

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

January 2, 1998

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

MORTGAGEE LETTER 98-2

TO: ALL APPROVED MORTGAGEES

SUBJECT: Single Family Production - Applying the HUD Rehabilitation
Energy Guidelines to the Section 203(k) Rehabilitation Mortgage
Insurance Program

Section 101(c) of the 1978 Amendments to the National Housing Act requires that rehabilitation under the Section 203(k) Rehabilitation Mortgage Insurance Program meet the Secretary's cost-effective energy conservation standards. This Mortgagee Letter is to advise you of the use of HUD Rehabilitation Energy Guidelines to meet the requirement of Section 101(c).

Energy standards for rehabilitation were originally published in 1979 as 24 CFR Part 39. However, they were rescinded on September 11, 1995, in keeping with the President's initiative to reduce government regulation. This regulation has now been replaced by the "HUD Rehabilitation Energy Guidelines for One-to-Four Family Dwellings" (Guidelines).

The Guidelines recommend that improvements meet the level of energy efficiency specified in the 1992 CABO Model Energy Code, whenever the upgrade is found to be cost-effective. This code, required for new construction assisted by HUD, has been recognized as the goal for property rehabilitation. Cost-effective energy measures will be required for rehabilitation insured under Section 203(k).

Chapter 3 of the Guidelines will help the borrower determine the steps necessary to increase the energy efficiency of the house. The chapter provides general recommendations, guidance on what is cost-effective, envelope recommendations, heating and cooling system recommendations, domestic hot water system recommendations, and lighting and appliance recommendations.

As part of the work write-up, the borrower and/or their consultant must assess the energy condition and needs of the house as discussed in the Guidelines, to determine the cost effectiveness of the improvements. The borrower and/or consultant can use (1) the worksheets in Appendix G of the Guidelines; or (2) a Home Energy Rating prepared by a certified rater and a Home Energy Rating provider. If the Home Energy Rating is used, the borrower may be eligible for an FHA Energy Efficient Mortgage as discussed in Mortgagee Letter 95-46. Local power companies may also be able to help with the cost effectiveness determination.

After the cost-effectiveness determination has been made, the borrower and the consultant can complete the work write-up. At a minimum, improvements must be made to assure the building meets the following requirements, as discussed in the Guidelines:

1. For a newly constructed addition to the existing structure, the energy improvements must meet or exceed local codes and the requirements in the 1992 CABO Model Energy Code.
2. To reduce air infiltration: (1) Weatherstrip all doors and windows when existing weatherstripping is inadequate or nonexistent; and (2) Caulk or seal all openings, cracks or joints in the building envelope.
3. Insulate ceilings to comply with Table 3-1a in the Guideline if access can be obtained to install or add insulation. Insulate all openings in exterior walls to comply with Table 3-2 where the cavity has been exposed as a result of the rehabilitation.
4. Adequately ventilate attic and crawl space areas as required by the local building code for a newly constructed property.
5. Insulate heating, ventilating and air conditioning system supply and return pipes and ducts whenever they run through unconditioned spaces.
6. Size heating systems, burners and air conditioning systems to be no greater than 15 percent oversized, except to satisfy the manufacturers' next closest nominal size.
7. Install an approved, listed and labeled smoke detector(s) adjacent to the sleeping area(s) It may be battery powered when installed in an existing or rehabilitated dwelling. However, for a newly constructed dwelling or addition, the smoke detector must receive its primary power from the building wiring, in conformance to local codes and ordinances.

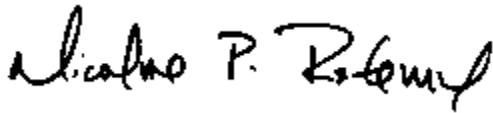
As described in Mortgage Letter 96-21 , FHA Section 203(k) can work well with housing grant programs, such as HOME and Community Development Block Grants. Local operators of these programs may also use the Guidelines to determine the cost-effectiveness of energy measures in rehabilitation assisted separately by the housing grant programs.

Copies of the Guidelines (HUD-7480) with computer software at \$10 and explanatory pamphlets (BRO-0074) at \$2.50, are available from HUD USER, P.O. Box 6091, Rockville, MD 20849. For information call 1-800-245-2691 or 800-483-2209 (TTY for hearing impaired), or fax (301) 251-5767.

In addition, the eligibility requirements for an Energy Efficient Mortgage are now available for a one-to-four unit properties, for both Section 203(b) and Section 203(k) insured mortgages. However, the cost of the energy efficient improvements allowed in the mortgage must remain the same (the greater of \$4,000 or 5% of the property's value not to exceed \$8,000) since the Department does not have legislative authority to increase the allowable cost for a two-to-four unit property.

If you have questions regarding this Mortgagee Letter please contact the local HUD Office in your area.

Sincerely,

A handwritten signature in black ink, reading "Nicolas P. Retsinas". The signature is written in a cursive, slightly slanted style.

Nicolas P. Retsinas
Assistant Secretary for
Housing-Federal Housing Commissioner