Memo on Fannie Mae's Underserved Markets Plan

Date: July 10, 2017
To: Federal Housing Finance Agency (FHFA)
From: Rocky Mountain Institute (RMI)

Rocky Mountain Institute appreciates the opportunity to provide comments and recommendations to FHFA on the Underserved Market plans developed by Federal National Mortgage Association (Fannie Mae) under the Duty to Serve rule. Our comments are specifically focused on lending and underwriting interventions that promote energy efficiency for affordable housing preservation, as we believe energy costs are a significant part of the total cost of home ownership and a material risk to lenders. Per the 2010 U.S. census, the average homeowner spends $2,506 per year on energy costs—an amount higher than either property tax or insurance. The average low-income household spends 16 percent of its annual income on home energy costs—more than four times the level that all households, on average, devote to home energy bills. These costs create a real burden for homeowners and present a growing risk to lenders if left unaddressed. We believe financing solutions that support transparency about energy costs, and support improvement in the energy performance of our housing stock will enable market transformation and mitigate material risks for the industry. We see Duty to Serve as an incredible opportunity for GSEs (Government Sponsored Entities) to work towards incorporating energy transparency within underwriting to preserve the affordability of our housing sector. We would like to take the public comment opportunity to advise Fannie Mae on ways to further their impact in the sector.

CENTRAL TENETS OF OUR COMMENTS

RMI lauds Fannie Mae's intention of driving meaningful change in the marketplace by serving and ensuring preservation of the affordable housing markets under the FHFA Duty to Serve rule. We also appreciate the detailed proposal that Fannie Mae has developed under Activity H and G to drive energy/water efficiency improvements in single-family and multifamily properties (based on FHFA Criteria 12 C.F.R. § 1282.34 (d) (3) and (2) respectively) within the Affordable Housing Preservation section of the underserved markets plan. However, there are objectives within these activities that warrant major revisions and in some cases, more specific details to be effective. The central tenets of our comments are: 1) to focus on clearer and more ambitious goals for the proposed activities; and 2) that this can be accomplished by building upon the extensive work on these topics which is already underway in the industry.

OUR COMMITMENT

In closing, we would like to extend our technical and domain expertise to support FHFA and Fannie Mae to advance their mission and achieve success under the Duty to Serve, especially as it relates to incorporating energy efficiency into loan products, and underwriting procedures. We welcome the opportunity to directly engage with Fannie Mae on specific research projects and offer to host and convene diverse actors to design optimal market solutions for their proposed pilot projects. Please contact Radhika Lalit (rlalit@rmi.org), if you would like to discuss the contents of our comments or our offer to support your efforts further.

Sincerely,

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Rocky Mountain Institute

Comments on Fannie Mae's Underserved Markets Plan

Below are some specific comments from Rocky Mountain Institute (RMI) regarding the draft underserved market plans developed by Federal National Mortgage Association (Fannie Mae). Our comments primarily address objectives listed under Activity H of the Affordable Housing Preservation section of the plans, with the intent to advise Fannie Mae on ways to further their impact and reach within the single-family affordable housing market. We have also made specific comments on Activity G, Activity D, and Activity K respectively, which further support the primary objectives outlined under Activity H.

Our comments are divided into three sections. The first section covers the top priority changes we recommend. These have the most significant impact on fulfilling the goals of the plan, and are critical to the success of Duty to Serve. The second section provides additional comments for suggested changes to the plan. The recommended changes in this section are also highly recommended and should not be considered "low priority" for not being included in the "top priority" section. Finally, in the last section, we seek to clarify our intent, provide ideas, guidance, and additional implementation considerations to support the successful implementation of these plans. The suggestions in the last section are not intended for actual changes to the plan itself but are meant to guide Fannie Mae throughout their implementation process.

1. TOP PRIORITY COMMENTS

Comment 1

Activity H; Objective 4 – Enhance standards to capture the value of energy and/or water efficient features in real estate listings and appraisals.
Overall Comment: This objective puts forth an important step for correcting a current market failure that fails to account for home performance features and utility costs. Fannie Mae can include more concrete, actionable steps to lead the industry in solving this problem.
RMI Recommendation: Specify additional interventions within the objective: For this comment, we do not recommend replacing any text, but rather adding text to the existing comment as a concrete set of bulleted actions below the current action of "Engage the industry to identify opportunities and challenges in setting standards for valuations, financing commissions, and measuring utility savings from energy and water improvements."
Suggested additional text: **SMART Factors** ● Facilitate the adoption of energy information by appraisers by: o Revising the Fannie Mae Appraisal report (Form 1004) to provide energy specific appraisal guidance. o Requiring lenders to obtain energy performance information from appraisers as part of the standard appraisal process for all new and existing loan products for

LMI households by modifying the Seller's Guide.

