PHFA

Home Energy Efficiency and Home Buying

Edward G. Rendell, *Governor*
Brian A. Hudson, Sr., *Executive Director*

Pennsylvania Housing Finance Agency

together creating possibilities

Energy Savings Offset Income in Home Buying

Home energy efficiency is not only a good idea in itself, it can actually help families buy a little more house for the money. Under PHFA's Homeownership Programs, the savings in energy costs that result from high energy efficient homes can count as "income" by lenders when calculating how much mortgage payments can be. This is especially relevant for newly constructed houses.

High energy efficient homes meet local utility company standards such as insulation that provides high "R" values, thermal integrity, double- or triple-pane windows, energy efficient doors and high efficiency heating and cooling systems.

Lenders use what are known as "underwriting ratios" to determine if a family can afford to buy a house. PHFA's maximum ratios are 33/38. What this means is that the purchaser can use no more than 33 percent of income for mortgage payments, and no more than 38 percent of income for a combination of mortgage payments and other outstanding installment debt.

Although the Agency's underwriting ratios are among the most flexible in the industry, they can be made even more liberal if the buyer is purchasing a newly constructed house having low utility bills (for heating, hot water, cooling, cooking, etc.) that will compensate for income. With high energy efficient homes, the owners have more disposable income because their energy costs are lower.

For example, if the family buying a house has a monthly income of $2,000, it could use no more than $660 for mortgage payments, and no more than $760 for mortgage payments plus other installment debt. The family purchasing a high energy efficient home might be able to increase its underwriting ratios by as much as another percent because they have extra money that can help pay the mortgage, rather than it going for energy costs.

This also means that the buyers could make a smaller down payment and use the extra money for other purposes, such as buying furniture or appliances. In the above example, the amount not paid for utility bills could be used to make higher monthly mortgage payments. The ratios might then go to 34/39 or $680 for the mortgage and $780 for all installment debt. Lower utility bills offset the higher mortgage payments.

It may be a consideration for builders who want to broaden their prospective customer base and attract new buyers.

Energy efficient houses not only help the Commonwealth's environment, they can improve the bottom line by making the new homes affordable for more people.

For information about energy efficiency in home mortgage lending, contact the toll-free mortgage hotline at 1-800-822-1174, or visit the Agency's Web site at **www.phfa.org.**

Pennsylvania Housing Finance Agency
211 North Front Street
Harrisburg, Pennsylvania 17101

www.phfa.org

The Pennsylvania Housing Finance Agency is committed to the policy that all persons shall have equal access to its housing programs and employment without regard to age, disability, family status, gender, national origin, political affiliation, race or religion.

HEEHB-10/03