

**HOUSING  
ENERGY INNOVATION FUND  
2011 Summary Statement and Initiatives  
(Dollars in Thousands)**

ENERGY INNOVATION FUND	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2009 Appropriation .....	...	...	...	...	...	...
2010 Appropriation/Request .....	\$50,000 <sup>a/</sup>	...	...	\$50,000	\$49,500	\$29,500
2011 Request .....	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>20,000</u>
Program Improvements/Offsets .....	-50,000	...	...	-50,000	-49,500	-9,500

a/ Amount includes a 1 percent non-expenditure transfer to the Departmental Transformation Initiatives account, pursuant to the fiscal year 2010 Consolidated Appropriations Act, P.L. 111-117.

**Summary Statement**

A new Energy Innovation Fund was created in fiscal year 2010 to overcome barriers to energy efficiency in the residential sector, both in HUD's own inventory of public and assisted housing, as well as in the larger residential market. The overall objective of the Energy Innovation Fund is to help catalyze a home energy retrofit market in the United States, by accelerating private investment in cost-saving energy efficiency retrofits in the residential sector. Innovative strategies to improve the usefulness of existing HUD programs--as well as developing new financing tools--will lead to significant reductions in energy consumption, operating costs, and the carbon footprint of both affordable and market-rate housing. FHA and HUD's Office of Sustainable Housing and Communities will test--and where feasible bring to scale--new and innovative products such as energy efficient and location efficient mortgages.

Residential energy expenditures in the U.S. totaled \$225 billion in 2006, according to the Energy Information Administration (2008 Fact Book). Even modest gains in energy efficiency will yield significant benefits to renters, homeowners and owners of rental properties, while also supporting job creation, energy savings and climate change objectives.

HUD is not requesting additional fiscal year 2011 funds for this initiative, pending the launch of key initiatives with the \$50 million appropriated by Congress in fiscal year 2010 for this purpose. The Energy Innovation Fund is currently supporting two fiscal year 2010 initiatives: Energy Efficient Mortgage Innovation, directed at the single family homeownership market; and Multifamily Energy Pilot, directed at the rental market. The initiatives are funded at \$25 million each, for a total of \$50 million. Since the enactment of the Consolidated Appropriations Act of 2010, the Department has initiated a Memorandum of Understanding with the Department of Energy to facilitate implementation of Energy Efficient Mortgage Innovation and Multifamily Energy Pilot.

## Energy Innovation Fund

### **Energy Efficient Mortgage Innovation**

Energy improvements can play a significant role in lowering the cost of homeownership in the form of lower utility bills. FHA-insured Energy Efficient Mortgages allow homebuyers to cover some or all of the cost of energy-efficient improvements in both existing homes and new homes.

FHA's existing Energy Efficient Mortgage, authorized by Congress in 1992, provides additional mortgage insurance to enable a person qualified under Section 203(b), including condominiums, 203(k), 234(c), or 251 to purchase or refinance a principal residence and incorporate the cost of energy-efficient improvements into the mortgage. These improvements can be made without an additional appraisal or additional income qualification. Until amended by the Housing and Economic Recovery Act of 2008 (HERA), the amount that could be financed was capped at 5 percent of the underlying loan, with a limit of \$8,000. HERA included a provision that lifted the \$8,000 cap, and set the overall limit at 5 percent of the property value (the lesser of 5 percent of the appraised value, 5 percent of 115 percent of the median area price of a single family dwelling, or 5 percent of 150 percent of the conforming Freddie Mac limit). HUD implemented this provision through Mortgagee Letter 2009-18.

But despite the benefits offered by these mortgage products, the number of EEMs made each year is a very small proportion of the potential mortgage market. In 2009, for example, according to the FHA Data Warehouse, the number of FHA mortgages reported as EEMs was only 3,062, of 1.8 million loans endorsed by FHA. Barriers to more widespread use of the product include: lack of consumer awareness, lack of sufficient lender incentives; lack of automated underwriting; and additional requirements for energy assessments and escrow funding that complicate the standard home buying transaction.

HUD is piloting a number of strategies in fiscal year 2010 to overcome barriers to more widespread use of the EEM, and is working with the Department of Energy and the U.S. Environmental Protection Agency to provide consumers and lenders with an easily understood home energy rating. HUD will extend the benefits of the existing FHA Energy Efficient Mortgage program to more homeowners through a coordinated approach that addresses supply-side, demand-side, and financing issues, while providing a mechanism for evaluating strengths and weaknesses of the initiative. An evaluation component will ensure that program implementation and impacts are understood and documented so that future policy efforts are well-designed.

### **Multifamily Energy Pilot**

HUD is utilizing \$25 million in fiscal year 2010 funds to finance retrofits in the multifamily sector through HUD's existing mortgage insurance programs. An opportune time to undertake energy efficiency investments is part of planned refinancing and recapitalization transactions; these transactions typically use HUD's Section 223(f) mortgage insurance program and the Section 221(d)(3), or (d)(4) programs. HUD's Section 241(a) program may also be used for insuring supplemental loans on existing HUD insured and assisted properties, but the product is underutilized.

Unlike new construction projects financed by Low-Income Housing Tax Credit (LIHTC), bonds, and other sources, FHA-insured multifamily refinancing transactions have not, to date, included significant investments in energy efficiency or renewable energy. Key reasons for this include the absence of standards and incentives (or disincentives) to property owners and lenders. Additionally, in some cases, the financing terms and underwriting or asset management requirements may not support investments due to higher initial costs, and, current underwriting processes do not include energy assessments or audits as part of physical needs assessments; thereby limiting the inclusion of "whole building" energy measures in capital plans.

