Energy Efficiency and Traditional Mortgages

Snapshot & Benefits:
Important and growing opportunities exist to incorporate energy efficiency into mortgages. Much of this work is occurring at federal and state institutions, but regardless of their action there is much you can do yourself with traditional mortgages, home equity loans, and home equity lines of credit. You are probably aware of a recurring theme that energy efficient technologies cost a little more at the time of purchase, but that they pay for themselves over time because of lower operating costs. Current practice places the desires of many purchasers in conflict with the realities of monthly cash flow. While convinced of the benefits of energy-efficient technologies, many struggle to get through first cost issues. By using either a home equity loan or line of credit or a mortgage, purchasers are able to overcome initial costs by stretching payments over time. Monthly payments are often *less* than monthly savings delivered by energy-efficient technologies, resulting in net savings.

Solar photovoltaic (PV) systems (converting sunlight into electricity) provide a great example. An initial first cost of $10-$20,000 can be daunting to a homeowner who normally must wait 10 to 20 years for savings in electric bills to accumulate to a break even point. By incorporating the solar photovoltaic system's first cost into a 20- or 30-year mortgage, the incremental monthly cost of solar can be *less* than the monthly savings on the electric bill.

Estimated Cost Savings:
Your financing method can alter important decisions about what you can or cannot afford. It can make the difference between investing in energy-efficiency and/or renewable energy technologies or not. The housing industry has long known that few individuals can pay cash for a house at the time of purchase, yet buyers know instinctively that they will be better off in a home of their own than in a rented apartment. Imagine how the homebuilding industry would suffer if buyers had to pay up front or had to make their own arrangements in financial markets. Using a mortgage as a means of stretching out payments for energy-efficient technologies can save you a lot of money and allow you to enjoy benefits.

Issues:
For new homes, wrapping efficiency and renewable energy into a mortgage may be relatively easy. Organizations such as the Federal Housing Authority (FHA), Fannie Mae, Energy Star, and others offer energy efficient mortgage options for homes that qualify. For existing homes, the most readily available option is to use a home equity loan or line of credit. Residential energy efficiency improvement loans are available through some utility companies partnering with Fannie Mae. For more information on the growing number of energy efficient mortgage and loan options, please see our topic page on "Energy Efficient Mortgages."

Regional Issues:
Depending upon how progressive your regional financial institutions are, you may have difficulty in getting the very best rates. However, armed with information about performance and payback, you may be able to negotiate a rate more favorable than what the bank was originally willing to offer.

Be encouraged by the story of seat belts in automobiles in the 1960s. Initially widely resisted by car manufacturers, safety and security are now critical to making new vehicles attractive to all types of buyers. Today, no car, regardless of how low its price, can succeed without a high level of safety equipment. Like seat belts in the 1960s, energy efficiency is emerging as a new area of competition.

Installation (Getting It Done):
Be sure to consult with two or three (or more) or mortgage companies to discover your range of options. Bigger investments are likely to stretch over longer periods.