



# Low Cost Financing for Energy Saving Home Improvements

## Introduction to the Colorado ENERGY STAR® and Energy Saving Mortgage Programs

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### Summary:

Homebuyers and Homeowners can obtain a substantially reduced mortgage interest rate on the purchase or refinance of a Colorado home when certain energy efficiency or renewable energy systems are included in the construction or renovation of the home.



Governor's  
Energy Office



**Have you always wanted to make energy improvements to your home, but couldn't afford it?**

**Would you like to live in a home that is more comfortable, more energy efficient, more valuable, and costs *less to own*?**

Renovate your current home, or buy an existing home and make qualifying energy improvements, and you can get a **below market mortgage interest rate** that in many cases can completely offset the cost of energy improvements.

Some of the benefits that you might realize by **Renovating for Energy Efficiency** and using the **ENERGY STAR Mortgage**:

<b>Greater Comfort</b>	- get rid of those hot and cold spots.
<b>Lower Utility Bills</b>	- most homes save 20-50% on their utility bills.
<b>Increased Property Value</b>	- home improvements may add to home value.
<b>Better Resale Value</b>	- energy efficient homes sell faster and at a higher price.
<b>Mortgage Savings</b>	- lower bills, every month for the life of your loan.

### **Questions:**

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1. ENERGY STAR Purchase
2. ENERGY STAR Renovation
3. Purchase and Renovate
4. Purchase, Renovate and Consolidate Debt
5. Solar Energy Financing

## What is the Colorado ENERGY STAR Mortgage Program?

The ESM is a better way to finance the purchase or renovation of a new or existing home. In exchange for an investment in energy efficient home improvements and/or the installation of a renewable energy system, a permanent mortgage interest rate buy down is used to provide a below market mortgage interest rate. This usually means that the new mortgage and energy expenses of the home are lower than the combined total before the improvements, thereby making the improvements very affordable. It can be used in conjunction with any Conventional, FHA or VA loan program for which a borrower could normally qualify. It simply has a lower interest rate, and therefore, it has lower monthly payments for the life of the loan. You can save money and energy every month for as long as you own your home!

This program is made available through a cooperative venture of the [Governor's Energy Office](#) and the Bank of Colorado. The GEO offers ENERGY STAR and Energy Saving Mortgage opportunities that typically provide significant savings over that of other rebates. However, please be aware of other GEO residential opportunities when considering rebates and program benefits. THESE PROGRAMS ARE EXCLUSIVE of one another. The Colorado consumer can either take advantage of an ENERGY STAR/Energy Saving Mortgage or energy efficiency rebates, but not both.

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## How do I apply?

Application is simple. Just [click here](#) to be taken to the Secure Online Application and enter your information or go to [www.coloradoenergystarmortgage.com](http://www.coloradoenergystarmortgage.com) to find information and an application. Your loan qualifications will be evaluated and you will be contacted with a proposal for a mortgage loan for your purchase. You may select the type of loan, term, fees and down payment that is right for you.

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## How much can I save on my mortgage?

The program provides the benefit of a lower interest rate by paying for a discount point on your behalf. A discount point is equal to one percent of the mortgage loan amount. On a \$200,000.00 mortgage, that means you can receive a \$2,000.00 benefit. That benefit, can be used to buy a lower interest rate. The amount of the reduction in interest rate changes according to market conditions and is usually 0.25% to 0.50% lower than current market rates. Best of all, when you buy an ENERGY STAR home, this discount fee is paid for you, so you get a better rate with no additional fee. The maximum benefit from the program is 1% of the first mortgage loan amount up to \$5,000.00.

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## What is an ENERGY STAR home?

During the design and construction of a new home, the builder can select materials, equipment, appliances and design options that result in a reduction in the anticipated energy consumption of the home. These homes are at least 15% more energy efficient than homes built to the 2004 International Residential Code (IRC), and include additional [energy-saving features](#) that typically make them 20–30% more efficient than standard homes. In addition, such homes are reported to be more comfortable and provide a healthier living environment. Ask your builder for more details!

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## How does renovation financing work?

For the purchase or refinancing of a home that is in need of energy efficiency renovations, the homeowner must contact a [Residential Energy Services Network \(RESNET\)](#) and/or [Building Performance Institute \(BPI\)](#) certified energy audit provider as specified by the [GEO](#). The energy auditor inspects the home and makes recommendations as to the most [effective improvements](#) that the homeowner could make in order to reduce energy consumption. The homeowner selects (with the auditor's guidance) those improvements that are necessary and/or desirable. If the selected improvements meet or exceed criteria established by the GEO, the owner/buyer is eligible for the ESM loan benefit and can make loan application with the Bank of Colorado. Following closing of the loan, the borrower has up to ninety days to make the associated energy improvements to the property.