Census data reveals that most of HUD's assisted multifamily housing stock was built prior to the enactment of building energy codes, which were first initiated in most states in the 1980s. Upwards of 85 percent of HUD's assisted housing inventory is in this category. For housing built prior to these standards, reducing

## Energy Innovation Fund

energy consumption to achieve high levels of energy efficiency will require substantial investments in new building systems, hot water heaters, heating and cooling systems, windows, insulation, equipment, appliances, and complementary building renovations.

The application of the Enterprise Green Communities underwriting criteria and targeted equity investments provided to affordable housing projects meeting such standards has had a transformative effect on the Low-Income Housing Tax Credit program and the willingness of lenders and equity investors to finance affordable housing with higher initial cost but with better longer term cash flow, financial stability, valuation and housing quality. HUD seeks similar changes to transform the FHA multifamily insurance market not currently affected by the Green Communities initiative, or other similar programs to induce energy-related investments at the state and local level.

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**HOUSING  
ENERGY INNOVATION FUND  
Summary of Resources by Program  
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2009 Budget Authority</u>	<u>2008 Carryover Into 2009</u>	<u>2009 Total Resources</u>	<u>2009 Obligations</u>	<u>2010 Budget Authority/ Request</u>	<u>2009 Carryover Into 2010</u>	<u>2010 Total Resources</u>	<u>2011 Request</u>
Energy Efficient								
Mortgage Innovation ..	...	...	...	...	\$25,000	...	\$25,000	...
Multifamily Energy								
Pilot .....	...	...	...	...	25,000	...	25,000	...
Local Initiatives Fund	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total .....	...	...	...	...	50,000	...	50,000	...
<b><u>FTE</u></b>	<b><u>2009 Actual</u></b>	<b><u>2010 Estimate</u></b>	<b><u>2011 Estimate</u></b>					
Headquarters .....	...	...	...					
Field .....	<u>...</u>	<u>...</u>	<u>...</u>					
Total .....	...	...	...					

Energy Innovation Fund

**HOUSING  
ENERGY INNOVATION FUND  
Program Offsets  
(Dollars in Thousands)**

<b>Energy Efficient Mortgage Innovation</b>	<b><u>Amount</u></b>
2009 Appropriation .....	...
2010 Appropriation/Request .....	\$25,000
2011 Request .....	<u>...</u>
Program Improvements/Offsets .....	-25,000

**Proposed Actions**

No appropriation is requested for fiscal year 2011.

Energy Innovation Fund

**HOUSING  
ENERGY INNOVATION FUND  
Program Offsets  
(Dollars in Thousands)**

<b>Multifamily Energy Pilot</b>	<b><u>Amount</u></b>
2009 Appropriation .....	...
2010 Appropriation/Request .....	\$25,000
2011 Request .....	<u>...</u>
Program Improvements/Offsets .....	-25,000

**Proposed Actions**

No appropriation is requested for fiscal year 2011.

Energy Innovation Fund

**HOUSING  
ENERGY INNOVATION FUND  
Program Offsets  
(Dollars in Thousands)**

<b>Local Initiatives Fund</b>	<b><u>Amount</u></b>
2009 Appropriation .....	...
2010 Appropriation/Request .....	...
2011 Request .....	<u>...</u>
Program Improvements/Offsets .....	...

**Proposed Actions**

No appropriation is requested for fiscal year 2011.

Energy Innovation Fund

**HOUSING**  
**ENERGY INNOVATION FUND**  
**Justification of Proposed Changes in Appropriations Language**

The fiscal year 2011 President's Budget includes proposed changes in the appropriations language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

[Energy Innovation Fund]

[For an Energy Innovation Fund to enable the Federal Housing Administration and the new Office of Sustainability to catalyze innovations in the residential energy efficiency sector that have promise of replicability and help create a standardized home energy efficient retrofit market, \$50,000,000, to remain available until September 30, 2013: *Provided*, That \$25,000,000 shall be for the Energy Efficient Mortgage Innovation pilot program, directed at the single family housing market: *Provided further*, That \$25,000,000 shall be for the Multifamily Energy Pilot, directed at the multifamily housing market.] (Department of Housing and Urban Development Appropriations Act, 2010.)

**Explanation of Changes**

No new appropriation is requested in fiscal year 2011.

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**HOUSING  
ENERGY INNOVATION FUND  
Crosswalk of 2009 Availability  
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2009 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2009 Resources</u>
Energy Efficient Mortgage Innovation	...	...	...	...	...	...
Multifamily Energy Pilot .....	...	...	...	...	...	...
Local Initiatives Fund .....	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total .....	...	...	...	...	...	...

Energy Innovation Fund

**HOUSING  
ENERGY INNOVATION FUND  
Crosswalk of 2010 Changes  
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2010 President's Budget Request</u>	<u>Congressional Appropriations Action on 2010 Request</u>	<u>2010 Supplemental/ Rescission</u>	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2010 Resources</u>
Energy Efficient Mortgage Innovation	\$25,000	\$25,000	...	...	...	\$25,000
Multifamily Energy Pilot .....	25,000	25,000	...	...	...	25,000
Local Initiatives Fund .....	<u>50,000</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total .....	100,000	50,000	...	...	...	50,000