



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

September 18, 2013

TI-485

TO: ALL TITLE I LENDING INSTITUTIONS

SUBJECT: Modifications to the Home Energy Retrofit Loan Pilot Program  
(FHA PowerSaver Pilot Program)

This Letter announces modifications to the Federal Housing Administration (FHA) Home Energy Retrofit Loan Pilot program, also known as FHA PowerSaver Pilot program (PowerSaver program or Program), and provides interested Title I lenders with the opportunity to apply for participation in the PowerSaver program, which has been extended through May 4, 2015. This Letter does not make any changes to the current Title I Property Improvement and Loan Insurance program (Title I). The modifications specified in this Letter are only applicable to loans insured under the PowerSaver program.

The PowerSaver program is authorized by the Consolidated Appropriations Act of 2010 (Public Law 111-117, approved December 16, 2009), which appropriated \$25,000,000 for an energy efficient mortgage innovation pilot program directed at the single family housing market. On March 31, 2011, the Department of Housing and Urban Development published a Federal Register Notice *Federal Housing Administration (FHA): Notice of FHA PowerSaver Home Energy Retrofit Loan Pilot Program* (Notice), which based the Program on the Title I program. The Notice authorized the availability of FHA loan insurance to help homeowners to finance energy-saving alterations, repairs, and improvements in connection with existing structures. This Notice and Program extension may be viewed at:  
<http://www.gpo.gov/fdsys/pkg/FR-2011-03-31/pdf/2011-7551.pdf>, and  
<http://www.gpo.gov/fdsys/pkg/FR-2013-02-12/pdf/2013-03205.pdf>.

In order to align the PowerSaver program more closely with the Title I program, FHA is modifying the PowerSaver program to eliminate three requirements specific to the PowerSaver program and to add flexibility with respect to the distribution of loan proceeds.

This Letter provides notification of these changes to Title I lenders that are currently participating in the PowerSaver program and also provides all lenders currently active in originating Title I loans with a new opportunity to notify HUD of their interest in participating in the PowerSaver program (see Attachment A).

## **Background**

As provided in the prior notices, the goals of the PowerSaver program are: (1) to facilitate the testing and scaling of a mainstream mortgage product for home energy retrofit loans that includes liquidity options for lenders, resulting in more affordable and widely available loans than are currently available for home energy retrofits; and (2) to establish a robust set of data on home energy efficiency improvements and their impact – on energy savings, borrower income, property value, and other metrics – for the purpose of driving development and expansion of mainstream mortgage products to support home energy efficiency retrofits. FHA’s Title I program regulations, codified at 24 CFR part 201, provide the appropriate foundation for structuring the PowerSaver program; however, to meet the particular needs and goals of the PowerSaver program, FHA offered grant fund incentives and modified some Title I program requirements.

## **Modifications to the PowerSaver Program**

FHA seeks to expand consumer participation in the PowerSaver program, and is therefore modifying certain features of the Program and giving current Title I lenders a renewed opportunity to participate in the Program. These actions are complementary with, and entirely supportive of, the objectives of the PowerSaver program as described above.

The PowerSaver program, as provided above, is governed by the Title I program regulations at 24 CFR part 201, with some exceptions. The March 31, 2011 Federal Register Notice outlined modifications to eleven features of the Title I Property Improvement program, which were applicable to the PowerSaver program in Section V.F. (See 76 FR 17943-17945). This Letter revises the PowerSaver program by removing three requirements described in the March 31, 2011 Notice and discussed below. This Letter also modifies the conditions for loan disbursement for the PowerSaver program. Apart from these new changes, the Title I loan regulations, as modified for the PowerSaver Pilot program, and as described in the March 31, 2011 Notice, still apply.

The March 31, 2011 Notice and this Letter are designed to further the PowerSaver program objectives. FHA notes, however, that investors who purchase PowerSaver loans from originating Title I lenders may impose additional or more restrictive criteria, beyond these PowerSaver policies.

## **Key Changes to the PowerSaver Pilot Program**

The PowerSaver Pilot Program is being revised and the following requirements are being removed:

1. PowerSaver’s property valuation requirement;
2. PowerSaver’s prohibition on Dealer<sup>1</sup> loans, and,
3. PowerSaver’s geographic scope defining eligible markets.

Additionally, FHA is allowing lenders the flexibility to disburse loan proceeds from PowerSaver loan funds directly to the dealer.

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<sup>1</sup> In the case of property improvement loans, “dealer” refers to a seller, contractor, or supplier of goods or services.

