RESNET
Residential Energy Services Network
Setting the STANDARD for QUALITY

Home Energy Improvement Initiative:
A RESNET Plan for Repossessed Homes

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Background

- The U.S. is facing a severe shortfall in credit availability in its financial markets. Subprime mortgages, foreclosures and falling real estate values are a leading primary cause. As the LA Times recently reported, 50% of the homes on the market in Southern California are repossessed.
- The new Emergency Economic Stabilization Act of 2008 (EESA) puts the federal government in possession of billions of dollars of troubled loans, and by implication, in charge of large numbers of properties.
- Rising unemployment is being felt most sharply in the construction industry and the many businesses it supports.
- Home heating costs are projected to reach all-time records in 2009, putting further strain on homeowners' ability to afford their homes.
- Rising concerns about climate change place increasing urgency on the need to reduce carbon dioxide emissions by upgrading the energy efficiency of America's homes.
- EESA may create one or more new entities to address the housing finance problem. It is likely that, as in the savings and loan crisis of the 1980s, property management companies will be retained to handle foreclosed properties prior to sale.

Proposal

- The federal government should create a special Home Energy Improvement Initiative that requires property asset management companies to:
  - Set a federal goal to improving the energy performance of the portfolio of all foreclosed properties by 30%.
  - Enable foreclosed homes to receive a screening and energy audit process that would identify suitable homes for cost-effective energy improvements.
  - Define *cost-effective* on a 30-year net present value basis, using prevailing FHA mortgage interest rates as discount rates. Energy improvements should be designed to make housing more affordable by reducing net ownership costs by creating energy savings greater than any added mortgage payment (i.e. "positive cash flow").
  - Install all cost-effective improvements, leveraging federal, state, local, utility and other entities with the capability to pay for improvements, up to a limit of 15% of the assessed value of the property.

- The purchaser of the more affordable home pays for all improvements to the property in the mortgage loan through an ex post facto Energy Improvement Mortgage based upon the current Fannie Mae and FHA Guidelines as follows:
    - The cost of the upgrades would be rolled into the mortgage principal;
    - The borrower would not be required to make any additional down payment as a result of the energy upgrades; and
    - The loan applicant would not require additional income to qualify for the loan with the energy package.

Benefits

- This plan would ***add value to the nation's real estate assets***, raising revenue returned to the government from repossessed homes or troubled loans.
- The plan would ***help the U.S. reduce its dependence on imported oil*** while ***cutting carbon emissions*** from the homes sold through the program.
- The plan would ***create jobs*** in construction – our most distressed industry sector; and in the energy efficiency technology sector – our most needed new skills in an energy and carbon constrained economy.
- The plan would likely result in program "overflow" (or "spillover") with the new housing retrofit skills and industries, created by the opportunity, spilling over into the remainder of the housing market, ***creating additional jobs and improving the efficiency of a much expanded number of existing homes.***
- The plan would not impinge on the borrower's ability to ***afford the mortgage*** because the total monthly cost of owning the property would actually be less than the total monthly cost of owning the property if the efficiency of the home was not improved.
- In the long run, the plan may not cost the federal government nearly as much as a more limited process due to the value-added benefits of the energy upgrades, which may substantially ***increase the market value of the homes***.