- Developing an automated tool that standardizes, auto-populates energy and water performance information into home appraisals, and automatically calculates the revised home value using the income/cost appraisal approach.
- Expanding the Uniform Appraisal Dataset (UAD), in consultation with Freddie Mac, by including relevant energy efficiency data into it for both underwriting and research purposes.
- Utilizing UAD data to auto-populate the appraisal fields in the Form 1004 and the income effects in the Form 1003.

Additional Notes:
With these changes, we would recommend that the Concept Score for this activity be raised to 50.

The current plan fails to address the biggest market barrier to valuing home performance and the true cost of home ownership, which includes utility costs. These suggestions are within Fannie Mae's purview, support its mandate to create safe and sound markets, and the industry has already done a great deal to prepare for this.

Comment 2

Activity H; Objective 5 – Implement updates to the HomeStyle mortgage

Overall Comment:
Fannie Mae's HomeStyle Energy line of products have seen limited traction in the market. Therefore, implementing updates to the product line is a desirable change. However, Fannie Mae seems to have limited their interventions around introducing variances. Fannie Mae should take the opportunity to focus on testing ideas in the market in parallel while carrying out its research objectives. Small-scale pilot tests could be structured in the first year itself that allow for market-based results while also limiting risks. A new line of products for ZNE (Zero Net Energy) home retrofit products for affordable housing should also be introduced. The industry has seen a 33 percent growth in just one year in the U.S. and Canada. Given this momentum, it would be appropriate for Fannie Mae to support the preservation of affordable markets by encouraging ZNE homes.

RMI Recommendation: Replace the following text:

SMART Factors

Fannie Mae will undertake the following measurable actions in each of Year One, Year Two, and Year Three of the Plan:

1. Create variance terms for one or more changes to Fannie Mae loan products that support the financing of energy or water efficiency improvements.

2. Create one economic and operational impact analysis to determine feasibility of Fannie Mae's purchase of loans under the variance terms.

3. Engage five Fannie Mae lenders to discuss opportunities and challenges to selling variance program loans to Fannie Mae. Issue one or more variances to select lenders.

In Year One of the Plan, Fannie Mae will undertake the following additional measurable action:

1. Evaluate how to establish standards and guidelines to demonstrate the FHFA Criteria have been met by:

a. Engaging four administrators of major energy rating programs.

b Researching three energy and water saving calculation methodologies and lists used by state, local, tribal and utility programs.

Suggested replacement text:

SMART Factors

Fannie Mae will undertake the following measurable actions in each of Year One, Year Two, and Year Three of the Plan:

1. Create and test variance terms and incentives for changes to Fannie Mae loan products that encourage the homeowner to finance energy or water efficiency improvements.

2. Prepare an economic and operational impact analysis report to determine which business models and incentives support the feasibility of Fannie Mae's purchase of loans under the variance terms.

3. Institute a program to engage at least five Fannie Mae lenders in different geographies each year to set targets for selling and marketing energy-efficient home retrofit variance loans to LMI homeowners. Issue one or more variances to each lender in the program. Track and report out results at the end of the year.

4. Develop an additional line of products and variances that further incentivizes homeowners to undertake retrofits to achieve Net Zero Energy home performance

In Year One of the Plan, Fannie Mae will undertake the following additional measurable action:

1. Evaluate how to establish standards and guidelines to demonstrate that FHFA Criteria have been met by:

    a. Engaging administrators of major energy rating programs to research and test energy and water saving calculation methodologies used by state, local, tribal and utility programs.
    b. Testing criteria associated with a list of eligible measures under the loan variance programs as an alternative to determining which measures when coupled into packages can meet the FHFA criteria without third party verification to reduce the loan processing time.

Additional Notes:

Fannie Mae should incentivize adoption of several variance loan programs by offering 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. This policy can be tested through a variety of approaches including, updating mortgage values to reflect estimated energy costs in pricing—possibly by modifying the debt-to-income (DTI) ratio or loan-to-value (LTV) ratio. Regardless of the incentive offered and approach tested, Fannie

Mae should ultimately ensure automation and seamless integration of energy data to Uniform Appraisal Dataset (UAD), and Desktop Underwriter (DU). Taking lessons from Fannie Mae's Green Initiative, which makes up a substantial part of Fannie Mae's new Multifamily loan portfolio, Fannie Mae should use insights from these pilots to primarily feed into Fannie Mae's broader product portfolio to promote standardization and automation of energy data and ultimately scale better home performance, and lower risks across their loan portfolio.

