

June 12, 2003  
Colorado AN No. 1891  
(HB-1-3550 & 1980-D)

SUBJECT: E-Star of Colorado/Rural Development's Energy  
Mortgage Program E-Star™ Requirements for  
Direct and Guaranteed Loans

TO: USDA/Rural Development Staff  
Single Family Housing Program  
Colorado

**PURPOSE / INTENDED OUTCOME:**

The purpose of this Administrative Notice (AN) is to provide guidance to local offices in implementing our partnership with E-Star of Colorado, utilizing the E-Star™ Program with our guaranteed and direct single family housing loans to very low, low and moderate income homebuyers. The original implementation date of this partnership was January 23, 1997, and revised July 14, 1997.

We **strongly** encourage you to utilize it with each 502 Direct and GRH processed, and are requiring its continued use in our mutual self-help program across the state.

**COMPARISON WITH PREVIOUS AN:**

This AN replaces Colorado AN 1782 which expired August 31, 2002.

**IMPLEMENTATION RESPONSIBILITIES**

The two products discussed here are “Energy Efficient Mortgages (EEM)” and “Energy Improvement Mortgages (EIM)”. EEM's and EIM's recognize the savings derived from the installation and/or presence of energy efficiency measures in new and existing homes. Because a home is energy efficient, a family will save on utility costs and thereby can afford to devote more of its income to the monthly mortgage payment.

The two basic types of energy mortgages applicable to USDA/Rural Development loans are:

**Energy Efficient Mortgages (EEM)**

Using the Energy Efficient Mortgage, the purchaser of a new or existing home that is already energy efficient reaps the benefit of **expanded ratios** in the qualifying process.

**EXPIRATION DATE:**

June 30, 2004

**FILING INSTRUCTIONS:**

HB-1-3550, Appendix 7 and  
Following 1980-D

- **Energy Improvement Mortgage (EIM)**

Using an Energy Improvement Mortgage, the purchaser of a new or existing home needing energy improvements can finance into the mortgage loan 100% of the cost of eligible energy efficiency improvements, subject to certain dollar limitations, with an appraisal that includes the Energy Appraisal Addendum (Colorado RD Guide 1980-D-1 1/97). See Attachment 1.

### **Specifics About the Program**

- **Eligible Loan Types**

Subject to overall program requirements, EEM's and EIM's are applicable to USDA/Rural Development Section 502 guaranteed and Section 502 direct single family housing loans.

- **Eligible Properties**

New and existing properties are eligible under the Energy Mortgage program.

- **Home Energy Rating System**

E-Star of Colorado is the accredited Home Energy Rating System (HERS) for the State of Colorado. Operated by the Colorado Housing and Finance Authority, with support from the Governor's Office of Energy Conservation and a coalition of Colorado utilities, E-Star of Colorado performs energy efficiency 'ratings' on new and existing properties. Their ratings are currently used by the Energy Mortgage Programs of FHA, VA, FNMA, and FHLMC in Colorado, and are eligible to be used in conjunction with USDA/Rural Development's Energy Mortgage program beginning **January 23, 1997**; per the guidelines issued in this release.

- **The E-Star of Colorado**

Property data are collected on site by an E-Star of Colorado Certified Energy Rater. Data is faxed to E-Star of Colorado, where all energy rating outputs are centrally processed and mailed to the consumer. Form 1119, Summary Home Energy Rating Certificate is provided by the Homebuyer to the lender for reference and documentation on all Energy Mortgages. Form 1119 (See Attachment2) provides comprehensive property-specific energy information, including the following:

- Property address and rating requester's name(s)
- Rating date and energy rating As-Is, Post-Improvements, Form Plans or As-Built
- Description of the property's as-is or pre-improved energy features (existing homes) or description of the energy features required by the baseline state energy code (new homes)
- Estimation of current utility bills (existing homes) or estimation of utility bills of the home built to baseline state energy code standards (new homes)
- Itemized description of E-Star of Colorado recommended energy efficiency improvements (existing homes) or description of the proposed or actual builder-installed energy package (new homes)
- Installed cost of E-Star of Colorado recommended and/or builder-installed energy improvements
- Present Value of energy savings derived over useful lifetime of energy improvements

- **OBTAINING AN ENERGY EFFICIENT MORTGAGE (EEM) – “THE RATIO STRETCH”**

Some eligible properties may already meet USDA/Rural Development standards for Energy Efficiency. **When a Homebuyer is purchasing an Energy Efficient home, Rural Development or the lender may exceed by two percentage points both the housing expense (PITI) and total debt (TD) ratios for the applicable loan program and income level i.e. 31/43 percent for the guaranteed program.** These ratios are justified by the anticipated energy savings and are an approval compensating factor per HB-1, Chapter 7, 7.16 A.4.

