

Contractor's Marketing Success

by Steven Bodzin and Mary James

Many contractors have heard of the energy-efficient mortgage (EEM)—a government-sponsored financing tool that allows home buyers to roll the cost of retrofitting their homes with cost-effective, energy-efficient features into a mortgage. But hardly any contractors have figured out how to use EEMs to make more money. Ray Hall, who runs H & L Energy Savers in San Bernardino County, California, is an exception. Thanks to EEMs, his business is booming. His trick? Since 1996 he has been educating, and making the EEM process easy, for the lenders, real estate agents, and home buyers in his area.

Hall has been running his full weatherization company specializing in older homes for almost 20 years. He was one of the first contractors in the state to use blower doors, starting in 1981. For years, his business came mostly from utility programs. He is still a major contractor for Southern California Edison's low-income weatherization program. But recently, contracts from home buyers—financed through EEMs—have almost overtaken Hall's work for the utilities. In fact, EEM work now comprises some 55% of his business. He and his staff of 14 perform such cost-effective whole-house improvements as air sealing, adding attic and wall insulation, installing whole-house fans, and identifying and repairing duct system leaks on five to ten homes per week.

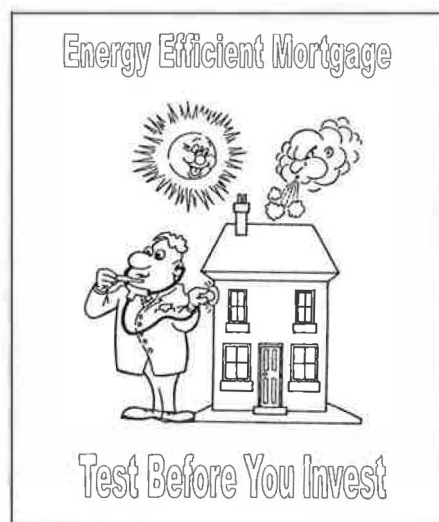
Making EEMs Easy

Four years ago, when Hall realized that EEM work could be a good source of new business, he tried approaching real estate agents with the idea. However, he found that realtors weren't interested in EEMs. He says realtors saw EEMs as "just one more problem thrown in to block the sale." Still, Hall wasn't going to give up easily. "At first, I got stopped at every turn," he says. "It gradually became a campaign."

To get real estate agents and lenders to see the benefits of EEMs, Hall took on the burden of educating all the play-

ers in the home-buying game, and even doing some of the finance calculations. For his first educational effort, he produced an eight-minute audiotape describing the steps involved in securing an EEM—from getting a home energy rating from an authorized auditor to installing cost-effective whole-house retrofits. Since 1996, when he created the tape, Hall has sold 100,000 copies to utilities to give to their customers and has distributed 20,000 copies to real estate agents.

Other educational materials have followed the audiotape. Hall has just finished a state-of-the-art CD-ROM that



This house doctor can be seen on Ray Hall's trucks, business cards, and audiotape cases.

illustrates the text of the audiotape with a movie showing the types of efficiency improvements that EEMs can finance. The CD-ROM features a couple who used an EEM to get added attic and wall insulation, solar sunscreens on their windows, a whole-house fan, and air sealing. The CD-ROM can also link the user to EEM-related Web sites.

Another tool in Hall's educational kit is his 13-minute video showing how weatherstripping, duct sealing, and other home retrofits are accomplished. He has sent this video to thousands of prospective customers whose houses have been audited. "No one likes high-pressure sales techniques," says

Hall. "The video gives customers the information without the sales pressure."

Yet another educational exhibit is Hall's own home, where he has implemented all of the improvements he offers to EEM buyers. These include sealed ducts, R-13 insulation in the walls and R-30 insulation in the attic, efficient fluorescent lighting, a high-efficiency water heater, and—the item that ends up in every home—a whole-house fan.

To make the improvements more apparent, Hall has replaced some of the drywall in his garage with a clear plastic panel to show off the insulation and has mounted before-and-after shots of his home improvements. He also has money charts on display that lay out the costs for each improvement in his home, along with the cost savings each improvement generates annually.

In the last year, Hall has had more than 1,000 sightseers pass through his garage. Most of the crowds have been real estate agents and lenders whom Hall takes on tours of his house to demonstrate the kind of work their customers will get. He also emphasizes that a home with real people living in it, in an extremely hot climate, can have energy bills of under \$1,000 per year. "The neighbors' energy bills are almost all twice as much as what we pay," says Hall.

