

City of Fort Collins, Creating a Sustainable Community  
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# How to Finance an Energy Efficient Home Purchase or Renovation

**Stephen Ponce-Pore, M.S.**  
*Energy Programs Manager*  
Bank of Colorado  
(970) 231-4024  
[www.ColoradoEnergyStarMortgage.com](http://www.ColoradoEnergyStarMortgage.com)



# Financing Energy Efficiency

Homeowners would like to make their homes more energy efficient, save money, save the environment, and improve comfort. However, they must have the funds available to make such changes.



## Three Financial Challenges

1. *Upfront cost – too high*
2. *Monthly payments – too high*
3. *Can't qualify for financing*

# What financing options are there for EERE?

1. Unsecured Funds (Credit Cards)
2. Second Mortgage/HELOC
3. First Mortgage Refinance



# Finance Types and Terms

	Credit Card	Second Mortgage	First Mortgage
Amount	\$10,000.00	\$10,000.00	\$10,000.00
Rate	14.00 %	7.00 %	4.50 %
Max Loan	?	80% LTV	100+
Term	72	360	360
Payment	\$206.06	\$66.53	\$50.67
Utility Bill Start	\$150.00	\$150.00	\$150.00
Utility Bill % Savings	30%	30%	30%
Utility Bill \$ Savings	\$ 45.00	\$ 45.00	\$ 45.00
Net Savings	<b>\$ (161.06)</b>	<b>\$ (21.53)</b>	<b>\$ (5.67)</b>

# Term or Rate?

In order to have the lowest monthly payment, is it more important to have a low interest rate, or a longer term?

On a loan of \$10,000.00 ...

Paid over 7 years at 0% interest - \$119.05 per month.

Paid over 30 years at 4.5% interest - \$50.67 per month.

But the reality is that the short term usually has a much higher interest rate:

Paid over 7 years at 7% interest - \$150.93.

# Keep a Long-term Focus

*When financing a long-term investment in Energy Efficiency or Renewable Energy the goal is to combat an unavoidable and ever-rising cost with a fixed and predictable investment.*



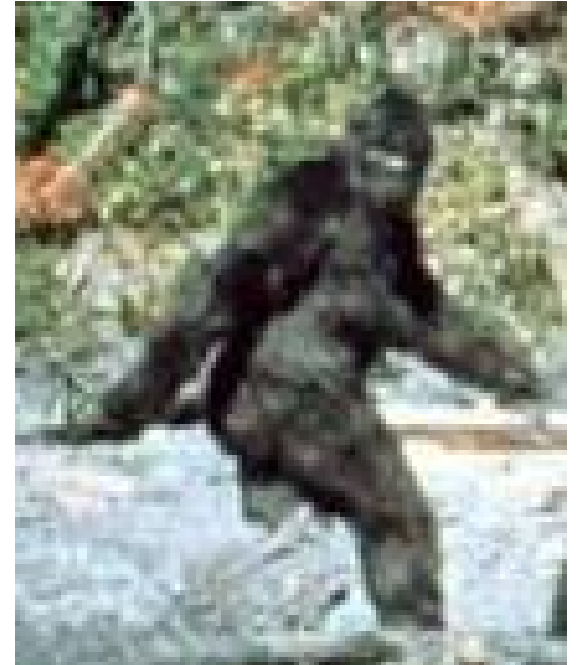
# Mortgage Financing for EERE

- Longest Term
- Lowest Rate
- Tax Advantages
- Familiar
- Regulated
- Available



# What about the EEM and EIM?

- Energy Efficient Mortgage
- Energy Improvement Mortgage



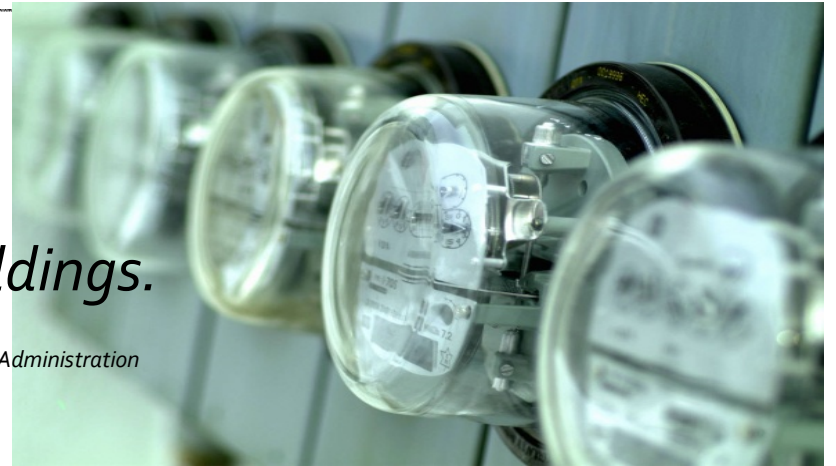
Often talked about, but rarely seen!



# Important Facts:

*48% of US energy consumption is in buildings.*

*US Energy Information Administration*



*38% is the average amount of equity in an American home.*

<http://pragcap.com/home-equity-stunner>

*The average interest rate of homes in the U.S. is over 6.00%.*

[www.Efammiemae.com](http://www.Efammiemae.com)

*Mortgage Rates are at 40 year lows.*

[www.Mortgage-x.com/history](http://www.Mortgage-x.com/history)

# The Good News

**Q:** How can we use these facts to present a solution to the residential EERE financing issue?

**A:** Use a *discounted* residential mortgage to yield savings on interest rate and energy that exceed the cost of the improvements.



# The ENERGY STAR® Mortgage

- The payment on \$200,000.00 mortgaged at 5.00% for 30 years, is \$1,073.00. The ESM provides 1% (\$2,000.00) to buy down the rate to 4.75%, for a mortgage payment of just \$1,043.00. Saving \$30.00/ month.
- If the utility bill on the residence was \$130.00 per month and the energy improvements reduced the bill by 30% it saves \$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:

**\$13,294.00**

**6.6% increase in purchase capacity!**

***Without* increasing the homeowner's  
monthly bills!**

# Financing Types

## **Power Purchase Agreement (PPA)**

*Allow a third party to install equipment and pay a predetermined fee for the energy produced.*

## **Energy Services Companies (ESCO's)**

*Competitive services for better energy and building management. ( aka Performance Contracting)*

**Lease Equipment** – *Low upfront costs with long term gains.*

**Mortgages** – *Low rate/long term financing.*

**Peer to Peer** – *Emerging market with great possibilities.*

# Ideas, Questions, Comments?



**Stephen Ponce-Pore**

**(970) 231-4024**

[stephen.poncepore@bankofcolorado.com](mailto:stephen.poncepore@bankofcolorado.com)

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