



## Energy Benchmarking or “Green MIP” Overview

HUD has established energy efficiency requirements for all properties seeking HUD financing after July 2017. All properties will be required to run their current (or proposed) utility usage through the EPA’s Portfolio Manager tool to meet minimum energy efficiency thresholds. Bedford Lending will assist property owners in performing this benchmarking.

For properties that are exceptionally energy efficient, HUD will reward owners in a variety of ways. The genesis of the benchmarking was a way for HUD to save on utility payments paid for subsidized housing – but it has huge benefits for market rate properties as well.

✓ **Plus, “green” consulting and diagnostic fees are mortgageable costs for all transactions.**

## Benefits

Energy benchmarking offers significant benefits for property owners and developers. For all projects that exceed minimum efficiency standards, provide evidence that the project has achieved or will pursue an industry-recognized standard for green building, and have the findings verified by the lender’s needs assessor, projects qualify for:

- Reduction in monthly MIP payment which has significant benefits for surplus cash flow.
- Reduction in mortgaged “capitalized” MIP due at closing by 30-80 basis points.
- Project can be underwritten with reduced operating expenses which may increase mortgage amount.

## Overview

There are two different energy benchmarking reports, dependent upon loan type.

Continued on Next Page

## Refinances/Acquisitions (223f, a7)

Requires a Statement of Energy Performance (SEP) report to be completed. This report is generally \$750-\$2,500 and is mortgageable. The SEP is a historical view of past energy consumption, which is benchmarked in the EPA Portfolio Manager tool and compared against EPA's standard data set of similar type/constructed housing.

**An overall SEP score below "60" will precipitate the need for an ASHRAE Level II Energy Audit,** which will delineate the steps needed to meet minimum levels of efficiency.

Goal	Mandatory Requirement	SEP Score	Reporting Requirements	Green Certification Required	Implementation
<b>Secure standard refinance or acquisition financing.</b>	SEP Report	n/a	If SEP score under 60, ASHRAE Level II Energy Audit must be secured.	No.	No, Energy Audit repair recommendations not required to be implemented as long as conservation measures are documented and identified in needs assessment.
<b>Secure operating expense utility savings in underwriting (up to 75%).</b>	SEP Report	60+	ASHRAE Level II Energy Audit must be secured, repairs must be identified in needs assessment.	No.	Yes, repairs listed in Energy Audit must be included as pre-closing "immediate" repairs, and identified in needs assessment. Repair costs are mortgageable.
<b>Secure both operating expense utility savings in underwriting AND "Green MIP" benefits.</b>	SEP Report	75+	ASHRAE Level II Energy Audit must be secured, repairs must be identified in needs assessment, and an independent energy certifier must confirm the project meets a green building standard, see below chart.	Yes.	Yes, repairs listed in Energy Audit must be included as pre-closing "immediate" repairs, and identified in needs assessment. Repair costs are mortgageable.

Continued on Next Page

## New Construction / Substantial Rehab (221d4)

A Statement of Energy Design Intent (SEDI) must be completed. These are theoretical energy consumption models based upon construction design. These reports are complex, as they forecast future energy usage of a property and are more expensive than a SEP. SEDI reports range from ~\$6,500-12,500 and are mortgageable. **A SEDI score equal to 60 or greater is required of all projects.**

Goal	Mandatory Requirement	SEDI Score	Reporting Requirements	Green Cert Required	Implementation
<b>Secure standard new construction or rehab financing.</b>	SEDI Report	60+	If under 60, architect must work with energy benchmarking provider to update plans to meet minimum efficiency requirements.  In addition to the 60+ score, the needs assessment document (part of the architectural/cost review report) must also support the findings.	No.	Energy efficient building materials/designs must be implemented in the plans & specs prior to closing.  Green building consulting and diagnostic fees are mortgageable.
<b>Secure both operating expense energy utility savings in underwriting AND "Green MIP" benefits.</b>	SEDI Report	75+	An independent energy certifier must confirm the project meets a green building standard, see below chart.  In addition to the 75+ score, the needs assessment document (part of the architectural/cost review report) must also support the findings.	Yes.	Energy efficient building materials/designs must be implemented in the plans & specs prior to closing.  Green building consulting and diagnostic fees are mortgageable.

Due to the complexity of the SEDI (new construction/rehab), the cost for that report is significantly higher than the SEP required for refinances and acquisitions. Actual price of reporting is project-specific and will be determined at time of application.