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### What type of energy improvements can be financed?

Improvements might include any combination of insulation, air sealing, heating/ventilation and air conditioning (HVAC) repairs or replacement, window replacement or coverings, water heater replacement, solar thermal or photovoltaic, wind energy generation or any other energy saving system that the auditor evaluates as effective and reliable. It all starts with the [Energy Audit](#). For a list of certified energy raters in Colorado, visit the [Residential Energy Services](#) website.

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### Can I make improvements to the property not related to saving energy?

Home improvements that are not associated with energy savings (e.g. kitchen remodel), cash-out, debt consolidation or other mortgaged items can be financed in the same loan at the same time as the energy improvements, however, the loan discount offered will be based upon the existing mortgages plus the approved energy improvements.

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### What is the difference between the ENERGY STAR and Energy Saving Mortgages?

In areas serviced by Xcel Energy homeowners can take part in the Home Performance with ENERGY STAR program. In all other parts of the state, very similar benefits are available, but the program is known as the Energy Saving Mortgage.

### Can I Qualify?

Each homeowner's situation is unique. Upon loan application, your loan qualifications will be evaluated and loan products that meet your financial and home improvement goals will be recommended. The ESM program can be used in conjunction with conventional, FHA, VA and other loan programs. Loan approval is not guaranteed, however, our loan experts will work hard to find the right loan for your situation. Chances are, if you can qualify for a mortgage, you can qualify for a better mortgage by using the ESM.

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## EXAMPLES:

The following examples show how the ENERGY STAR Mortgage can make energy efficient homes more affordable. Interest rates and loan terms are for demonstration purposes only as actual interest rates change daily. All loans are subject to credit approval.

### 1. ENERGY STAR Purchase

In this example a homebuyer has the choice of buying an ENERGY STAR rated new home for \$210,000.00, or a conventionally built home for \$200,000.00. Which purchase will result in lower monthly bills?

	<u>ENERGY STAR</u>	<u>Conventional Home</u>
Cost of Home	\$210,000.00	\$200,000.00
Mortgage Amount	\$199,500.00	\$190,000.00
Mortgage Rate	4.750%	5.000%
APR	4.910%	5.156%
Loan Type	Conventional 30 yr fixed	Conventional 30 year fixed
Mortgage Payment	\$1,040.00	\$1,020.00
Anticipated Energy Bill	91.00	130.00
Total Housing Expense	\$1,132.00	\$1,150.00
ENERGY STAR savings	\$18.00	

In this example, the ENERGY STAR home is less expensive to own, even if it costs \$10,000.00 more to build. Please note, that in many cases it does not cost any more to build the ENERGY STAR home.

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## 2. ENERGY STAR Renovation

A homeowner wishes to reduce the cost of utility bills and to address some areas of the home that are cold and drafty during the winter. An energy audit is done and the homeowner decides to take part in the Home Performance with ENERGY STAR program. The auditor recommendations are to insulate the attic and crawl space, seal the duct-work, upgrade the furnace, locate and seal air leaks in the home, and improve the efficiency of the lighting. The anticipated energy savings from the energy audit is 30% of the current consumption. The total cost of all these items is \$10,000.00. How will this impact the monthly expenses?

	Before	After
Value of Home	\$300,000.00	\$300,000.00 + value of improvements?
Mortgage Amount	\$200,000.00	\$210,000.00
Mortgage Rate	5.000%	4.750%
APR	5.156%	4.910%
Loan Type	Conventional 30 yr fixed	Conventional 30 year fixed
Mortgage Payment	\$1,074.00	\$1,095.00
Anticipated Energy Bill	\$200.00	\$140.00
Total Housing Expense	\$1,274.00	\$1,235.00
ENERGY STAR savings		\$39.00

In this example, the homeowner has saved substantially on the total expenses for mortgage and energy, and that savings will increase as future utility rates increase. The home is more comfortable, more valuable and costs less to own. The homeowner may save even more money if the beginning interest rate was higher than rates at the time of the ENERGY STAR mortgage refinance.

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## 3. Purchase and Renovate

A homebuyer has the choice of buying an existing home and live in it in its current state, or buying the home using the ENERGY STAR Mortgage and going through the [Home Performance with ENERGY STAR Program \(HPwES\)](#). The home improvements will cost \$10,000.00 and, according to the energy audit, will yield a 30% reduction in the energy consumption. Which decision will yield lower total costs of home ownership?

