

[< Back to Content](#) | [Help?](#)



## Green Mortgages

Eco-friendly homeownership involves more than water-efficient plumbing fixtures. Homeowners can get reduced mortgage fees and interest rates while saving on their utility bills with green mortgages.

Energy-efficient mortgages—or “green” mortgages—have become increasingly popular in recent years as more homeowners look for ways to reduce their energy costs and their carbon footprint. The impact on the environment can be significant: In one year, the average home produces twice as much greenhouse gas as the typical car.

A green mortgage resembles a traditional mortgage in every way but one: It rewards homeowners for being environmentally conscious. With an energy-efficient house, you spend less money each month for electricity, natural gas and/or oil—sometimes by several hundred dollars or more. If you’re looking to move into a larger home, you could afford a higher mortgage payment and can get approved for a bigger mortgage. In addition, some lenders may reduce the interest rate and points and other fees due at signing.



Many homes financed with green mortgages have solar panels installed to reduce heating costs. Photo courtesy of Borrego Solar.

There are a variety of green mortgage programs to choose from, whether you’re buying a new house or want to upgrade your current home. Here are some ideas:

- A **first mortgage** can buy a house that is certified as energy-efficient. Most likely, this will be a new home that is built by a green builder.
- A **construction loan** is the wise choice if you’d rather build a green house from scratch.
- **Refinance** an existing mortgage and use the extra cash to upgrade insulation, replace old appliances with Energy Star-rated brands, improve HVAC systems and install solar panels, for a start.
- Open a **home equity line of credit** to make your house more energy-efficient.

### Bank or Broker?

Some traditional banks and credit unions have added green mortgages to their menu of home finance solutions. [Countrywide Home Loans](#) recently introduced its Green Incentive Program, which is currently available to qualified homebuyers in 13 states. Buyers who purchase a new green house receive a discount of one-eighth percent off their interest rate.

A growing number of mortgage brokers and lenders are solely focusing on green mortgages. [Modern Earth Finance](#), in Encino, Calif., offers its Green Progress Loan to homeowners who want to buy a new green home, purchase and remodel an existing home, or turn their current home into a model of energy efficiency. Modern Earth cuts the interest rate on its loans by an

eighth of a point and reduces closing costs by up to 25 percent, depending on the program.

The federal government has also gotten into the act. The [Federal Housing Administration](#) and [Department of Veterans Affairs](#) offer an Energy Efficient Mortgage, or EEM, and both Fannie Mae and Freddie Mac underwrite EEMs from traditional lenders.

Regardless of which program or lender you choose, financing is contingent on the house passing an energy audit known as the [Home Energy Rating System \(HERS\)](#). A certified green building consultant conducts an on-site inspection to assess the energy efficiency of the house then determines the necessary steps for the homeowner to qualify for a green mortgage.

### Show Me the Money

Though it sounds like a lot of work initially, there are big payoffs in the future. For one, the fact that a homeowner or prospective buyer does the legwork and is also concerned about the environment presents him as a good credit risk and more likely to qualify for a mortgage, even when credit is tight. Gregg Steiner, a green consultant and founder of [Green Life Guru](#) in Los Angeles, concurs, saying, “It shows prospective lenders that the homeowner is a serious person who is taking smart steps to save money.”

Mike Hall, president of [Borrego Solar Systems](#), a solar electric contracting company with offices in El Cajon and Berkeley, Calif., and Chelmsford, Mass., says that many of his customers have reduced their monthly energy bills by \$100 to \$200 after installing a solar power system. And not only do green houses save their owners money each month, but the homes generally end up being worth more. “The general rule of thumb is that for every dollar saved annually on energy costs, the appraised value of a house will increase by \$10 or \$20,” says Hall.

### A Different Shade of Green

There are two variations on green mortgages. One is a [Location Efficient Mortgage](#), or LEM, which operates like an EEM with a twist: The lender assumes that city dwellers have more monthly disposable income because they are more likely to walk than drive and use public transportation to get to work, school and shops.

Another kind of green mortgage focuses on reclaiming an old home slated for demolition. The Moving Home mortgage from Seattle’s [Viking Bank](#) covers the purchase of the house, the move and preparation of the new home site. Once the house is settled at its new location, the owners can upgrade the insulation and HVAC systems, undoubtedly making the house much more energy-efficient than it was in its previous spot.

Ironically, a slow real estate market can lift demand for green mortgages. Indeed, it may be possible to use an existing home’s energy



Banks and finance companies that offer green mortgages look for homes with southern exposure to maximize energy efficiency. Photo courtesy of Borrego Solar.



Green mortgages aren’t just for newly built homes. They can be used to

inefficiency to bargain down the selling price. finance homes that would have  
“We suggest an energy audit during escrow so a otherwise been destroyed. Photo  
buyer knows what their energy costs will be on the courtesy of Nickel Bros. House Moving.  
house,” says Joel Baral of Modern Earth Finance.  
“Then, he can ask the seller to pay for the repairs or plan ahead for the upgrades.”

“Even though many homeowners have been making green improvements in their homes, green mortgages have not caught on as much as they might have,” says Hall. “In a hot real estate market, homeowners rarely run up against borrowing limits. But as the market tightens up and energy prices continue to rise, we expect demand for these products to increase.”

Growth in green mortgages in the future will eventually spill over and help to lift the economy. “The trend toward green building and financing are not only great for the environment but also for the economy,” says James Stone, construction and green mortgage specialist at Colonial National Mortgage in Dallas/Fort Worth, Texas. “More green construction projects mean more jobs, more mortgages, more affordable homes and happier homeowners. It all supports people who want to pursue different means of making the world a better place.”

Text by Lisa Rogak  
Copyright BobVila.com © 2008