Contractor Becomes Financial Whiz

Even with realtors and customers on the EEM train, lenders still have to get on board. To get them on the platform, Hall likes to remind lenders that with the bigger loan amounts of EEMs come bigger commissions. Hall also emphasizes that putting together an EEM loan package isn't any more difficult than assembling any other mortgage loan. Customers buying homes with loans from the Federal Housing Authority (FHA) and the Department of Veterans Affairs have an easy time qualifying for EEMs, says Hall. "Once they've qualified for their regular loan, they automatically qualify for the energy efficient loan."










But even with interested customers and larger commissions, lenders generally don't want to deal with more paperwork. To save them the trouble, Hall has developed a computer spreadsheet that calculates the size of the EEM that the home buyer qualifies for. In FHA loans, for example, the total energy efficiency add-on can be no more than 5% of the cost of the home, and the monthly energy bill must drop by more than the added monthly mortgage payment.

Which improvements will actually get funded depends on the results of a third-party home energy audit, which the auditors who Hall works with offer for \$199. To get more homeowners to opt for an audit, Hall has an arrangement with the auditors that allows him to give out coupons for \$100 off the audit cost. (Hall says that, even with this arrangement, the auditors work independently.) The auditors use blower doors and other advanced home diagnostic tools. The summary report produced by the auditor details the expected energy savings that will be generated from each particular energy-efficient improvement.

Once consumers have had an audit, 85% of them choose an EEM. This usually means getting an extra \$4,000 to \$5,000 added to the mortgage, based on an analysis showing that lower energy bills will enable the homeowner to pay off the bigger loan.

EEM Education Pays Off

Hall's educational efforts are paying off, not only for him but also for the lenders and real estate agents he works with and for his customers. Some lenders use Hall's audiotape as a lead generator. They advertise the tape to prospective home buyers as a free educational offer. Once the consumer has ordered the tape, the lender has a lead, which can develop into a loan. By handing out the tape to every customer, one small lender in Hall's area is selling

Energy Efficient Improvements	Approximate Monthly Savings
Attic Insulation R-30 Standard	
Wall Insulation R-13 Standard	
Air Leakage Reduction 40-50% Building Envelope & HVAC Ducts	
New High Efficient Water Heater	
New High Efficient Furnace	
New High Efficient Air Conditioner	
Whole House Fan	
Solar Sun Screens	
Energy Efficient Lighting	

This money chart is on display to customers who tour Hall's house and garage.

about a dozen EEMs per week.

Realtors are also reaping the benefits. "Real estate agents like to be Mr. Nice Guy," says Hall. "They can give this tape to a person and say, 'I'm not just selling you a home, I'm showing you ways to improve the property.'" Such an offer is especially attractive when real estate agents are selling repossessed Housing and Urban Development (HUD) units where the water heater and furnace have been stolen either for reuse or for scrap metal. "Customers might not have much money, and they're looking at this home with no water heater," Hall explains. "But then there's this mortgage where they can get a high-efficiency water heater included as part of the package." And they also save money in the long run.

"About 95% of the customers I talk to that buy these HUD homes get an EEM," says Barry Kidney, a real estate agent with Story Real Estate in Rancho Cucamonga. "For these typically first-time buyers, it's a win-win situation. They get an upgraded house at an under-market value and they get lower energy bills." Kidney has become a strong advo-

cate of EEMs, selling about 30 EEM-financed homes in the last four months.

Customers Also Benefit

Hall is confident enough of the improved cleanliness, noise levels, comfort, and energy efficiency of the homes he works on that he is educating assessors in the area to note the improvements at resale time. On older homes that have sufficient energy-efficient features, he has recently begun to issue a Performance 4 certification that he developed in conjunction with the League of California Homeowners. (Energy Star certification is only available for new construction.) To get a Performance 4 certification, homes must have an attic floor insulated to an R-30 level or higher, heating and cooling ducts that are properly wrapped and sealed, an air infiltration rate reduction

of 35% or greater, low-flow showerheads, and at least two other optional improvements. Hall hopes that assessors will be quicker to take note of the energy-efficient features of a certified house, and that the certificate will translate into higher resale values for his customers.

With all of the paybacks that the combination of an EEM and Hall's improvements brings, it is not surprising that Hall's business is booming. "The EEM business is getting to be delightful now," says Hall. But when other contractors call him to get more information about EEMs, he reminds them of all his educational efforts and tries to emphasize that you have to be a team player. "If you don't get lenders and realtors on your side, you can't do it," says Hall.

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H&L Energy Savers is located at 1066 W. 9th St., Upland, CA 91786. Tel: (909) 985-0733; Web site: www.energysavers.com. The CD-ROM is available for \$175 plus shipping and handling.

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