DRAFT

# FHA PowerSaver

## FHA SINGLE FAMILY HOUSING
## HOME IMPROVEMENT LOAN PILOT PROGRAM

# HOME ENERGY IMPROVEMENTS

- 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 home owners 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.

# POWERSAVER PILOT PROGRAM

- 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.

# UNDER THE FRAMEWORK OF TITLE I

- 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

# TITLE I INSURANCE FEATURES

- 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

# TITLE I INSURANCE FEATURES

- 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 percent 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

| Attribute | Eligible |
|---|---|
| Loan Amount | $25,000 maximum |
| Loan Term<br>▪ Standard energy-efficient<br>▪ Renewable-energy | ▪ 15 years<br>▪ 20 years |
| Transaction Types | No cash-out |
| Combined Loan-to-Value | 100 % |
| Appraisal Type | ▪ Exterior inspection or<br>▪ Other approved method |

# PRIMARY FEATURES

| Attribute | Eligible |
| --- | --- |
| **Property Types** | Singe Family detached<br><br><u>Ineligible</u><br>▪ Attached Housing<br>▪ Condominiums<br>▪ Co-operatives<br>▪ Manufactured Homes |
| **Number of Units** | One |
| **Occupancy** | Owner-occupants<br><br><u>Ineligible</u><br>▪ Second Homes<br>▪ Non-owner occupant |
| **Borrower Ownership** | ½ interest minimum |
| **Decision Credit Score** | 660 minimum |

# PRIMARY FEATURES

| Attribute | Eligible |
| --- | --- |
| **Debt-to income Ratio** | 45% |
| Uses of Proceeds<br>(see attachment) | ▪ Measures that improve home's energy performance<br>▪ Repairs necessary for those improvement |
| Fees and Charges (may be included in loan) | To be established |
| Disbursement of Proceeds | ▪ 50% max at closing<br>▪ 50% upon completion |
| Discount Points | ▪ Third parties may pay<br>▪ Must be bona fide |

# LIQUIDITY OPTIONS

- FHA is working with Ginnie Mae and other parties to develop appropriate secondary market options for lenders who so 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.

# RESOURCES

- 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/

# ADDITIONAL INFORMATION

- For additional information as stated in the FR Notice, contact:
  - Patricia McBarron
  - Office of Single Family Housing Development
  - 202.708.2121