

CGBG 2012

How to Finance an Energy Efficient Purchase or Renovation

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Financing Energy Efficiency

Homeowners would like to make their homes more energy efficient, save money, save the environment, and improve comfort. However, they must have the funds available to make such changes.



Three Financial Challenges

1. *Upfront cost – too high*
2. *Can't qualify for financing*
3. *Monthly payments – too high*

What financing options are there for Energy Efficiency and Renewable Energy?

1. Unsecured Funds (Credit Cards)
2. Second Mortgage/HELOC
3. First Mortgage Refinance



Finance Types and Terms

	Credit Card	Second Mortgage	First Mortgage
Amount	\$10,000.00	\$10,000.00	\$10,000.00
Rate	14.00 %	7.00 %	3.875 %
Max Loan	?	80% LTV	100+
Term	72	360	360
Payment	\$206.06	\$66.53	\$47.02
Utility Bill Start	\$150.00	\$150.00	\$150.00
Utility Bill % Savings	30%	30%	30%
Utility Bill \$ Savings	\$ 45.00	\$ 45.00	\$ 45.00
Net Savings	\$ (161.06)	\$ (21.53)	\$ (2.02)

Term or Rate?

In order to have the lowest monthly payment, is it more important to have a low interest rate, or a longer term?

On a loan of \$10,000.00 ...

Paid over **7 years at 0% interest** – **\$119.05** per month.

Paid over **30 years at 4.5% interest** –
\$50.67 per month.

But the reality is that the short term usually has a much higher interest rate:

Paid over **7 years at 7% interest** - **\$150.93**.

Keep a Long-term Focus

When financing a long-term investment in Energy Efficiency or Renewable Energy the goal is to combat an unavoidable and ever-rising cost with a fixed and predictable investment.



Important Facts:

48% of US energy consumption is in buildings.

US Energy Information Administration



38% is the average amount of equity in an American home.

<http://pragcap.com/home-equity-stunner>

*The average interest rate of homes in the U.S. is over **6.00%**.*

www.Efammiemae.com

Mortgage Rates are at 40 year lows!

www.Mortgage-x.com/history

The Good News

Q: How can we use equity, low interest rates and energy savings to finance energy improvements ?

A: Use a discounted mortgage to yield savings on interest rate and energy that exceed the cost of the improvements.



The ENERGY STAR[®] Mortgage

The ENERGY STAR Mortgage provides a **permanently** reduced interest rate.

- The loan proceeds must be used for improvements in Energy Efficiency.
- 1% of the loan amount is provided at closing for use as a rate reduction fee.
Typical rate reduction from this one-time fee is 0.25% to 0.375%.

Mortgage Savings

\$250,000.00 fixed rate 30 year mortgage:

- 3.875% = \$1,175.00 (market rate)
- 3.625% = \$1,140.00 (ESM rate)

Saving \$35.00/ month.

Energy Savings

- Before improvements \$150.00
- After improvements \$105.00

Reduced 30% via energy efficiency improvements.*

Saving \$45.00/ month

Total savings of \$80.00 per month.

That can allow the borrower to finance up to **\$17,540.00**

without increasing monthly expenses *at all!*

*These figures are typical, however, individual results will vary.

Results!

- By using the ENERGY STAR Mortgage the borrower has been able to substantially improve the energy efficiency, comfort, and value of their home.
- Even though the new mortgage is larger, due to the lower interest rate and energy savings, the borrower will spend no more paying off the loan than otherwise would have been spent.

Nothing down... Nothing a month... Nothing in the long run!

PowerSaver

by  Bank of Colorado

PowerSaver is a new loan through HUD and the DOE providing funds to be used specifically for energy efficiency and renewable energy improvements.

- Loans up to \$25,000.00
- Up to 100% of the home value.
- Loan Term of - 15 years.
- Secured by 1st or 2nd Lien.
- Rate is 6.50%
- No closing costs.

Beating Inflation

- The current rate for a “best execution” 30 year fixed mortgage is 3.50% (August 2012)
- For borrowers in a 25% marginal tax bracket that can use the tax deduction, that is the functional equivalent of 2.63%
- According to the Bureau of Labor and Statistics, the rate of inflation from 2002 to 2012 was 2.76%

So, current mortgage rates may be less than inflation!

Ideas, Questions, Comments?



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