When considering small-scale limited pilots to obtain market-based results, Fannie Mae could look to build in additional features within HomeStyle Energy products, such as:

- An option for eligible borrowers to obtain up to a set maximum number of additional proceeds (e.g., up to x% of their property value) at the time of a conventional purchase or refinancing, only for use to make certain specified energy or water repairs and improvements (such as weatherization, air sealing, duct sealing, insulation, etc). This could be achieved through any of the following financing models:
    - A first-lien loan that allows a borrower to receive an additional advance up to an amount that would be added to the loan balance secured by the existing instrument.
    - Reserve funds at origination that may be used within a certain defined period for eligible energy efficiency repairs and improvements. Defer any financing charges on the reserved funds until a draw.
    - Treat a subsequent financing to an existing first-lien borrower as a first-lien financing for purposes of DTS (Duty to Serve) credit. There may be a reasonable basis to conclude that additional financing supported by Fannie Mae for replacing an essential system in the property should be treated as eligible first-lien financing for purposes of DTS credit.
- Implement this program in conjunction with a utility program that uses the Home Energy Score/Home Energy Rating System or partner with a local State Energy Office residential energy efficiency financing program and define specific "eligible measures" or home performance improvements within the program.
- Offer incentives, discounts, and/or rewards in the form of lower re-financing charges to borrowers who have made certain limited energy and water related improvements to their property (such as weatherization, air sealing, duct sealing, insulation, and the like).
- Bear or share the cost of an energy assessment, such as the Home Energy Score/Home Energy Rating System, and a smart energy meter at the time of home inspection.
- Allow customers making repairs and improvements identified in an energy audit to count some amount of expected savings as "income" for purposes of fulfilling eligibility requirements.

We strongly encourage Fannie Mae to devote their product development expertise and resources to test ideas, incentives, and variances that could scale in the market. We recognize that challenging a business-as-usual approach presents significant challenges to conventional origination and securitization machinery, but nonetheless we feel the potential benefits to both lenders and homeowners merit attention.

With these changes, we recommend that the concept score of this objective be raised to 50.

Comment 3

Activity H; Objective 6 – Purchase HomeStyle Energy mortgage loans
Overall Comment:

Loan purchase targets for HomeStyle Energy mortgage loans should reflect Fannie Mae's ambition to serve the underserved markets. Therefore, targets must be revised upwards substantially, and defined as a percentage of Fannie Mae's Duty to Serve eligible loan portfolio to bring about meaningful impact.

Further, the loan purchase program must begin within the first year of program implementation (as is suggested in the case of multifamily residences).

RMI Recommendation: Replace the following text:

SMART Factors

Fannie Mae will undertake the following measurable actions in Year Two and Year Three of the Plan:

In Year Two of the Plan, Fannie Mae will: Purchase between 50 and 100 HomeStyle Energy loans that meet the FHFA Criteria.

- Baseline: Because our HomeStyle Energy mortgage loan product currently does not require the FHFA Criteria to be met and our acquisitions have not been tracked for this purpose, Fannie Mae cannot establish a Baseline.

In Year Three of the Plan, Fannie Mae will: Purchase between 100 and 200 HomeStyle Energy loans that meet the FHFA Criteria.

Suggested replacement text:

SMART Factors

Fannie Mae will undertake the following measurable actions in Year One, Year Two, and Year Three of the Plan:

In Year One of the Plan, Fannie Mae will ensure that at least 2 percent of purchased loans, eligible under the Duty to Serve rule, are HomeStyle Energy loans or equivalent new products that meet and/or exceed the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3)).

In Year Two of the Plan, Fannie Mae will ensure that at least 5 percent of purchased loans, eligible under the Duty to Serve rule, are HomeStyle Energy loans or equivalent new products that meet and/or exceed the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3)).

In Year Three of the Plan, Fannie Mae will ensure that at least 7 percent of purchased loans, eligible under the Duty to Serve rule, are HomeStyle Energy loans or equivalent new products that meet and/or exceed the FHFA Criteria (12 C.F.R. § 1282.34 (d) (3)).

Additional Notes:

If the targets set forth are not ambitious, it will not inspire the market actors or lenders to take any actions to align their product offerings with the desired outcomes of Duty to Serve.

As the market changes and most homes become increasingly energy efficient, the work on the Duty to Serve plan can support preserving the efficiency of these households over incentivizing efficiency improvements.

2. ADDITIONAL COMMENTS

Comment 4

Activity H; Objectives 1 and 3 – Better quantification of activity impact metrics

Overall Comment:
Several interventions outlined within Objectives 1 and 3 have not be quantified appropriately based on their impact. There is a need for Fannie Mae to develop ambitious metrics and accountability frameworks around their initiatives to be able to maximize their impact under the Duty to Serve.

RMI Recommendation: Replace the following text in Objective 1

SMART Factors

Fannie Mae will undertake the following measurable actions in each of Year 1, Year 2, and Year 3 of the Plan:

1. Host one energy advisory group with cross-functional industry representation.

2. Participate in two key industry conferences.

3. Engage three industry participants who finance energy or water efficiency improvements to identify potential innovative financing opportunities that would meet the FHFA Criteria.

