

C. Proposed Improvements

If the borrower intends to make energy improvements after loan closing, **the submission file must clearly indicate the borrower's plans.** A "Notice of Potential Eligibility for an Energy Interest Rate Reduction Modification" (Form UND-10) must be completed by the lender, signed by the borrowers and included in the loan submission package.

Subsequently, the borrower may request that the interest rate be modified to reflect the applicable interest rate reduction based on energy efficient improvements, provided the final energy rating is obtained within 365 days of loan closing (note date), and the rating is increased sufficiently to warrant a reduction in rate.

Borrowers must be made aware of the time restrictions placed on them for completing the improvements, obtaining the final rating, and submitting the required documents through the lender/servicer, for a modification of the interest rate:

- Improvements and final rating must be completed within 365 days of closing and copies of the initial rating, final rating, and documentation of cost of improvements must be submitted to the servicer/lender no later than 30 days after this date.

Please note that in some cases, a "before" energy rating may not be available prior to the borrowers actually taking title to the property and is, therefore, not required in the submission file. However, borrowers must be made aware that an initial energy rating must be done prior to beginning any improvements.

1. If the property value (as determined by the lower of the appraisal or sales price) is conditioned on completion of the energy improvements, or if the loan amount has been increased to include energy improvement costs (as allowed by FHA and VA) the lender must escrow sufficient funds to cover 100% of the proposed cost. If the borrower is funding the improvements, funds must be from the borrower's own assets or gift funds from a relative, provided insurer/guarantor requirements are met. The term of the escrow may not exceed 365 days. If the work has been started but is incomplete after the escrow period, the Servicer is to contact AHFC to determine how to proceed. If the work has not been started during the 365 days, the escrow is applied as a principal curtailment.
2. If the property value is not conditioned on completion of the energy improvements, an escrow is not required. However, the lender must establish the source of funds that is used to pay for the improvements and address the impact on the borrower's qualifications if the funds are from other than verified available assets.

In either of the above scenarios, the final energy rating (step increase and initial point increase) will determine the percentage reduction to be applied to the interest rate modification.

The interest rate reduction as determined by the final energy rating will require execution of loan modification documents provided by AHFC. (Refer to the Servicing Guide Section 12000.12.D)

Note: The cost of improvements may include a reasonable escrow administration fee charged by the lender. Lenders are reminded that the appraised value or total costs, whichever is less, must support the loan amount requested.