

July 10, 2017

To: Enterprises' Duty to Serve Leadership

We appreciate the opportunity to comment on your proposed plans and look forward to continued engagement as you move forward with implementation over the next three years.

Sincerely,

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Background on U.S. Department of Energy's Home Energy Score

The Home Energy Score is a standard rating system that estimates a home's energy use based on its "envelope" (foundation, roof, walls, insulation, windows), energy systems, and square footage. To generate a Score, a qualified Home Energy Score Assessor (e.g., trained home inspector, energy professional) collects this information during a one-hour assessment, and then uses the Home Energy Score energy modeling software to estimate the annual energy use of the house based on standard operations and local weather patterns.

The home's estimated energy use is converted into a score on a 10-point scale, where a score of 1 represents a home with high-energy use, a score of 5 represents a home with average energy use, and a score of 10 represents a home with low energy use. The energy estimate, and corresponding Score, are based on standard assumptions regarding local weather and occupancy to allow comparison between homes in a particular area as well as across the country.

A standard Home Energy Score Report is generated along with each home's score. The Report provides a variety of data and information that could be used to inform lending transactions, including the following:

- Customized recommendations based on a simple payback of 10 years or less, with energy savings estimates for each recommended energy improvement; and,
- An estimate of the home's energy use compared to an average home in the area.

More than 65,000 homes have been scored to date. Cities are looking to use the Score to provide transparent energy information at point of sale and to help drive demand for energy efficiency. The Cities of Berkeley, CA and Portland, OR require the Score at time of sale and listing, respectively. A number of states (e.g. Alabama, Arkansas, Colorado, Connecticut, Missouri, New Hampshire, and Vermont), are using the Score through voluntary programs to promote homeowner/buyer awareness of energy use, incentivize energy savings, and recognize homes that have already undergone energy efficient upgrades.

Comments on Duty to Serve Underserved Markets Plans

High-Level Goals

We encourage the GSEs to keep in mind the following priorities when finalizing and implementing their 3 year plans in response to DTS requirements:

- (1) Improve affordability of housing by incentivizing –
 - a. Purchase of energy efficient homes; and,
 - b. Investment in cost-effective energy efficiency improvements
- (2) Create policies and products that are easy to implement consistently and potentially applicable to both DTS-eligible and conventional markets

General Comments

The following recommendations are aimed at providing methods by which to achieve the two aforementioned high-level goals, among other priorities.

- (1) Incentivize energy efficiency
 - Develop simplified methods to incentive energy efficiency in all housing markets through modifications to standard, rather than niche, products. For example, rather than focus exclusively on existing lending products designed to fund significant home renovations, offer incentives on properties that have already undergone efficiency improvements at the time of a conventional purchase mortgage loan or refinancing.
 - Offer reduced, competitive interest rates for homes with energy costs estimated to be less than average for the area, or for borrowers who are investing in improvements that will result in lower than average energy costs for the area.
 - Test a variety of incentives, including adjusting mortgage values and modifying the debt-to-income (DTI) ratio or Loan-to-value (LTV) ratio to reflect estimated energy costs (as estimated with a standard tool such as the Home Energy Score).
- (2) Integrate information on energy efficiency in homebuyer/homeowner counseling
 - As part of the GSEs' plans to promote energy efficiency and water efficiency in homebuyer counseling, work with US DOE to develop and include information about the value of getting a Home Energy Score into pre-purchase and post-purchase education and training materials.
- (3) Facilitate investment in efficiency improvements
 - Enable borrowers to finance a limited dollar amount for energy and water efficiency (e.g. \$5 to \$10K) as part of a conventional mortgage or refinance without requiring additional down payment or a substantially different origination path or loan process. Consider using the Home Energy Score or local utility programs' recommendations to define eligible improvements.
- (4) Promote efficiency in Real Estate Owned Properties and Manufactured Housing Products
 - Require minimum energy efficiency standards for real estate owned housing, or at a minimum when rehabbing distressed housing. Consider using the Home Energy Score to set the efficiency threshold.
 - Add incentives or rewards for high efficiency manufactured homes, including manufactured facades or other products aimed at facilitating energy retrofits of envelopes of existing homes
- (5) Improve tracking and standardization of energy data in loan documents
 - Standardize capability to track energy and water related information for all loans
 - Improve tracking of loans that specifically include financing for energy efficiency improvements

Pilot Design and Implementation

A significant portion of the GSEs' plans rightly focuses on design of research pilots aimed at testing the effectiveness and practicability of various policies. We applaud this effort and offer the following recommendations:

- (1) Begin design and implementation of at least some of the research pilots in year one
- (2) Integrate use of energy data in Uniform Appraisal Dataset and Desktop Underwriter
- (3) Test use of automated underwriting to calculate higher debt-to-income ratios for borrowers purchasing homes expected to have lower than average energy costs
- (4) Design pilots to answer key research questions, including but not limited to the following:
 - How can estimated energy use (and/or other metric) be taken into account in order to qualify for adjustments both on the debt side and valuation side of the transaction?
 - What level of incentive is needed to encourage purchase of energy efficient homes? Similarly, to encourage investment in cost-effective efficiency improvements?
 - How can the cost of a standard energy assessment (e.g., Home Energy Score) be borne?
 - How can energy metrics or data be used effectively in automated underwriting?
- (5) To ensure consistent collection and use of energy-related data, require use of the U.S. Department of Energy's Home Energy Score for borrowers to qualify for incentives in three or more pilots. In these pilots –
 - The GSEs should bear or share the cost of the Score.
 - Require appraisers to account for a home's energy performance in the appraised value by applying projected energy savings relative to an average home in the area as estimated by a Home Energy Score.
 - Require lenders to use appraisers qualified to properly assess homes' energy and water efficiency performance through the appropriate appraisal method, whether cost, income or comparison approach.
 - Test the efficacy of using the Score to –
 - Determine eligibility for favorable loan incentives (e.g., higher debt to income ratios, lower interest rates)
 - Identify cost-effective improvements eligible for wrapping into mortgages while allowing higher qualifying ratios
 - Adjust appraised value (up or down) based on the Score's estimated energy costs for the home
 - Select locations and conduct lender outreach in areas where state and local programs have existing infrastructure to support implementation (e.g., locations with Home Energy Score Assessors and/or ordinances requiring the Score at point of sale or listing, such as Portland, OR; Berkeley, CA/Bay Area; and Colorado). Targeting pilots and lender outreach in locations with strong Home Energy Score networks will help drive demand for new lending products or policies.
- (6) In one or more pilots, use the U.S. DOE's Asset Score as a standard assessment tool for evaluating multi-family buildings' energy performance and for identifying cost-effective energy improvements to their energy-related assets.