4. Produce, or update, and distribute educational materials that provide information about Fannie Mae's HomeStyle Energy and Multifamily Green Financing products, and assist lenders in meeting loan delivery requirements, including: a) Engaging 15 Fannie Mae lenders. b) Hosting two lender webinars.

Suggested replacement text:

SMART Factors

Fannie Mae will undertake the following measurable actions in each of Year 1, Year 2, and Year 3 of the Plan:

1. Form an energy advisory group with cross-functional industry representation and subsequently host discussions on key areas such as research, pilot design, and consumer/lender outreach with these stakeholders. Document industry feedback, and prepare an industry report-out on next steps on a bi-annual basis.

2. Participate and present findings from research studies in key industry conferences. Document and incorporate feedback (if any).

3. Engage industry participants who finance energy or water efficiency improvements to identify potential innovative financing opportunities, and pursue pilot products and opportunities within a year that would meet and/or exceed the FHFA criteria.

4. Produce, or update, and distribute educational materials that provide information about Fannie Mae's HomeStyle Energy and Multifamily Green Financing products, and assist lenders in meeting loan delivery requirements. Fannie Mae will also host lender webinars

and meetings to sensitize lenders about variances and provide a forum to lenders to provide feedback on product improvements for HomeStyle Energy and Multifamily Green Financing products.

RMI Recommendation: Replace the following text in Objective 3

SMART Factors

In Year 1 of the Plan [Year 2 & 3 are "Not Applicable"]:

1. For single-family only, work with two counseling agency networks to enhance and incorporate energy and water efficiency education into pre-purchase and post-purchase education.

2. Research and produce one catalog of programs to finance energy or water efficiency improvements leveraging:

- Database of State incentives for renewables and efficiency.

- Engage with two utilities, two HFA (Housing Finance Agency), five state and local administrators, and three nonprofit/mission-oriented groups to determine other available programs.

3. Develop and maintain one consumer-facing platform for energy and water efficiency, which will include:

- Online tools, resources, and social media with current and relevant information.

- Education for homeowners, tenants, and multifamily property owners on energy and water efficiency opportunities and ways to save on utilities.

- Framework to disseminate education and resources to be provided by lenders, housing counselors, non-profit agencies, and/or other organizations, and delivered through one event such as a housing fair.

Suggested replacement text:

SMART Factors

In Year 1, Year 2, and Year 3, Fannie Mae will:

1. For single-family only, work with counseling agency networks to enhance and incorporate energy and water efficiency education into pre-purchase and post-purchase education. Track and report out metrics on the number of homeowners reached and converted at the end of each year.

2. Research and produce a brief state-specific catalog of programs to finance energy or water efficiency improvements leveraging:

- Database of state incentives for renewables and efficiency.

- Engagement with two utilities, two HFA (Housing Finance Agency), five state and local administrators (total), and three nonprofit/mission-oriented and independent groups to determine other available programs.

• Information on Fannie Mae HomeStyle Energy mortgage products

Require dissemination of this catalog to at least 90 percent of prospective and current mortgage customers through Fannie Mae's existing Lender Network. Track and report out metrics on the percentage of homeowners reached and converted at the end of each year.

3. Develop and maintain one consumer-facing platform for energy and water efficiency, which will include:

• Online tools, training videos, and resources with current and relevant information for educating homeowners, tenants, and multifamily property owners on energy and water efficiency opportunities and ways to save on utilities.

• Information catalog for educating homeowners, tenants, and multifamily property owners on the financing options and incentives available to them for energy/water efficiency retrofits in their respective states.

Develop a "Communication and Outreach Plan" to disseminate these resources through lenders, housing counselors, non-profit agencies, and/or other organizations, as well as through sources where LMI (Low and Medium Income) households usually get their information. Track and report out metrics on number of homeowners reached and converted at the end of each year.

Additional Notes:

Internally, Fannie Mae should also track, benchmark, and report out the data of number of lenders and LMI homeowners, reached and influenced through these objectives under the Duty to Serve plans. Without appropriate monitoring and benchmarking metrics, these initiatives are unlikely to be effective.

Comment 5

Activity H; Objective 2 – Enhance consumer research

Overall Comment:
Consumer research has not been appropriately timed and designed in the present version of the Duty to Serve plan. It is important to ensure that consumer research does not carry forward to year 3 as it would serve no purpose at that point in time. The need of the hour is to develop the consumer research insights from the first year, then subsequently incorporate them into future product lines. Further, it is important to note that the industry would benefit most from insights from Fannie Mae's yearly performance analysis of their portfolio of loans where borrowers have financed energy and/or water efficiency. The objective has been modified to reflect the rationale stated above.

