AMENDMENT OFFERED BY MR. WELCH OF VERMONT
TO THE AMENDMENT IN THE NATURE OF A SUBSTITUTE FOR H.R. 8

In subtitle A of title IV, add at the end the following new chapter:

CHAPTER 8—ENHANCED ENERGY EFFICIENCY UNDERWRITING

SEC. 4181. ENHANCED ENERGY EFFICIENCY UNDERWRITING.

(a) DEFINITIONS.—In this section:

(1) COVERED AGENCY.—The term "covered agency"—

(A) means—

(i) an executive agency, as that term is defined in section 102 of title 31, United States Code; and

(ii) any other agency of the Federal Government; and

(B) includes any enterprise, as that term is defined under section 1303 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4502).

(2) COVERED LOAN.—The term ''covered loan'' means a loan secured by a home that is issued, insured, purchased, or securitized by a covered agency.

(3) HOMEOWNER.—The term ''homeowner'' means the mortgagor under a covered loan.

(4) MORTGAGEE.—The term ''mortgagee'' means—

(A) an original lender under a covered loan or the holder of a covered loan at the time at which that mortgage transaction is consummated;

(B) any affiliate, agent, subsidiary, successor, or assignee of an original lender under a covered loan or the holder of a covered loan at the time at which that mortgage transaction is consummated;

(C) any servicer of a covered loan; and

(D) any subsequent purchaser, trustee, or transferee of any covered loan issued by an original lender.

(5) SECRETARY.—The term ''Secretary'' means the Secretary of Housing and Urban Development.

(6) SERVICER.—The term ''servicer'' means the person or entity responsible for the servicing of a covered loan, including the person or entity who

makes or holds a covered loan if that person or entity also services the covered loan.

(7) SERVICING.—The term ''servicing'' has the meaning given the term in section 6(i) of the Real Estate Settlement Procedures Act of 1974 (12 U.S.C. 2605(i)).

(b) FINDINGS AND PURPOSES.—

(1) FINDINGS.—Congress finds that—

(A) energy costs for homeowners are a significant and increasing portion of their household budgets;

(B) household energy use can vary substantially depending on the efficiency and characteristics of the house;

(C) expected energy cost savings are important to the value of the house;

(D) the current test for loan affordability used by most covered agencies, commonly known as the ''debt-to-income'' test, is inadequate because it does not take into account the expected energy cost savings for the homeowner of an energy efficient home; and

(E) another loan limitation, commonly known as the ''loan-to-value'' test, is tied to the appraisal, which often does not adjust for efficiency features of houses.

(2) PURPOSES.—The purposes of this section are to—

(A) improve the accuracy of mortgage underwriting by Federal mortgage agencies by ensuring that energy cost savings are included in the underwriting process as described below, and thus to reduce the amount of energy consumed by homes and to facilitate the creation of energy efficiency retrofit and construction jobs;

(B) require a covered agency to include the expected energy cost savings of a homeowner as a regular expense in the tests, such as the debt-to-income test, used to determine the ability of the loan applicant to afford the cost of homeownership for all loan programs; and

(C) require a covered agency to include the value home buyers place on the energy efficiency of a house in tests used to compare the mortgage amount to home value, taking precautions to avoid double-counting and to support safe and sound lending.

(c) ENHANCED ENERGY EFFICIENCY UNDERWRITING CRITERIA.—

(1) IN GENERAL.—Not later than 1 year after the date of enactment of this Act, the Secretary shall, in consultation with the advisory group established in subsection (f)(2), develop and issue guidelines for a covered agency to implement enhanced loan eligibility requirements, for use when testing the ability of a loan applicant to repay a covered loan, that account for the expected energy cost savings for a loan applicant at a subject property, in the manner set forth in paragraphs (2) and (3).