*Note: New construction projects must comply with the International Energy Conservation Code (IECC) 2009 for buildings up to three stories, or in the case of buildings over three stories, American Society of Heating, Refrigeration and Air-conditioning Engineers, ASHRAE Standard 90.1 2007 edition (or such later versions as may be adopted by the Secretary of HUD), pursuant to the requirements of the Energy Independence and Security Act of 2007(Public Law 110-140).*

\*HUD certified Green Building Standards Chart

<i>List of Industry-Recognized Green Programs</i>
Enterprise Green Communities Criteria
U.S. Green Building Council's LEED-H
U.S. Green Building Council's LEED-H Midrise
U.S. Green Building Council's LEED-NC
LEED for Existing Buildings: Operations & Maintenance
ENERGY STAR Certification
EarthCraft House
EarthCraft Multifamily
Earth Advantage New Homes
Greenpoint Rated New Home
Greenpoint Rated Existing Home (Whole House or Whole Building label)
National Green Building Standard (NGBS)
Passive Building Certification or EnerPHit Retrofits certification from the Passive House Institute US (PHIUS), International Passive House Association, or the Passive House Institute
Living Building Challenge Certification from the International Living Future Institute

Sample New Construction Benefits for recent Market Rate Apartment project

	With Green MIP	Without Green MIP
Operating Expenses	Reduced utility expenses by \$20,000.	n/a
Maximum Mortgage Amount	\$10,257,822	\$9,579,031
Annual Debt Service	\$517,454	\$558,535
Yearly Surplus Cash Flow	\$163,756	\$122,675
Estimated Increase in Construction Costs to secure Energy Certification	1% or \$76,703	n/a

As seen in the above chart, construction costs may increase slightly to meet the requirements, however the difference in cost is easily covered by the increased mortgage amount and reduction in HUD fees, and the positive impact on cash flow is significant.

## How to Get Started

- 1) Once a deal has been thoroughly pre-qualified and presented to HUD, Bedford Lending will formally commission a SEDI or SEP with a licensed third party provider.
- 2) We will have a “kick-off” call with the third party provider and development team to discuss the information required. For new construction, as soon as draft plans are available with HVAC equipment, appliances, lighting, insulation types, etc the modeling process can begin.
- 3) Benchmarking generally takes 3-4 weeks and does not cause a delay in the HUD process.
- 4) Upon receipt of the completed report, we will update the underwriting as applicable.

## Feasibility of Securing Green MIP

For new construction projects, the estimated increase in hard costs to secure the reduced MIP is relatively nominal in comparison to the benefits. Based on our experience, most projects can be certified for a premium of 0.25%-1.50% of total costs. For substantial rehab, it can be more difficult if a property is considerably older, but can still be cost effective to pursue.

To assist with early development of green certified buildings, development teams and architects should consider the following Energy Efficient Measures (EEMs) universal to most Green Building Certification Programs:

- Energy Star kitchen and laundry appliances
- Energy Star rated Windows and Doors per your climate zone
- Energy Star HVAC 14.5 SEER rating or greater
- Ductwork located within conditioned spaces
- Mechanical systems compliant with ASHRAE 62.2
- Energy Star rated domestic water heater
- WaterSense rated plumbing fixtures
- Building envelope sealing and advanced drywall ceiling
- Proper installation of insulation (Grade I)

If you have a property that was designed to the 2012 International Energy Conservation Code (IECC), then a score of 75 should be obtainable with few modifications.

## Other Documentation

Bedford Lending and our third party providers will help prepare all necessary documentation.

- In addition to the SEP or SEDI energy benchmarking report, in order to secure the reduced MIP and utility savings, the report must be verified by an independent Green Building Certifier. The third party providers we work with have staff to complete this in addition to the benchmarking to minimize costs and time.
- The SEDI or SEP sheet is attached to our needs assessment, which is in turn included in the final submission to HUD.

## **Post-Closing Requirements**

At closing, developers must provide an Energy Data Acquisition Plan showing how they will continually secure energy data once the property is occupied. The third party providers that complete the benchmarking also offer a service that develops a property-specific data plan and offers training on-site with management to ensure they are following the data collection process.

In order to receive the “Green MIP” upon construction completion, the owner must submit to HUD evidence that the specified, independent green building standard has been achieved, and provide a copy of the Portfolio Manager report showing building performance at or above the EPA score of 75, no more than 15 months after completion of new construction, substantial rehabilitation or renovations, or 15 months after break-even occupancy, along with annual certifications.

Energy benchmarking third party providers offer services to help property owners and management companies with this annual certification process. If the score is below 75 at a follow-up recertification, they can also help the owner assess options to improve their score.

## **Other Notes**

Properties of **less than 20 units** may qualify for this MIP rate by achieving an industry-recognized standard for green building, as described above, but are exempt from the requirement to achieve a score of 75 or better on the EPA Portfolio Manager.