RMI Recommendation: Replace the following text:

SMART Factors

Fannie Mae will undertake the following measurable actions in each of Year 1, Year 2, and

Year 3 of the Plan:

1. Acquire data and research and, as relevant, prepare one analysis addressing utility expenses, financing of types of energy and water efficiency improvements, and first-lien mortgage loan performance related to energy and water efficiency measures.

2. Through third-party survey entities, conduct primary consumer research to understand consumer sentiment and needs on energy and water efficiency through one survey and/or focus group.

3. Create one written analysis of Fannie Mae's portfolio of loans where borrowers have financed energy and/or water efficiency improvements.

4. Publicize one set of key findings to promote industry awareness and inform future research.

Suggested replacement text:

SMART Factors

Fannie Mae will undertake the following measurable action in each of Year 1, Year 2, and Year 3 of the Plan:

• Track, analyze performance, and share insights from yearly analysis of Fannie Mae's portfolio of loans where borrowers have financed energy and/or water efficiency improvements to promote industry awareness and inform future product research.

• In coordination with Freddie Mac and other industry stakeholders, prepare an analysis understanding homeowner energy costs, financing of types of energy and water efficiency improvements, and first-lien mortgage loan performance related to energy and water efficiency measures.

In Year 1, Fannie Mae, will undertake the following actions:

• Through a third party-entity, Fannie Mae shall commission a research study on consumer sentiment and needs on energy and water efficiency and consumer financing considerations to develop business models around the identifies consumer insights, future trends, and opportunities.

Additional Notes:

Comment 6

Activity D; Objective 1 – Increase purchases of mortgages secured by LIHTC properties

Overall Comment:

Energy efficiency savings can be captured and monetized to increase financeable low-income housing tax credit projects. Programs that support such efforts help decrease project financing gaps expanding the pipeline of implemented projects. Working and partnering with existing programs will support Fannie Mae in reaching its goals of increasing purchases of mortgages secured by LIHTC funds and support its objectives in Activity G within the Affordable Markets Preservation plan.

RMI Recommendation: Specify additional interventions within the objective:

For this comment, we do not recommend replacing any text, but rather adding text to the Objective 1 under Activity D.

Suggested replacement text:

SMART Factors

Fannie Mae will undertake the following measurable actions in the three years of the Plan.

In Year One, Year Two, and Year Three, Fannie Mae will:

- Work and partner with existing programs seeking to expand the volume of LIHTC rehabilitation projects by deploying deep energy retrofits in affordable housing at scale to expand the pipeline of LIHTC secured mortgages.

Additional Notes:

Comment 7

Activity K; Objective 1 – Purchase or rehabilitation of certain distressed properties

Overall Comment:

The rehabilitation of distressed properties is a critical trigger point for making improvements to a home that will last for decades. Improvements to the overall energy and water efficiency of a home stand to provide occupants with improved health and comfort, while minimizing their energy expenditures. Fannie Mae should work with existing programs that deliver such energy and water improvements to analyze, partner, and innovate around the rehabilitation of these properties. These efforts will not only support improved quality of life for the future occupants of those buildings, but will support the fiscal health of those families and reduce their risk of default.

RMI Recommendation: Specify additional interventions within the objective:

For this comment, we do not recommend replacing any text, but rather adding text to Objective 1 of Activity K.

Suggested additional text:

SMART Factors

In Year One, Year Two, and Year Three, Fannie Mae will:

- Work and partner with existing programs seeking to expand the volume of low income affordable housing and rehabilitation projects by deploying deep energy retrofits in affordable housing at scale to expand the pipeline of LIHTC secured mortgages.
- Work and partner with lenders and cities to return a significant portion of distressed single-family housing stock into the public realm in an improved operational state, reducing energy and water utility expenses.

Comment 8

Activity G; Objective 6 – Purchase targets for financing energy/water efficiency improvements
Overall Comment: The purchase targets for loans that have or will finance energy/water efficiency improvements in multifamily residences are underwhelming. These goals need to be revised upwards and must be quantified as a percentage of all loans that meet or exceed the FHFA criteria.
RMI Recommendation: Replace the following text: **SMART Factors** Purchase loans that have or will finance energy or water efficiency improvements on multifamily properties that meet the FHFA Criteria (Do What We Do Best). • In Year One: Purchase at least 25 loans that meet FHFA Criteria. • In Year Two: Increase the volume of loan purchases by 25 percent over Year One • In Year Three: Increase the volume of loan purchases by 25 percent over Year Two
Suggested replacement text: **SMART Factors** Purchase loans that have or will finance energy or water efficiency improvements on multifamily properties that meet the FHFA Criteria 12 C.F.R. § 1282.34 (d) (3) (Do What We Do Best). • In Year One: Increase the volume of loan purchase to at least 20 percent of the 2017 Multifamily loan purchase baseline volume. • In Year Two: Increase the volume of loan purchases that meet this criteria by 25 percent over Year One • In Year Three: Increase the volume of loan purchases that meet this criteria by 25 percent over Year Two
Additional Notes: It is important for Fannie Mae to be ambitious in setting the goals for loan purchases to fulfill Duty to Serve obligations, and send a strong message of leadership and commitment to the industry.

