

Supporting Statement for Paperwork Reduction Act Submissions
Energy Efficient Mortgage (EEM) Program
OMB Control Number 2502-0561
Forms: None

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 Report/Assessment. The statute also defines cost effective as the total cost of the improvements (including the cost of maintenance and repair of a component that would make a home's operation more energy-efficient) 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 by revising 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.
2. Lenders are responsible for collecting and reviewing the documents submitted and determining the cost effectiveness of the improvements so these costs can be added to the base loan amount. Specific information is required to originate an EEM, including:
 - a. The Home Energy Report/Assessment completed by the energy rater or consultant. The lender must review and assess information on the report, 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 energy assessment 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) That the Home Energy Report/Assessment provides information to show that the energy inspector is trained and qualified to assess home energy usage and savings.
 - 13) 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. Lender's review of the Home Energy Report and assessment of whether improvements to be made (energy package) are cost effective.
 - c. Since borrowers are not required to qualify on the mortgage with the cost of energy improvements financed in, an additional review by the Direct Endorsement Underwriter for
 - TOTAL Scorecard, which assesses acceptability of an EEM mortgage amount and qualifying ratios using only the base mortgage and without the energy package financed in.
 - The 92900-LT, *FHA Loan Underwriting and Transmittal* Summary [OBM Approval No. 2502 – 0059], showing the borrower qualifications without the financeable energy package.
 - 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.
 - 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.)
3. 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.

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 0.1 hours and the information is provided by the Home Energy 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.
- respondents are not required to report information more than quarter;
 - respondents are not required to prepare a written response in less than 30 days;
 - respondents are not required to submit more than an original and two copies of any document and are not required to retain records more than three years;
 - respondents are not required to provide a statistical survey;
 - respondents are not required to use statistical data not approved by OMB;
 - respondents are not required to submit proprietary trade secrets or other confidential information.
 - respondents are not required to submit information that includes a pledge of confidentiality that is not supported by authority established in a statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use; or
 - respondents are not required to submit proprietary trade secrets or other confidential information unless the agency can demonstrate that it has instituted procedures to protect the information's confidentiality to the extent permitted by law.

8. The agency's notice announcing this collection of information previously appeared in the *Federal Register* on February 7, 2018 (Vol. 83, No. 26, pages 5455). No comments were received.

The agency asked for comments in the *Federal Register*, titled *FHA Stakeholder Feedback for the New FHA Single Family Policy Handbook*, on November 22, 2013 (Federal Register number 2013-28066). This request sought comments on all of FHA policies and programs, including the EEM program. Based on public comments, HUD expanded the businesses that could conduct a home energy assessment, broadening business opportunities and consumer choice. In addition to a Residential Energy Services Network Home Energy Rater, FHA added a variety of eligible assessors, including any individuals or businesses that comply with local jurisdictional requirements or were trained by a national energy training provider.

The Department consulted with external and internal program participants, or users with knowledge of the program. A representative from EEMeazy.com commented that the cost effectiveness calculation is not burdensome and useful for homeowners. A HUD staff member commented that lenders have stated that the home energy assessment is burdensome. However, this requirement is statutorily required.

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 **50** approved FHA lenders who currently originate EEMs. The number of FHA endorsed EEMs (420 average per year) was used to reflect a more accurate picture of the collection activity.

For the 5-year period ending in FY 2016, FHA endorsed 2,101 EEMs, or an annual average of 420 mortgages. The Department expects that the time for respondents to collect required information on EEMs are as follows:

Estimated Number of Respondents, Responses, and Burden Hours Per Annum							
	No of Respondents	Frequency of Response	Total Responses (No. of Loans)	Hrs Per Responses	Total Hrs	*Cost Per Hr	Total Annual Cost
Review Home Energy Rating Report	50	8.40	420.00	3.05	1281.00	\$43.00	\$55,428.87
Cost Effectiveness Determination	50	8.40	420.00	0.25	105.00	\$43.00	\$4,515.00
Review DE Underwriter's Evaluation for TOTAL	50	8.40	420.00	0.25	105.00	\$43.00	\$4,515.00
EEM Closeout	50	8.40	42.00	0.25	105.00	\$43.00	\$4,515.00
Totals	50		1680	4.25	1785		\$69,058.92

* The number of EEMs represents an annual average of EEMs that were insured by FHA over the most recent 5-year fiscal period ending September 30, 2016.

** Hourly rate is based on an average annual salary of \$90,350 for mortgage 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 \$43.00 per hour

13. There are no additional costs to respondents.

	No. of Loans Reviewed	Hours Per Responses	Total Hours	*Cost Per Hr.	Total Annual Cost
Review Home Energy Rating Report	420	0.1	42	\$44.28	\$1,859.76
Cost Effectiveness Determination	420	0.1	42	\$44.28	\$1,859.76
Review DE Underwriter's Evaluation for TOTAL	420	0.1	42	\$44.28	\$1,859.76
EEM Closeout	420	0.25	105	\$44.28	\$4,649.40
Totals		0.55	231		0

14. The estimated annualized costs to the Federal government are based on HUD’s review of EEMs, and shown in the below chart:

* Hourly rate is based on an average annual salary of a GS-12, step 5 (\$90,350). Total hours are based on multiplying the number of total EEM loans by the hours per annual response (i.e., 0.1 x 420 = 42). The total annual cost is calculated by multiplying total hours by cost per hour (42 x \$43 = 1,806).

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.

The decrease in burden hours is attributed to fewer EEMs being originated for FHA insurance. The reduced volume of EEM’s is not caused by program changes since no changes to the program have occurred. The lower volume appears to reflect preference for other programs through which lenders and borrowers can finance energy saving improvements.

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.

B. Collections of Information Employing Statistical Methods

None.