

# Supporting Statement for Paperwork Reduction Act Submissions

## A. Justification

1. Section 106 of the Energy Policy Act of 1992 (42 U.S.C 12712) provides the Department of Housing and Urban Development, Federal Housing Administration (FHA), with the authority to insure mortgages where the costs of energy efficient improvements are incorporated into the mortgage. To be eligible, the statute requires that the improvements be cost effective, which are determined pursuant to a Home Energy Rating Systems (HERS) Report. The statute also defines cost effective as the total cost of the improvements (including any maintenance and repair expenses) that is less than the total present value of the energy saved over the useful life of the improvement. Section 2123 of the Housing Economic Recovery Act of 2008 (HERA) (Public Law 110-289, approved July 30, 2008)) amended Section 106 of the Energy Policy Act of 1992 which revised the maximum additional dollar amount that can be added to an FHA insured mortgage for energy efficient improvements.

HERA changed the maximum amount that homeowners could borrow for energy upgrades, according to the lesser of A or B as follows:

- a. The dollar amount of cost-effective energy improvements, plus cost of report and inspections, or
- b. The lesser of 5% of:
  - The value of the property, or
  - 115% of the **median area price** of a single family dwelling, or
  - 150% of the conforming Freddie Mac limit.

Lenders are responsible for reviewing the documents submitted and determining the cost effectiveness of the improvements so these costs can be added to the base loan amount. The borrower cannot obtain an EEM without providing this information. Specifically, the information includes:

- a. The Home Energy Rating (HERS) Report, completed by the energy rater or consultant, which describes the energy improvements that can be made to the home. The lender must review and assess information, including:
  - 1) Address of the Property
  - 2) Name of client (homeowner and/or borrower)
  - 3) FHA Case number (if applicable)
  - 4) Name of Lender (if applicable)
  - 5) Type of Property (or property description)
  - 6) Whether the property is new construction or existing
  - 7) Date of the physical inspection of the existing property or, for new construction, the date of the plan review.
  - 8) Description of the recommended or suggested energy improvements for the property, along with an estimate of cost for each improvement.
  - 9) For each recommended/suggested improvement, the report must show the estimated calculated energy savings in dollars, which each upgrade improvement would provide over its useful life, as compared with the home's current condition (for existing construction) or standard condition (for new construction). The energy calculation is based on present value, rather than reflective of future value (or future rise in energy costs).
  - 10) If applicable, information showing the home's compliance with standards for the International Energy Conservation Code (IECC) and year of IECC standard.
  - 11) Names and signatures of the person(s) who inspected the property and of the person(s) who prepared the report, and the date the report as prepared.
  - 12) The following Certification, signed by the person(s) who inspected the property and the person(s) who prepared the report: "I certify to the best of my knowledge and belief, the information contained in this report is true and accurate and I understand that the information in this report may be used in connection with an application for an Energy Efficient Mortgage to be insured by the Federal Housing Administration of the U.S. Department of Housing and Urban Development."

- b. Guidance provided to the lender for determining the cost effectiveness of the energy package.
- c. An attestation of the Direct Endorsement Underwriter for TOTAL Scorecard, which requires an underwriter to attest on the Underwriting and Transmittal Summary or the Mortgage Credit Analysis Worksheet that the determinations have been made regarding the energy improvements and finds the mortgage and the property to be in compliance with FHA's guidelines.
- d. Lenders enter information in FHA Connection to indicate that the improvement work has been completed and the escrow account has been disbursed to the borrower and contractor.

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ESCROW CLEARANCE SCREEN

Case Number	Escrow Ind Clear/Yes/No	Completion Due Date	Escrow Messages Amount
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- e. Lenders click to check an indicator box next to the type of improvement chosen by the borrower. Lenders can check from a list of energy saving improvements (e.g. new windows, replacement HVAC, install solar panels, add insulation in attic or walls, etc.)

Lenders are permitted to accept a risk rating from TOTAL Scorecard for an FHA loan amount before adding energy improvement costs to the loan amount. FHA will recognize this risk rating and permit an increase to the mortgage after the TOTAL Scorecard decision for the financing of the energy improvement costs, without rescoring for the increased loan amount. The lender's Direct Endorsement underwriter must attest on the Underwriting and Transmittal Summary (Form HUD-92900-LT), that the calculations for cost-effectiveness have been reviewed, and found the mortgage and the property to be in compliance with FHA's underwriting instructions.