Comment 9

Activity G; Objective 7 – Publish white paper on best practices
Overall Comment: The timeline proposed to publish the white paper on best practices is very conservative. This objective should be completed within the first year, and its recommendations should then be put into implementation in subsequent years.
RMI Recommendation: Replace the following text: Objective 7: Publish white paper on best practices in energy and water efficiency financing

and affordable housing preservation (Partner and Innovate).

SMART Factors

1. In Year One: Draft an outline and work-plan for creating and publishing a white paper on best practices in energy efficiency financing and affordable housing preservation to educate the financial markets on best practices in multifamily energy efficiency lending

2. In Year Two: Implement the work-plan

3. In Year Three: Publish the white paper

Evaluation Factors: Year 1: Loan Product; Year 2: Loan Product; Year 3: Loan Product

Proposed Concept Score for each Year: 50 – Direct Impact

Suggested replacement text:

Objective 7: Publish white paper on best practices in energy and water efficiency financing and affordable housing preservation (Partner and Innovate).

SMART Factors

In Year One, Fannie Mae will:

Partner with an industry organization to create and publish a white paper on best practices in energy efficiency financing and affordable housing preservation to educate the financial markets on best practices in multifamily energy efficiency lending.

In Year Two and Year Three, Fannie Mae will:

- Share findings and best practices with industry peers and other stakeholders in accordance with a comprehensive communication plan. Design and report-out on the impact metrics to ensure wider outreach and adoption of findings.
- Incorporate best practices and recommendations from the white paper into their new and existing loan product portfolio for multifamily housing. Report-out changes and impact numbers on an yearly basis for assessment.

Evaluation Factors: Year 1: Outreach; Year 2: Loan Product; Year 3: Loan Product

Proposed Concept Score for each Year: 50 – Direct Impact

Additional Notes:
The Concept Score of 50 should only be maintained with these changes. Otherwise, the Concept Score should be lowered to 30.

3. ADDITIONAL SUGGESTIONS AND IMPLEMENTATION CONSIDERATIONS

Below are additional suggestions for Fannie Mae to consider as it looks to implement its underserved markets plan. We would like to share the concern that without heeding these basic implementation considerations, Fannie Mae risks failing to meet the defined overarching stated purposes and goals set forth by the FHFA per the Criteria 12 C.F.R. § 1282.34 (d) (3) and (d) (2).

Financial stability of many moderate income and first-time home buyers is significantly affected by the energy costs of their homes. Therefore, the ultimate goal of the Duty to Serve action plan should be to standardize and incorporate the energy costs within all existing and future product lines and underwriting platforms for home mortgages. This effort would require extensive outreach and stakeholder engagement, consumer education, lender training, product development, and regulatory approval from FHFA. The need of the hour is to build an inclusive, consumer-focused lending platform with the support of lenders, counselors, realtors, builders, remodelers, local utilities, and governments to achieve the ambitious goals set forth in the Duty to Serve. RMI would like to take this opportunity to share some of the key implementation considerations as Fannie Mae begins to roll-out these plans in 2018:

A. Utilize pilots and lender variances to test new products and practices

The Opportunity: Early stage pilots can inform Fannie Mae's understanding of the market and consumer dynamics about including energy efficiency and renewable energy features in underwriting. However, stakeholder engagement is key to the success of Fannie Mae's objectives. Listed below are select market actors and stakeholders that could help seize the market opportunity, and specific:

1. **Coordinate with lenders and home valuation professionals:** Provide lender flexibilities that utilize the residential high performance home appraisal guidance to better reflect the added value of high performing homes. Engage and set-up pilots in key markets, where energy efficiency demand is high such as CO, NY, OR, VT, TX, WA, etc. to test the market for potential success stories and possible barriers to adoption.
2. **Partner with Earth Advantage, Umpqua Bank, and Heritage Bank for a pilot in Portland, Oregon**: Portland, Oregon is uniquely positioned to be a great pilot location for Fannie Mae given its existing infrastructure and its recent policy ordinance on home energy performance disclosure. Work with environmental organizations (such as Earth Advantage and RMI) and others in the Greater Portland market to demonstrate the utility of Home Energy score/Home Energy Rating System to evaluate the energy performance of existing homes to ensure that FHFA's energy performance criteria is being met.
3. **Partner with Build-it-Green for a pilot in California:** Build-it-Green has a large grant to create energy efficient homes for low and moderate income borrowers in distressed markets in California. Fannie Mae could partner with them for a pilot project.
4. **Target retrofit REO/distressed properties:** Partnering with existing programs which are seeking to expand the volume of LIHTC rehabilitation projects by deploying deep energy retrofits in affordable housing at scale will not only support improved quality of life for the future occupants of those buildings, but will also support the fiscal health of those families.
5. **Work with Appraisal Institute and Appraisal Foundation to standardize energy data for valuation:** Fannie Mae should engage a wider set of stakeholders to standardize energy data inputs and take leadership in providing guidance to appraisers and lenders alike on adopting simple and automated methods to require incorporation of energy data in valuation.
6. **Partner with green banks and green lenders:** Michigan, Connecticut, and New York State have functioning green banks and specialized green lenders offering single family and multifamily programs that could be leveraged to incentivize Fannie Mae products.