#### A. Property Valuation

This Letter provides notice to Title I lenders that paragraph V.F.5., entitled “Property valuation,” is being removed from the March 31, 2011 Notice published at 76 FR 17944-17945. The use of standard Title I regulations, at 24 CFR §201.20, which do not require an appraisal or combined loan-to-value (CLTV) limits, is now permitted in the PowerSaver program. Lenders may self-determine their need for a CLTV limit.

#### B. Dealer Loans

This Letter provides notice to Title I lenders of the removal of paragraph V.F.9., entitled “Dealer loans (24 CFR §201.27),” from the March 31, 2011 Notice published at 76 FR 17945. The Title I program regulations at 24 CFR §201.2 define a *Dealer loan* as “a loan where a dealer, having a direct or indirect financial interest in the transaction between the borrower and the lender, assists the borrower in preparing the credit application or otherwise assists the borrower in obtaining the loan from the lender.” FHA recognizes that Dealer loans are an integral part of the Title I program, and although the PowerSaver program was originally limited to “Direct loans,” FHA now permits Dealer loans in the PowerSaver program.

Participating PowerSaver lenders who exercise the option for using the Dealer loan process must comply with all Title I Dealer loan regulations at 24 CFR §201.27, except as described below in Section D *Conditions for Loan Disbursement*.

#### C. Geographic Scope

This Letter notifies Title I lenders of the removal of paragraph V.B.2., entitled “Geographic scope,” from the March 31, 2011 Notice published at 76 FR 17942. The Notice defined eligible markets for PowerSaver lenders to serve, and allowed as automatically eligible those areas that participated in the U.S. Department of Energy’s *Better Buildings Program*, or offered *Home Performance with Energy Star*.

The majority of States in the U.S. have an area that participates in one or both of these programs. Therefore, PowerSaver loans may now be originated throughout all States.<sup>2</sup>

PowerSaver lenders are strongly encouraged to seek out and collaborate with organizations engaged with the U.S. Department of Energy’s *Better Buildings Program*, or *Home Performance with Energy Star*, as well as utility providers, and community stakeholders, for a collective leveraging of resources and to communicate shared objectives related to home energy conservation. Lenders are expected to encourage and support alliances that promote energy efficient improvements using qualified and responsible contractors, quality energy assessments/audits, and consumer education.

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<sup>2</sup> The Title I regulations at 24 CFR §201.2 defines “State” to mean any State of the United States, Puerto Rico, the District of Columbia, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or the United States Virgin Islands.

D. Conditions for Loan Disbursement (24 CFR §§201.2, 201.26(6))

This Letter modifies the content in paragraph V.F.8., entitled “Conditions for loan disbursement (24 CFR §201.26),” in the March 31, 2011 Notice published at 76 FR 17945 as follows:

In addition to current Title I requirements pertaining to disbursement of loan proceeds, the PowerSaver loan proceeds may be disbursed in two increments: (1) up to 50 percent of the proceeds may be disbursed at loan closing, and (2) the remaining 50 percent of the proceeds may be disbursed after the property improvements have been completed. PowerSaver requirements for use of loan funds, described in the Notice at Section V.F.4 (b) remain unchanged and unaffected by this Letter.

This “two-increment” disbursement policy will apply to both Direct and Dealer loans originated under the PowerSaver program. FHA understands that home improvement dealers/contractors commonly request an advance to fund the cost of materials that are custom to the home, together with engineering, permitting and other direct costs related to the installation of the materials. This Letter clarifies that an initial disbursement of proceeds is not a mandate. In no case may lenders disburse more than 50 percent of loan proceeds until the energy retrofit improvements have been completed, as evidenced by a Completion Certificate for Property Improvements (form 56002) executed by the borrower(s) and the dealer.

Current Title I requirements pertaining to disbursement of loan proceeds, codified at 24 CFR §201.26, will govern the disbursement of loan proceeds with the following exceptions for the PowerSaver Program:

- i. PowerSaver lenders may disburse loan funds directly to the dealer with respect to both Direct loans and Dealer loans with the written consent of the borrower.
- ii. For both Dealer loans and Direct loans, the lender may, at its option, disburse up to 50 percent of the proceeds upon loan closing directly to the dealer (Initial Disbursement), or use the disbursement process described in definitions of *Direct loan* and *Dealer loan*, located in 24 CFR §201.2 and in 24 CFR §201.26 (a)(6).
- iii. The initial disbursement to the dealer shall only be used to fund the cost of materials that will be permanently installed at the property and owned by the homeowner, engineering, permitting, and other direct costs related to the installation of the materials.
- iv. For PowerSaver loans originated through the Dealer loan process, the requirements of 24 CFR §201.26(a) (1), (2), (3), (4), and (7) will apply to each disbursement of loan proceeds.
- v. The remaining proceeds of at least 50 percent shall be disbursed after all improvements have been completed as evidenced by a Completion Certificate that meets the requirements of 24 CFR §201.26(a)(5) and the completion of a borrower interview meeting the requirements of 24 CFR §201.26(a)(7).

