

FINDING GREEN FINANCING

Green mortgages reward green-minded clients for audits, upgrades, and enhancements

By Dinah Eng

REALTORS® working with eco-conscious consumers may want to establish relationships with “green lenders” who are now offering mortgages and equity lines of credit with lower rates and points to qualifying home buyers.

Most “green loans” come with an eighth of a percentage point cut in the interest rate, or are a quarter point lower in fees. Combined with utility savings over time, the overall savings can be significant, as well as contribute to a cleaner environment, say green lenders.

“Green financing is a mandatory consideration for everybody, with energy prices being what they are today,” says Joel Baral, founder of Modern Earth Finance in Encino and accredited as a LEED® Green Building Professional by the U.S. Green Building Council (USGBC). “State energy-efficiency standards are getting more strict. The California Energy Commission says that by 2020, all new homes will have to be zero net energy homes.”

Zero net energy homes use energy-efficient construction, equipment, lighting, and appliances with renewable energy systems to return or create as much energy as they take from local electric utilities on an annual basis, by using windmills, solar panels, or generators; new commercial buildings would be required to meet the same standards by 2030.

Modern Earth Finance, which provides traditional mortgage broker services, specializes in clients who are building green, buying a green house, or remodeling existing homes to make them more energy efficient. The firm offers two kinds of green loans—a Green Progress Loan and an Energy Efficient Mortgage.

“The Green Progress is in place of a traditional first mortgage and incorporates acquisition or existing debt with green/energy-efficient upgrades,” Baral explains. “We apply the Green Progress Loan benefit to any loan the property and client can qualify for. The discount applies to the total amount of the underlying loan. The project has to be sufficiently energy-efficient or green for us to give the client the benefits.”

Clients must provide documentation that the house is either GreenPoint Rated by Build It Green, certified by ENERGY STAR, LEED® H-certified by the USGBC, or part of

a local government green building program. Green Progress Loans reduce the interest rate by an eighth of a percentage point or a quarter point in fees.

Energy Efficient Mortgages, offered through FHA and VA loan programs, enable buyers to qualify for larger loans. Baral says applicants must do an energy audit of the home to get recommendations for energy upgrades. Homeowners may borrow up to 5 percent of the loan amount, or \$8,000, whichever is higher, above the purchase price for qualified improvements.

“The utility savings is considered income, so you can get a bigger loan for the house,” Baral says. “Nationwide, 1,400 of these loans were given last year, so it’s not a lot. But green mortgages have become more than 50 percent of our business in the last year. This is where we live and are betting our future.”

Tomek Rondio, CEO of Mortgagegreen, Inc. in Larkspur, says his company was the first in California to begin offering green loans in 2001.

“We do green and non-green loans,” Rondio says. “In general, we give an eighth of a percentage point discount in interest rates on green-certified homes. Green-certified properties will be the mainstream in a few years.”

Mortgagegreen has developed green residential mortgage underwriting standards that Rondio hopes will entice investors to open the doors to discounted financing for green-certified buildings.

“Until we can create a pipeline to green capital and prove that green homes are a

greater value to consumers, there’s not a large financial advantage for consumers who get green loans right now,” Rondio says. “But within a few months to a year, I think that sheer momentum will change that. Energy prices are slated to rise 20 percent a year for the next 10 years, according to Department of Energy statistics. If you have your own solar panels or power product, you won’t be paying those bills.”

New Resource Bank in San Francisco offers home equity lines of credit specifically for solar panel installations, as well as construction loans and financing for developers with interest rate discounts and lower fees for green building projects.

“We offer solar financing for commercial and single-family homes,” says Peter Liu, founder and vice chairman of New Resource Bank. “Our approach on the solar loans is to help people get solar with no money down. The consumer pays monthly bills that pay for the system. Utility costs go down

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Green Mortgage
Financing that offers lower rates or points to buy or build a certified energy-efficient home.

Green Lender
A green lender is a lender who’s versed in both real estate financing and ways to make homes and buildings more energy efficient.

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when the solar system’s installed, and the customer has no cash flow impact.”

Green construction loans, currently available only in the San Francisco Bay Area, typically get an eighth of a percentage point discount on both the interest rate and the fees.

“The fundamentals of real estate development still apply, but the homes have to be certified by the U.S. Green Building Council, Build It Green, or held to the equivalent of those standards,” Liu says. “We do primarily construction, permanent multi-family, and permanent commercial real estate loans. On the solar financing side, we’re processing dozens of applications a week. The response has been great.”

Dinah Eng is a freelance real estate writer.