

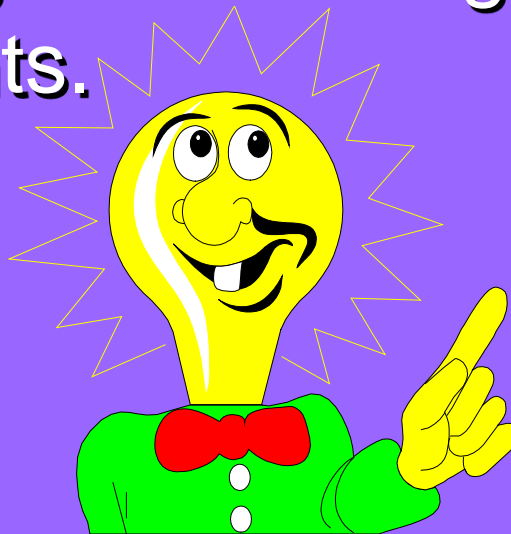
# Energy Efficient Mortgages



# What is an Energy Efficient Mortgage?

*Also known as an "EEM"*

An EEM is a loan made *in conjunction* with a VA purchase loan for an existing dwelling, or a refinance loan secured by that dwelling to add energy efficiency improvements.



# **Energy-Efficient Modifications**

- **Solar heating systems**
- **Solar heating and cooling systems**
- **Caulking and weather stripping**
- **Furnace efficiency modifications**
- **Clock thermostats**
- **New or additional insulation**

**(Continued)**

# Energy-Efficient Modifications\*

(Continued)

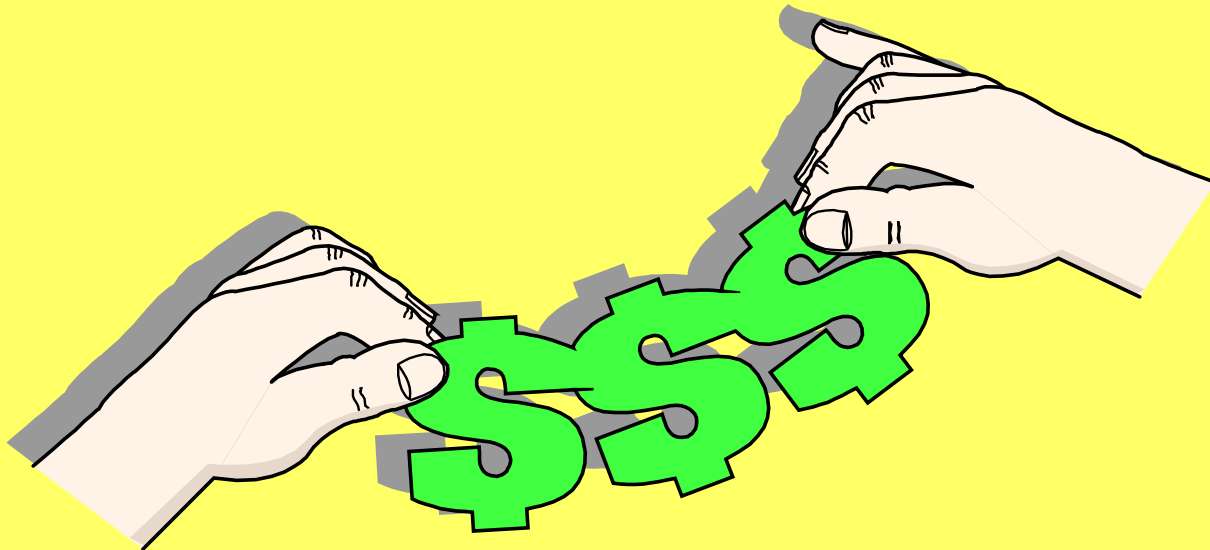
- Water heater insulation
- Storm windows and/or doors
- Heat pumps
- Vapor barriers

*\*This list is not all inclusive. If you are unsure whether or not an improvement is considered energy efficient for VA purposes, contact your nearest [VA Regional Loan Center](#).*

# Underwriting Considerations

Energy efficient improvements up to \$3,000

Resulting increase in loan payment will normally be offset by a reduction in utility costs.



# Underwriting Considerations

Improvements more than \$3,000, up to \$6,000

Does decrease in monthly utility cost offset the increase in monthly mortgage payment?



