

The Colorado ENERGY STAR® Mortgage

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The **Colorado ENERGY STAR Mortgage** is a mortgage loan with a reduced interest rate that is used to purchase an ENERGY STAR new home, or to renovate an existing home for energy efficiency.

ENERGY STAR homes are usually 30% more energy efficient than a home built to code.

Loan Products Offered

◆ First Mortgage Products

- Purchase a New ENERGY STAR Home.
- Refinance an existing home to renovate for energy efficiency.
- Purchase an existing home and renovate for energy efficiency.

Loan Terms

- ◆ Market driven by the primary mortgage market.
- ◆ Loan subsidies are not graduated (all or nothing).
- ◆ Any existing first mortgage product (fixed, ARM's, balloons, FHA or conventional).
- ◆ Rates and qualification are primarily driven by borrower's credit and equity position.
- ◆ LTV's up to 100% of property value, plus the cost of the improvements.

Partnerships

- ◆ Colorado Governor's Energy Office – matching funds.
- ◆ Colorado ENERGY STAR Homes – promotion.
- ◆ Industry Partners – making connections
 - Realtors/Eco-brokers
 - Contractors
 - Energy Auditors
 - Utilities
 - Builders

Mortgage Loan Economics

- ◆ Normal Gross Income is 2.00% of the mortgage amount.
 - ◆ Income drops to 1.50% of the mortgage amount for ESM Loans due to rate reduction.
- *What the bank loses in income per loan must be made up in **volume**.*

ENERGY STAR Mortgage Example

On a loan of \$200,000.00 at 5.00% for 30 years, the payment is **\$1,073.00**. If the ESM is used to buy down the rate to 4.75% then the monthly mortgage payment is just **\$1,043.00**.

Savings is **\$30.00** per month.

If the utility bill on the unimproved residence was \$130.00 per month and the energy improvements reduced the bill by 30%:
that saves another **\$39.00** per month.

The combined savings of 69.00 per month at 4.75% for 30 years can finance improvements to the residence of:

\$13,227.00

(6.6% of the purchase price!).

without increasing the combined mortgage and utility bills.

Bank Interests

- ◆ Community Engagement.
- ◆ Profitable loans –a critical component.
- ◆ Improved Reputation of the Bank.
- ◆ Relationships with local businesses/Market Share.
- ◆ Loan Performance – Rate of Default

Secondary Market

- ◆ Mortgage Market is already established.
- ◆ A Mortgage Backed Security for resale of loans at premium prices is desirable.
- ◆ Tracking method for ESM/EEM loans would be useful for MBS design.

New Partnership Ideas

- ◆ Local
 - Forgive building permit fees for energy improvements.
 - Provide subsidized audits, especially for purchases.
- ◆ State
 - Use Tax Increment Financing to perpetuate funds availability.
- ◆ Federal and Fannie Mae/Freddie Mac
 - Extend federal tax credits indefinitely.
 - Resolve appraisal conflicts with EERE valuations.
 - Expand qualifying debts to include PITI-U.

For additional information about the
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