7. **Work with counseling agencies:** Engage select large HUD-approved national housing counseling agencies that have green housing expertise in select states. Work with these agencies to advise LMI consumers on the best mortgages options available to them for energy retrofits in their area.
8. **Build pilots in partnership from local utility, government programs, research institutes, etc:** There is substantial program experience to draw upon while designing pilot ideas. The programs listed below have assisted thousands of low to moderate income homeowners with improvements that deliver substantial energy savings. The program results of all these programs are highly instructive. These existing programs might also serve as potential partners with controls and systems in place which can help with the implementation of a small-scale test. We encourage Fannie Mae to work with entities administering programs like these programs to test their variances.
    - In Massachusetts, the MassSaves program has organized a network of local and regional lenders to finance such transactions, in cooperation with local and regional utilities, which can act as loan servicers, collecting the loan payments on the utility bill.
    - In New York, NYSERDA offers homeowners a small loan for such repairs and improvements, also in conjunction with local utilities to act as loan servicers.
    - In the southeast US, the Tennessee Valley Authority (TVA) offered a program that arranged and guaranteed a small loan from a regional lender to customers of rural electric co-ops for the installation of high efficiency heat pumps.
    - New Jersey Natural Gas's SAVEGREEN Project® offers rebates and incentives to residential customers who install qualifying, high-efficiency equipment, and up to $15,000 in financing is available, including a 0% APR on-bill repayment program option to help make energy efficiency upgrades more affordable.
    - The Connecticut Green Bank is a leader in developing programs and policies that promote fiscally sound investments in energy efficiency and renewables.
    - The Nebraska Energy Office's Dollar and Energy Savings Loan Program uses a loan participation approach to offer low-interest energy efficiency financing in partnership with local lenders and credit unions; since the program's establishment in 1990, the program has made over $320 million in loans.
9. **Work with builders:** The *Leading Builders of America* and *NAHB* (National Association of Home Builders) have members that are building new energy efficient homes in affordable markets such as Houston, Columbus, Atlanta, etc. Fannie Mae could work with these association of builders to conduct training and promote their offering.
10. **Work with remodelers:** Certain cities are experiencing waves of renovation activity. It would be wise to those cities that have affordable markets in this group such as Baltimore, Cleveland, Pittsburgh, parts of Chicago, etc. Fannie Mae could leverage the NAHB member network in these cities and work with contractors and remodelers in these cities.
11. **Work with research institutes:** High performance homes are generally linked to better design and greater energy efficiency. Work with research institutes which are knowledgeable about these areas. Research organizations such as RMI and NREL, might be able to provide Fannie Mae with some credible business insights and research expertise.

Note: Even though DTS credit will only be provided for supporting financing to the eligible LMI borrowers, the Enterprises' Plans should describe products and tests that reach a broader set of borrowers and prospective borrowers, not limited to the eligible borrowers. In other words, the process of designing and testing variances should not be subject to the eligibility constraints within Duty to Serve rule. These variances should have utility beyond Duty to Serve eligible borrowers.

B. Work with partners to build an inclusive, consumer-centric product suite

The Opportunity: Given the variability in the effort and process of financing minor energy efficiency improvements versus a larger home renovation, and the necessity to tie it to a more seamless and efficient overall transaction, there is a need to innovate and develop new products to drive consumer demand. The product suite should recognize the type of mortgage events most relevant to consumers—from refinancing to purchase—along the following lines:

- **Purchase money:** Develop a consumer-friendly mortgage that provides access to an additional 5—10% of escrowed funds for energy efficiency. In this model, the consumer would have a fixed period to make the improvements after closing. This avoids adding complexity to the first-time buyers already challenging purchase and financing process, and lets them make needed improvements once in the home and at a manageable pace. It also helps change the narrative with Realtors, who generally advise against any improvements that slow down the buying or selling process, allowing them to use this as a marketing incentive for older homes that need such improvements.
- **Simpler Cash-out refinance:** Create a simpler cash-out refinance version of HomeStyle Energy mortgages that provides a 10% cash-out for energy efficiency improvements along with an interest discount. This opportunity can be offered to existing homeowners at time of application.
- **Incentivize and Promote HomeStyle Energy:** HomeStyle Energy mortgages have seen limited adoption in the market. It is important for Fannie Mae to extensively promote the product line through its lender network, by providing discounts and incentives as well as by redesigning the underwriting process to make it quick, simple, and intuitive to both the lender and the homeowner. There is also a need to identify the most common trigger points for retrofits, and leverage the expertise of market actors to promote the product line at these consumer touchpoints.
- **Construction-to-permanent loans:** For homeowners looking to undertake a major overhaul of their homes, such a product might be useful. Fannie Mae should design a product line which incentives deep energy retrofits and upgrades during the renovation process.
- **New zero energy home products:** Considering how technology in the residential energy performance space is evolving with homeowners demanding smarter zero energy homes with solar rooftops and storage, Fannie Mae should consider these trends as opportunities to develop new products for net zero energy retrofits in coordination with builders, solar manufacturers, and others.

Within these products, Fannie Mae should look to include opportunities for both solar generation and energy efficiency. Both factors contribute to the overall performance and resilience of a home, and depending on the location, adding solar generation might be more cost-effective than some efficiency measures. These products should support a variety of approaches to better home energy performance, and not just efficiency.

C. Sponsor data access and standardization

The Opportunity: The industry has developed several high-quality energy rating systems, data capture mechanisms in real estate and appraisal form and other high quality data sources. However, considerable work and leadership from the GSE's is necessary to integrate this data in the underwriting process.

- **Convene major data providers:** Invite the active home energy data providers that have been cited in the regulation to discuss how to incorporate this data into the underwriting process, and understand the number of criteria that must be met for market adoption. Criteria include real time availability, standardized inputs into underwriting forms, auto population of these forms, quality control, etc.
- **Sponsor an industry data platform:** Utilize Fannie Mae's industry leadership to bring these data providers together with a major third party data aggregator to meet the above criteria. This platform should be self-funding, well governed, provide quality control and other services.

- **Expand the uniform appraisal dataset:** Include relevant energy efficiency data into UAD for both underwriting and research purposes. A good start would be utilizing the fields from the Green Multiple Listing Service, developed by the realtor, appraisal and building industry.
- **Auto-populate 1003 and 1004:** Utilize UAD data to populate the appraisal fields in the 1004 and the income effects in the 1003. This would correct a current deficiency in underwriting, where all homes are assumed to operate and cost similarly.

D. Undertake consumer research in tandem with pilots

The Opportunity: Numerous studies have been undertaken over the last few years that demonstrate the demand and value of more energy efficient homes. However, the demand by consumers to include energy efficiency in their mortgage transaction has not met expectations. This could be a function of many factors; lack of information, concern about realizing projected savings, flawed mortgage products, lender apathy, etc. There exists a timely need to pursue this research as well as test ideas in the marketplace. Some ideas on consumer research that could provide Fannie Mae additional insight for designing better energy efficiency financing products are as follows:

- **Understand the role of energy costs:** Utility costs is the second major cost after PITI (Principal, Interest, Taxes, and Insurance) for a borrower. This cost is particularly important for first-time moderate-income borrowers, who experience a higher proportion of their monthly income going towards utility bills and frequently buy older and less-efficient homes. Anecdotal data from loan modifications sharply illustrates this issue at the same time budget data shows such costs as major strain on borrower finances. An analysis of this loan modification data or partnering with a utility company to develop a study would be a valuable contribution to underwriting knowledge.
- **Understand and educate first-time homeowners:** Several studies have demonstrated that consumers rate energy efficiency as a major decision criteria in their home purchase. However, this hasn't yet translated into the consumer's actual decision to do so when buying an existing home. A survey of these borrowers might be useful to understand their concerns, knowledge level, potential barriers, ability to evaluate, etc. At the same time, Fannie Mae should ensure that they take every opportunity to educate first-time homeowner to develop sensitivities around energy costs and develop pilot variances to test the market reaction to their new variances and incentives.
- **Understand the needs of existing homeowners, educate them, and test pilots with them:** Most homeowners who have lived in their homes for years, understand the burden of higher monthly energy costs. Commissioning a third-party to survey homeowners in affordable markets to understand their needs, decision making process, and financing concerns is an important step towards gaining market insight. At the same time, Fannie Mae should look to educate prospective and existing homeowners and test pilot variances with varying degree of incentives and requirements to see consumer reactions to their offerings.
- **Provide consumer counseling:** Several large national homeowner counseling agencies offer some training on energy and other operating costs of a home. Fannie Mae should leverage the expertise of these agencies and provide free-of-charge homeowner counseling in-person and/or online to help the consumer make and finance these improvements.