	Existing Home	Renovated Home (HPwES)
Value of Home	\$300,000.00	\$300,000.00 + value of improvements?
Mortgage Amount	\$200,000.00	\$210,000.00
Mortgage Rate	5.000%	4.750%
APR	5.156%	4.910%
Loan Type	Conventional 30 yr fixed	Conventional 30 year fixed
Mortgage Payment	\$1,074.00	\$1,095.00
Anticipated Energy Bill	\$200.00	\$140.00
Total Housing Expense	\$1,274.00	\$1,235.00
ENERGY STAR savings		\$39.00

If it is the same home as in the ENERGY STAR renovation (example 2), then the savings are the same. The buyer gets a better home and the total cost of ownership is less for the improved home, even though the home costs more. In this example the homebuyer could have paid up to \$18,000.00 for improvements and still have had lower total monthly expenses. Since the energy improvements

only cost \$10,000.00, the remaining \$8,000.00 could be spent in other areas and still not increase the monthly expenses.

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#### 4. Purchase, Renovate and Consolidate Debt

A homeowner needs to consolidate some debts and has decided to seek a mortgage to do so. However, the energy bills are quite high, so the homeowner would also like to do some energy improvements to the home. Can both goals be achieved and still save money on the mortgage?

	Existing Home	Renovated Home with Debt Consolidation
Value of Home	\$400,000.00	\$400,000.00 + value of improvements?
Consolidated Debts	ZERO	\$10,000.00
Energy Improvements	None	\$10,000.00
Mortgage Amount	\$200,000.00	\$220,000.00
Mortgage Rate	5.000%	4.750%
APR	5.156%	4.910%
Loan Type	Conventional 30 yr fixed	Conventional 30 year fixed
Mortgage Payment	\$1,074.00	\$1,148.00
Anticipated Energy Bill	\$250.00	\$175.00
Total Housing Expense	\$1,324.00	\$1,323.00
ENERGY STAR savings		\$1.00

This borrower has been able to save energy, save money, increase the value of the home and was still able to consolidate \$10,000.00 in debt without increasing the total monthly housing expenses. The savings come in the avoided payments of \$200.00 to \$500.00 per month on the debts that were consolidated.

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#### 5. Solar Energy Financing

The ESM can be used to finance a solar energy system or any other approved renewable energy or energy efficiency system. Please note that in order to take part in the ESM, a homeowner must still begin with an energy audit and follow the instructions of the auditor in completing basic improvements such as insulation, air sealing, duct sealing, furnace replacement and lighting improvements. If the auditor specifically notes that one of those basic improvements is unnecessary or inappropriate, other options such as solar can be considered.

In the case of photovoltaic (PV) solar, most areas of the state qualify for [local rebates](#) as well as the [30% federal tax credit](#). A general case example of a PV installation follows:

System Size	5000 watts	This will offset the electric use in most homes.
System cost	\$30,000.00	Costs vary. \$6.00 per watt is used for this example.
Utility Rebate	\$13,750.00	Estimated at \$2.70 per watt. Consult your service provider.
Federal Tax Credit	\$4,875.00	Please seek advice from your tax councilor.
Net System Cost	\$11,375.00	

In this example let's assume our homeowner already had a very efficient boiler and that the auditor has commented in his report that boiler replacement is not needed. In that case, the cost of the remaining improvements may be just \$4,000.00. So if we introduce the \$30,000.00 PV solar system, our total cost is \$34,000.00, but our post-rebate and tax credit cost is \$15,375.00.

	Existing Home	Renovated (HPwES) and PV Solar
Value of Home	\$300,000.00	\$300,000.00 + value of improvements?
Mortgage Amount	\$200,000.00	\$215,375.00
Mortgage Rate	5.000%	4.750%
APR	5.156%	4.910%
Loan Type	Conventional 30 yr fixed	Conventional 30 year fixed
Mortgage Payment	\$1,074.00	\$1,123.00
Anticipated Energy Bill	\$200.00	\$100.00
Total Housing Expense	\$1,274.00	\$1,223.00
ENERGY STAR savings		\$51.00

So in this case, the homeowner has done \$34,000.00 of improvements to the home, dramatically reduced his energy consumption, improved the overall comfort of the home, and still reduced his monthly bills.

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**As you can see from the examples, the ENERGY STAR Mortgage and Energy Saving Mortgage can have an incredible impact on the cost of energy improvements. In most cases the energy and mortgage savings together can completely offset the monthly cost of energy improvements and even reduce the total housing expenses.**

**For more information or to get started on your energy saving home improvements please call:**

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