- vi. This letter clarifies that inspections are required for PowerSaver loans, and must comply with the requirements of 24 CFR §201.40(c).

### **Selection of Additional Participating Title I Lenders**

In light of the modifications described above, FHA invites Expressions of Interest (see Attachment A) from Title I lenders that are interested in participating in the PowerSaver Pilot program and joining previously selected lenders. FHA will select a limited number of additional lenders for participation in the PowerSaver program. FHA does not presently have grant funds available to offer new PowerSaver participants. Therefore, those portions of the March 31, 2011 Notice related to grant funds will not apply to the new lenders participating in the Program.

#### **A. Selection of Lenders**

Current Title I lenders interested in participating in the PowerSaver program may submit an Expression of Interest by using the template in Attachment A and following the instructions in this Letter. Lenders that fail to do so will not be considered for participation.

In evaluating Expressions of Interest and selecting lenders to participate, FHA will first review each Expression of Interest to verify that the lender is eligible to participate in the Program. FHA will then evaluate the Expressions of Interest from all eligible lenders primarily by weighing the following factors: (1) the lender's anticipated loan volume and target markets; (2) the lender's business model for participating in the Program; (3) the lender's capacity (experience and/or potential) to work in public-private partnerships; and (4) the extent to which the lender intends to deliver the most favorable loan product to consumers. FHA anticipates that these primary weighting factors will have generally equal weighting significance. In addition, FHA may consider the following factors in selecting lenders to participate: (1) diversity of lender type and target market; and (2) impact on low-income households and communities.

#### **B. Lender Eligibility**

Lender participation in the PowerSaver Pilot program is voluntary. Of the pool of interested existing Title I lenders that meet the criteria described below and in Appendix A, FHA intends to select a limited number of lenders to participate in the pilot program. FHA reserves the right to terminate a lender's participation in the PowerSaver program for unacceptable performance. Examples of unacceptable lender performance could include violating the program's underwriting and credit criteria, failing to meet FHA reporting requirements, and high defaults among originated loans under the Program. The criteria lenders must satisfy in order to be eligible for participation includes the following:

1. Approval as a Title I Program lender. Lenders must be FHA-approved to originate, purchase, hold, service, or sell loans insured under Title I program regulations at 24 CFR part 201.

2. Experience with similar lending initiatives. Lenders must be able to demonstrate experience with the type of lending initiative being undertaken in the Retrofit Pilot Program. In particular, HUD will consider the extent to which lenders have experience in successfully

originating and/or servicing small loans, home equity loans, second liens, FHA section 203(k) rehabilitation loans, and Title I Property Improvement Loans. Lenders that do not have experience in such lending may still be able to participate in the Pilot Program to the extent they can demonstrate how their other experience is relevant to determining their ability to participate in the pilot, and provided they agree to meet the Title I requirements before participation in the pilot program.

3. Computer System Capabilities. Lenders must have the technical capability to interface with FHA through FHA Connection. Lenders must also have the technical capability to interface with any other computer systems utilized by FHA or its contractors pertaining to the PowerSaver program.

4. Audit Capabilities. Lenders must have a demonstrated capacity to provide timely reports to FHA on origination and performance of PowerSaver loans. FHA envisions requiring occasional reports on loan and portfolio performance. In addition, a lender must be able to provide an electronic loan package to FHA for a random sample of loans chosen for quality reviews.

5. Collaborative Capacity. Lenders must have a demonstrated capacity to work with public sector agencies, nonprofit organizations, utilities and/or home improvement contractors.

### **Information Collection**

The information collection requirements contained in this document are pending approval by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-New. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

### **Questions**

If you have questions regarding this Title I Letter, please contact the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Information Relay Service at 1-800-877-8339. Inquiries may also be submitted by e-mail to FHAPowerSaver@hud.gov.

Sincerely,

Carol J. Galante  
Assistant Secretary for Housing-  
Federal Housing Commissioner

[Attachment](#)