(2) REQUIREMENTS TO ACCOUNT FOR ENERGY COST SAVINGS.—The enhanced loan eligibility requirements under paragraph (1) shall require that, for all covered loans for which an energy efficiency report is voluntarily provided to the mortgagee by the mortgagor, the covered agency and the mortgagee shall take into consideration the estimated energy cost savings expected for the owner of the subject property in determining whether the loan applicant has sufficient income to service the mortgage debt plus other regular expenses. To the extent that a covered agency uses a test such as a debt-to-income test that includes certain regular expenses,

such as hazard insurance and property taxes, the expected energy cost savings shall be included as an offset to these expenses. Energy costs to be assessed include the cost of electricity, natural gas, oil, and any other fuel regularly used to supply energy to the subject property.

(3) DETERMINATION OF ESTIMATED ENERGY COST SAVINGS.—

(A) IN GENERAL.—The guidelines to be issued under paragraph (1) shall include instructions for the covered agency to calculate estimated energy cost savings using—

(i) the energy efficiency report;

(ii) an estimate of baseline average energy costs; and

(iii) additional sources of information as determined by the Secretary.

(B) REPORT REQUIREMENTS.—For the purposes of subparagraph (A), an energy efficiency report shall—

(i) estimate the expected energy cost savings specific to the subject property, based on specific information about the property;

(ii) be prepared in accordance with the guidelines to be issued under paragraph (1); and

(iii) be prepared—

(I) in accordance with the Residential Energy Service Network's Home Energy Rating System (commonly known as "HERS") by an individual certified by the Residential Energy Service Network, unless the Secretary finds that the use of HERS does not further the purposes of this section; or

(II) by other methods approved by the Secretary, in consultation with the Secretary of Energy and the advisory group established in subsection (f)(2), for use under this section, which shall include a third-party quality assurance procedure.

(C) USE BY APPRAISER.—If an energy efficiency report is used under paragraph (2), the energy efficiency report shall be provided to the appraiser to estimate the energy efficiency of the subject property and for potential adjustments for energy efficiency.

(4) REQUIRED DISCLOSURE TO CONSUMER FOR A HOME WITH AN ENERGY EFFICIENCY REPORT.—If an energy efficiency report is used under paragraph (2), the guidelines to be issued under paragraph (1) shall require the mortgagee to—

(A) inform the loan applicant of the expected energy costs as estimated in the energy efficiency report, in a manner and at a time as prescribed by the Secretary, and if practicable, in the documents delivered at the time of loan application; and

(B) include the energy efficiency report in the documentation for the loan provided to the borrower.

(5) REQUIRED DISCLOSURE TO CONSUMER FOR A HOME WITHOUT AN ENERGY EFFICIENCY REPORT.—If an energy efficiency report is not used under paragraph (2), the guidelines to be issued under paragraph (1) shall require the mortgagee to inform the loan applicant in a manner and at a time as prescribed by the Secretary, and if practicable, in the documents delivered at the time of loan application of—

(A) typical energy cost savings that would be possible from a cost-effective energy upgrade of a home of the size and in the region of the subject property;

(B) the impact the typical energy cost savings would have on monthly ownership costs of a typical home;

(C) the impact on the size of a mortgage that could be obtained if the typical energy cost savings were reflected in an energy efficiency report; and

(D) resources for improving the energy efficiency of a home.

(6) PRICING OF LOANS.—

(A) IN GENERAL.—A covered agency may price covered loans originated under the enhanced loan eligibility requirements required under this section in accordance with the estimated risk of the loans.

(B) IMPOSITION OF CERTAIN MATERIAL COSTS, IMPEDIMENTS, OR PENALTIES.—In the absence of a publicly disclosed analysis that demonstrates significant additional default risk or prepayment risk associated with the loans, a covered agency shall not impose material costs, impediments, or penalties on covered loans merely because the loan uses an energy efficiency report or the enhanced loan eligibility requirements required under this section.

(7) LIMITATIONS.—

(A) IN GENERAL.—A covered agency may price covered loans originated under the enhanced loan eligibility requirements required under this section in accordance with the estimated risk of those loans.