Property eligibility for an (EEM) is as follows:

- A. Homes completed on or AFTER January 1, 1995** – (the MEC-92 adoption date for Rural Development) meeting the following requirements will be considered Energy Efficient:

Properties receiving an 80 point/\*\* or higher rating on the E-Star of Colorado scale, as documented by Form 1119, the E-Star of Colorado Summary Home Energy Rating Certificate.

- B. Homes completed before January 1, 1995** – meeting the following requirements will be considered Energy Efficient:

Properties meeting or exceeding a 70 point/\*\* + rating on the E-Star of Colorado scale, as documented by Form 1119, the E-Star of Colorado Summary Home Energy Rating Certificate.

- C. Allowable Closing Costs**

Up to \$300.00 of the combined cost of the “From Plans” & “As-Built” ratings are eligible closing cost items, and may be loaned for if the appraisal is high enough. The Homebuyer is responsible for any additional rating fees the Rater may charge, as Rater prices will vary from region to region.

- **OBTAINING AN ENERGY IMPROVEMENT MORTGAGE (EIM)**

- A. Cost Effectiveness**

In order to finance the proposed improvements package, the total Installed Cost of Improvements (including maintenance) must be equal to or less than the Present Value of Energy Savings derived over the useful life of the measures. The lender will refer to the “Information for Lenders and Appraisers” box on E-Star of Colorado Form 1119 to make the cost effectiveness determination.

B. Improvements Limits

100% of the cost of any energy efficiency improvement or improvements package that is determined to be “cost effective” per (A) above (up to \$15,000.00) is eligible for financing into the mortgage and its full cost may be added to the applicant’s allowable USDA/Rural Development mortgage amount, not to exceed our maximum mortgage limit. We will consider the resulting ratio to be supported with no further justification or credit qualification by the lender.

C. The Improvements Contractor

In the State of Colorado, the contractor selected by the Homebuyer to install the energy efficiency improvements in conjunction with an energy mortgage may also be the E-Star of Colorado certified rater.

D. Allowable Closing Costs

Up to \$300.00 of the combined cost of the As-Is and Post-Improvements ratings are eligible closing cost items, and may be loaned for if the appraisal is high enough. The Homebuyer is responsible for any additional rating fees the Rater may charge, as rater prices will vary from region to region.

E. USDA/Rural Development’s Guarantee and Escrowing

USDA/Rural Development will guarantee the mortgage before the improvements package is installed provided the lender establishes an escrow account to pay for the improvements. The escrow amount shall be 100% of the cost of the improvements to be made if the consumer has obtained a fixed price contract. If a fixed bid has not been obtained, the lender may require the applicant to contribute up to an additional 10% of the cost of the improvements package to the escrow. Escrow period is limited to 90 days, after which any unused funds are applied towards reduction of principle on the original mortgage amount.

F. Required Documentation

In addition to any and all regular USDA/Rural Development documentation, the following documents shall go into the closing package when requesting a guarantee on an EIM:

- E-Star of Colorado’s Summary Home Energy Rating Certificate (Form 1119) for the As-Is Rating.
- Energy Appraisal Addendum (Colorado RD Guide 1980-D-1 1/97) (copy attached)

• **Obtaining a Combination EEM/EIM**

By obtaining an Energy Improvement Mortgage (EIM) some properties will thereby meet or exceed the threshold rating required for an Energy Efficient Mortgage (EEM). In these cases, the borrower may additionally be qualified at the expanded benchmark ratios afforded by an EEM. (31/43% for a guaranteed loan).

• **Post Improvements Ratings**

For all EIM’s and combination EEMs/EIMs, the lender is responsible for assuring USDA/Rural Development that the recommended improvements have been installed and that the escrow has been closed. An E-Star of Colorado Post-Improvements rating will be performed to ensure what was projected has been achieved.

E-Star of Colorado’s Post Improvements rating may be included in the overall rating fees for purposes of allowable closing but is subject to the \$300.00 limitation (see “obtaining an EIM”).

The Certificate of Completion (Colorado RD Guide 1980-D-2) (Attachment 3) is then completed to verify lender acknowledgment of improvements completion prior to release of escrowed funds. The lender will include the Post Improvements rating Form 1119 and the Certificate of Completion in their loan file and transmit copies to Rural Development.

- **Subsequent Sales of Energy Efficient Homes**

Subsequent purchasers of homes which were originally deemed energy efficient according to the above guidelines, or of homes which have been energy improved so as to trigger the thresholds of energy efficiency described in these guidelines shall be eligible in the future for the two point ratio stretch allowed Energy Efficient properties. (assuming there have been no significant changes or additions to the home).

If you need further assistance, please contact Donald E. Pierce, Director, Single Family Housing, Rural Development at (720) 544-2918.

GINETTE DENNIS  
State Director