

**DOCKETED**

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*Comment Received From: Len Fishman*  
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## **Impact on Real Estate Appraisals**

Appraising homes with energy efficiency ratings is deemed complex, requiring specialized knowledge and expertise. As per the Federal Regulations 12CFR Part 34.42, a complex residential property, specifically one-to-four family homes, is characterized by atypical attributes in the property itself, its ownership form, or the market conditions surrounding it. An energy efficiency rating adds an extra layer of analysis, falling outside the skill set of most appraisers. Appraisers are required to comply with the Uniform Standards of Professional Appraisal Practice (USPAP) which states "if the assignment cannot be completed competently, the appraiser must decline or withdraw from the assignment."

The voluntary nature of the energy rating program could lead to unique market conditions, largely due to the lack of comparable sales. Typically, these programs attract homeowners who are not only interested in energy efficiency but also have the financial resources to invest in it. This selective participation may result in a limited pool of homes with similar energy rating, creating a challenge for appraisers who rely on comparable sales data. In the best-case scenario, this scarcity of comparable properties could lead to a situation where homeowners and lenders struggle to find an appraiser willing or able to take the assignment. This issue underscores the potential market complexities introduced by energy efficiency rating programs, particularly when participation is not widespread.

Finally, GSE Loan Programs assess the debt-to-income (DTI) ratio by accounting for all significant monthly costs. These programs typically incorporate an estimated amount for monthly utility expenses, which is determined by multiplying the home's square footage by a specific factor (for example, the VA uses \$0.14). To better reflect the energy efficiency of a property, it's recommended you work with the various GSE's to establish a tiering system which enables adjustments to the expense ratio based on the energy rating of the home. However, offering different qualifying ratios could potentially lead to disparate treatment where unequal opportunities for homeowners exist. Homeowners with a higher-rated, more energy efficient home might have access to more favorable lending terms while homeowners who are unable to afford energy efficiency upgrades may be penalized with less favorable terms.