(B) PROHIBITED ACTIONS.—A covered agency shall not—

(i) modify existing underwriting criteria or adopt new underwriting criteria that intentionally negate or reduce the impact of the requirements or resulting benefits that are set forth or otherwise derived from the enhanced loan eligibility requirements required under this subsection; or

(ii) impose greater buy back requirements, credit overlays, or insurance requirements, including private mortgage insurance, on covered loans merely because the loan uses an energy efficiency report or the enhanced loan eligibility requirements required under this subsection.

(8) APPLICABILITY AND IMPLEMENTATION DATE.—Not later than 3 years after the date of enactment of this Act, and before December 31, 2017, the enhanced loan eligibility requirements required under this subsection shall be implemented by each covered agency to—

(A) apply to any covered loan for the sale, or refinancing of any loan for the sale, of any home;

(B) be available on any residential real property (including individual units of condominiums and cooperatives) that qualifies for a covered loan; and

(C) provide prospective mortgagees with sufficient guidance and applicable tools to implement the required underwriting methods.

(d) ENHANCED ENERGY EFFICIENCY UNDERWRITING VALUATION GUIDELINES.—

(1) IN GENERAL.—Not later than 1 year after the date of enactment of this Act, the Secretary shall—

(A) in consultation with the Federal Financial Institutions Examination Council and the advisory group established in subsection (f)(2), develop and issue guidelines for a covered agency to determine the maximum permitted loan amount based on the value of the property for all covered loans made on properties with an energy efficiency report that meets the requirements of subsection (c)(3)(B); and

(B) in consultation with the Secretary of Energy, issue guidelines for a covered agency to determine the estimated energy savings under paragraph (3) for properties with an energy efficiency report.

(2) REQUIREMENTS.—The enhanced energy efficiency underwriting valuation guidelines required under paragraph (1) shall include—

(A) a requirement that if an energy efficiency report that meets the requirements of subsection (c)(3)(B) is voluntarily provided to the mortgagee, such report shall be used by the mortgagee or covered agency to determine the estimated energy savings of the subject property; and

(B) a requirement that the estimated energy savings of the subject property be added to the appraised value of the subject property by a mortgagee or covered agency for the purpose of determining the loan-to-value ratio of the subject property, unless the appraisal includes the value of the overall energy efficiency of the subject property, using methods to be established under the guidelines issued under paragraph (1).

(3) DETERMINATION OF ESTIMATED ENERGY SAVINGS.—

(A) AMOUNT OF ENERGY SAVINGS.—The amount of estimated energy savings shall be determined by calculating the difference between the estimated energy costs for the average comparable houses, as determined in guidelines to be issued under paragraph (1), and the estimated energy costs for the subject property based upon the energy efficiency report.

(B) DURATION OF ENERGY SAVINGS.—The duration of the estimated energy savings shall be based upon the estimated life of the applicable equipment, consistent with the rating system used to produce the energy efficiency report.

(C) PRESENT VALUE OF ENERGY SAVINGS.—The present value of the future savings shall be discounted using the average interest rate on conventional 30-year mortgages, in the manner directed by guidelines issued under paragraph (1).

(4) ENSURING CONSIDERATION OF ENERGY EFFICIENT FEATURES.—Section 1110 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 3339) is amended—

(A) in paragraph (2), by striking "; and" and inserting a semicolon; and

(B) in paragraph (3), by striking the period at the end and inserting "; and" and inserting after paragraph (3) the following:

"(4) that State certified and licensed appraisers have timely access, whenever practicable, to information from the property owner and the lender that may be relevant in developing an opinion of value regarding the energy- and water-saving improvements or features of a property, such as—

"(A) labels or ratings of buildings;

"(B) installed appliances, measures, systems or technologies;

"(C) blueprints;

“(D) construction costs;

“(E) financial or other incentives regarding energy- and water-efficient components and systems installed in a property;

“(F) utility bills;

“(G) energy consumption and benchmarking data; and

“(H) third-party verifications or representations of energy and water efficiency performance of a property, observing all financial privacy requirements adhered to by certified and licensed appraisers, including section 501 of the Gramm-Leach-Bliley Act (15 U.S.C. 6801).