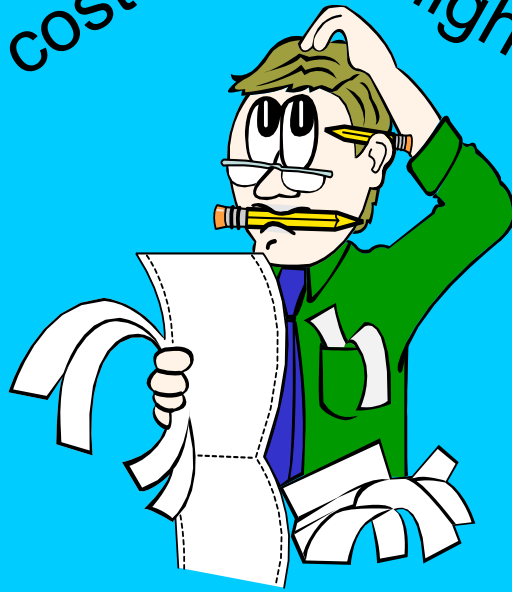
Obtain cost savings information from utility companies, state agencies, manufacturer, or other resources.

# Underwriting Considerations

Energy efficient improvements over \$6,000

Use discretion when considering:

Is the increase in monthly mortgage payments likely to exceed the projected reduction in utility costs?



Is the veteran's income sufficient to cover the higher loan payment?

# Underwriting Considerations

## Interest Rate Reduction Refinance Loans (IRRRL)

*Generally, underwriting is not required on an IRRRL. However, if the addition of EEMs causes the new loan payment to increase by 20% or more, the underwriter must certify that the veteran qualifies for the higher payment.*





# Closing Documentation Required

Energy efficient improvements up to \$3,000

Evidence of the cost improvements

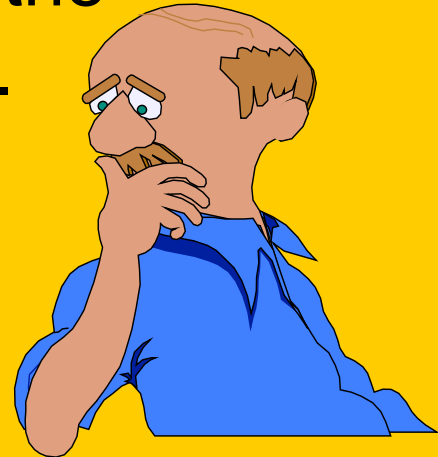
- copy of the bid(s) or
- contract itemizing improvements and cost.



# Closing Documentation Required

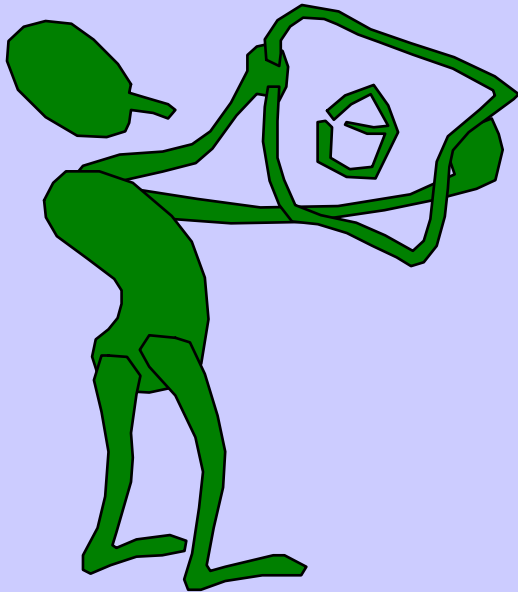
Energy efficient improvements more than  
\$3,000, up to \$6,000

- Evidence of cost of improvements and
- Certification that increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs.



# Closing Documentation Required

Energy efficient improvements over \$6,000



- The increase must be supported by the appraisal and Notice of Value. Appraisal is ordered “as repaired”.

# Closing Documentation Required

## Interest Rate Reduction Refinance Loans (IRRRL)

If the new monthly mortgage payment increases by 20% or more, provide the underwriter's certification that the veteran borrower qualifies for the higher payment.



# EEM Escrows

For improvements not completed prior to closing:

**Provide evidence of an escrow or earmarked account:**

- Formal escrow is not required.
- Escrow must be 1 ½ times the bid.

**VA Form 26-1820, Report and Certification of Loan Disbursement**

- Complete item 23.



23. AMOUNT WITHHELD FROM LOAN PROCEEDS AND DEPOSITED IN	
<input type="checkbox"/> ESCROW	<input type="checkbox"/> EARMARKED ACCOUNT \$_____

# Reference

**VA Lender's Handbook,  
Chapter 7, section 3**

**Download at:**

**[www.warms.vba.va.gov/pam26\\_7.html](http://www.warms.vba.va.gov/pam26_7.html)**

Thank you for your interest in the  
VA Home Loan Program!



We appreciate your support!