walker said.

"Traditional lenders just seem to find green mortgages too far outside their comfort zones," she said.

But lenders — and borrowers — who take a closer look at energy-efficient mortgages are likely to end up becoming big supporters, said Ken Riead, an executive at Hathmore Technologies LLC in Independence and a nationally recognized green construction consultant.

"Every \$1 you save in energy costs increases the market value of your home about \$20," said Riead, quoting a 1990s study from the Appraisal Institute.

Building or remodeling a home to meet the energy-saving standards required for an energy-efficient mortgage produces total household savings of \$170 to \$425 a year, according to analysts with the U.S. Department of Energy. That means the savings work out to a potential \$4,250 to \$10,625 increase in a home's value, using the Appraisal Institute benchmark.

To qualify for an energy-efficient mortgage, homes must be independently tested to calculate the residential equivalent of EPA mileage ratings for cars, said Riead, whose company trains and certifies the inspectors who determine the rating.

Qualifying for an energy-efficient mortgage requires that a home be environmentally snug enough to meet federal Energy Star standards, the same as appliances and electronics that also qualify for the rating, said Charlie Moberly, an independent loan consultant in Grayslake, Ill.

### What are energy-efficient loans?

- These loans credit a home's energy efficiency in the mortgage itself. Borrowers usually need to have an independent energy rater verify actual energy savings before lenders will OK the mortgage.
- Lenders who sell their loans to Fannie Mae or Freddie Mac or who make FHA- and VA-backed loans offer energy-efficient mortgages for new homes and



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improvements to existing homes.

**The benefits**

**For the borrower:**

- Closing costs and possibly interest rates might be reduced.
- Encourages people to build or buy homes that are energy efficient.

**For the lender:**

- Green mortgages help attract borrowers who are concerned with energy efficiency.

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**Other energy-saving tax credits**

The Internal Revenue Service offers a variety of tax credits for energy savers. They include:

- Residential Energy Property Credit:** Increases the energy tax credit for homeowners who make energy-efficient improvements to their existing homes. The credit equals 30 percent of the cost of all qualifying improvements and raises the maximum credit limit to \$1,500 for improvements placed in service in 2009 and 2010.
- Residential Energy Efficient Property Credit:** Helps individual taxpayers pay for qualified residential alternative energy equipment, such as solar water heaters, geothermal heat pumps and wind turbines.
- Plug-In Electric Drive Vehicle Credit:** Modifies the credit for qualified plug-in electric-drive four-wheeled vehicles purchased after Dec. 31, 2009. The minimum amount of the credit is \$2,500, and the credit tops out at \$7,500, depending on the battery capacity.
- Plug-In Electric Vehicle Credit:** Creates a special tax credit for two types of plug-in vehicles — certain low-speed electric vehicles and two- or three-wheeled vehicles. The amount of the credit is 10 percent of the cost of the vehicle, up to a maximum credit of \$2,500 for purchases made after Feb. 17, 2009, and before Jan. 1, 2012.
- Conversion Kits:** Offers a credit equal to 10 percent of the cost of converting a vehicle to a qualified plug-in electric drive motor vehicle and placed in service after Feb. 17, 2009. The maximum amount of the credit is \$4,000.

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