Unless a property owner consents to a lender, an appraiser, in carrying out the requirements of paragraph (4), shall not have access to the commercial or financial information of the owner that is privileged or confidential.”.

(5) TRANSACTIONS REQUIRING STATE CERTIFIED APPRAISERS.—Section 1113 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 3342) is amended—

(A) in paragraph (1), by inserting before the semicolon the following: “, or any real property on which the appraiser makes adjustments using an energy efficiency report''; and

(B) in paragraph (2), by inserting after ''atypical'' the following: '', or an appraisal on which the appraiser makes adjustments using an energy efficiency report.''.

(6) PROTECTIONS.—

(A) AUTHORITY TO IMPOSE LIMITATIONS.—The guidelines to be issued under paragraph (1) shall include such limitations and conditions as determined by the Secretary to be necessary to protect against meaningful under or over valuation of energy cost savings or duplicative counting of energy efficiency features or energy cost savings in the valuation of any subject property that is used to determine a loan amount.

(B) ADDITIONAL AUTHORITY.—At the end of the 7-year period following the implementation of enhanced eligibility and underwriting valuation requirements under this section, the Secretary may modify or apply additional exceptions to the approach described in paragraph (2), where the Secretary finds that the unadjusted appraisal will reflect an accurate market value of the efficiency of the subject property or that a modified approach will better reflect an accurate market value.

(7) APPLICABILITY AND IMPLEMENTATION DATE.—Not later than 3 years after the date of enactment of this Act, and before December 31, 2017, each covered agency shall implement the guidelines required under this subsection, which shall—

(A) apply to any covered loan for the sale, or refinancing of any loan for the sale, of any home; and

(B) be available on any residential real property, including individual units of condominiums and cooperatives, that qualifies for a covered loan.

(e) MONITORING.—Not later than 1 year after the date on which the enhanced eligibility and underwriting valuation requirements are implemented under this section, and every year thereafter, each covered agency with relevant activity shall issue and make available to the public a report that—

(1) enumerates the number of covered loans of the agency for which there was an energy efficiency report, and that used energy efficiency appraisal

guidelines and enhanced loan eligibility requirements;

(2) includes the default rates and rates of foreclosures for each category of loans; and

(3) describes the risk premium, if any, that the agency has priced into covered loans for which there was an energy efficiency report.

(f) RULEMAKING.—

(1) IN GENERAL.—The Secretary shall prescribe regulations to carry out this section, in consultation with the Secretary of Energy and the advisory group established in paragraph (2), which may contain such classifications, differentiations, or other provisions, and may provide for such proper implementation and appropriate treatment of different types of transactions, as the Secretary determines are necessary or proper to effectuate the purposes of this section, to prevent circumvention or evasion thereof, or to facilitate compliance therewith.

(2) ADVISORY GROUP.—To assist in carrying out this section, the Secretary shall establish an advisory group, consisting of individuals representing the interests of—

(A) mortgage lenders;

(B) appraisers;

(C) energy raters and residential energy consumption experts;

(D) energy efficiency organizations;

(E) real estate agents;

(F) home builders and remodelers;

(G) State energy officials; and

(H) others as determined by the Secretary.

(g) ADDITIONAL STUDY.—

(1) IN GENERAL.—Not later than 18 months after the date of enactment of this Act, the Secretary shall reconvene the advisory group established in subsection (f)(2), in addition to water and locational efficiency experts, to advise the Secretary on the implementation of the enhanced energy efficiency underwriting criteria established in subsections (c) and (d).

(2) RECOMMENDATIONS.—The advisory group established in subsection (f)(2) shall provide recommendations to the Secretary on any revisions or additions to the enhanced energy efficiency underwriting criteria deemed necessary by the group, which may include alternate methods to better account for home energy costs and additional factors to account for substantial and regular costs of homeownership such as location-based transportation

costs and water costs. The Secretary shall forward any legislative recommendations from the advisory group to Congress for its consideration.

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