- 2. Currently, there are no HUD forms used for the EEM program. The maximum loan amount calculation is performed by FHA Connection, the computer system used by lenders to register and record information about their FHA-insured mortgages. Form HUD-92903, Energy Efficient Mortgage Cost Effectiveness Calculation, which provided guidance for calculating the maximum loan amount, was previously used; however, the calculation on the form became obsolete with a new mandated calculation issued by HERA 2008 and FHA's published guidance Mortgagee Letter 2009-18. No replacement form has been deemed necessary.
- 3. Escrow close-outs are submitted electronically through the Department's internet-based system called FHA Connection. Lenders also click on applicable check boxes to indicate the types of improvements made (e.g. new windows, added insulation, replacement HVAC, installation of solar panels, etc.) All other documentation is included in the standard case binder which the lender can submit electronically once approved under the basic FHA mortgage management process.
- 4. No duplication exists. The information collected is unique to energy efficient mortgages.
- 5. This information collection does not impact small business or other small entities.
- 6. The information collected does not have a significant economic impact because the estimated burden time is .1 hours and the information is provided by the HERS Report. The reporting burden is loan specific and, thus, cannot be conducted less frequently than once every EEM loan submitted to FHA for insurance.
- 7. There are no special circumstances involved in this collection.

8. The agency's notice announcing this collection of information previously appeared in the *Federal Register* on Wednesday, July 16, 2014 (Vol. 79, No. 136, pages 41590). No comments *was received*.

External and internal consultations were conducted by the Department. Representatives from Freedom Mortgage Corp and Wells Fargo stated that the small number of cost effectiveness calculations that these firms have reviewed were not burdensome. Field office HUD staff also verified that the energy raters provide a report that minimizes the review for the underwriter.

9. There are no payments or gifts to respondents involved.
10. There are no assurances of confidentiality provided.
11. There are no questions of a sensitive nature.
12. The estimated public burden is calculated below. FHA's system records show that there are 110 approved FHA lenders who currently originate EEMs. The number of FHA endorsed loans (605) was used to reflect a more accurate picture of the collection activity. To use the number of FHA approved lenders (as done in the past) appears to misrepresent of the accuracy of the burden due to the fact that some lenders may process more EEM cases than others and have more FHA business than other lenders.

The average number of loans endorsed on a monthly basis is 110. From the beginning of FY 2011 to date, FHA has endorsed 883 loans. The Department expects the time to complete the review and calculations for each EEM are as follows:

	No. of loans endorsed	Frequency of Response Per Loan	Total Responses = Total No. of EEM loans	Hrs Per Response	Burden Hours	*Cost Per Hour	Total Annual Cost
Home Energy Rating Report	605	1	605	3.5	2,117.50	\$31.00	\$65,643
Cost Effectiveness Determination (Lenders assessment of information to determine cost effectiveness)	605	1	605	0.25	151.25	\$31.00	\$4,689
Attestation of DE Underwriter for TOTAL	605	1	605	0.25	151.25	\$31.00	\$4,689
EEM Closeout and indicate type of improvement(s) made by borrower	605	1	605	0.25	151.25	\$31.00	\$4,689
<b>Totals</b>			<b>2,420</b>	<b>4.25</b>	<b>2,571.00</b>		<b>\$79,709</b>

\* Hourly rate is based on an average annual salary of \$65,000 for lender personnel. The annual salary is divided by 2,088 (the total number of hours worked on an annual basis for a full time permanent position), then rounded, which equals to \$31.00 per hour.

13. There are no additional costs to respondents.

14. The estimated annualized costs to the Federal government are based on HUD's review of EEMs.

	No. of Loans Reviewed	Hrs Per Responses	Total Hrs	*Cost Per Hr	Total Annual Cost
Review Home Energy Rating Report	<b>605</b>	0.1	60.5	\$42	\$2,541
Cost Effectiveness Determination	605	0.1	60.5	\$42	\$2,541
Attestation of DE Underwriter for TOTAL	605	0.1	60.5	\$42	\$2,541
EEM Closeout and Type of Improvements Made by Borrower	605	0.25	151.25	\$42	\$6,353
<b>Totals</b>		<b>0.55</b>	<b>332.75</b>		<b>\$30,660</b>

\* Hourly rate is based on an average annual salary of a GS-12, step 6 (\$88,224). Total hours are based on multiplying the number of total EEM loans by the hours per annual response (i.e., 0.1 x 605 = 60.5). The total annual cost is calculated by multiplying total hours by cost per hour (60.5 x 42 = 5,586).

15. Currently, there are no HUD forms used for the EEM program. The maximum loan amount calculation is performed by FHA Connection, the computer system used by lenders to register and record information about their FHA-insured mortgages. Form HUD-92903, Energy Efficient Mortgage Cost Effectiveness Calculation, which provided guidance for calculating the maximum loan amount, was previously used; however, the calculation on the form became obsolete with a new mandated calculation issued by HERA 2008 and FHA's published guidance Mortgagee Letter 2009-18. No replacement form has been deemed necessary.
16. This is an extension of a currently approved collection OMB approval. The information collected is used to determine eligibility and the maximum loan amount for FHA mortgage insurance under the Energy Efficient Mortgage (EEM) program. Lenders are responsible for reviewing the documents submitted and determining the cost effectiveness of the improvements so they can be added to the base loan amount. The borrower cannot obtain an Energy Efficient Mortgage without providing this information.
17. This information will not be published.
18. HUD is not seeking not to display the expiration date.
19. There are no exceptions to the certification in item 19.

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**B. Collections of Information Employing Statistical Methods**

None.