

Green Mortgages Report

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Green Mortgages

Seminar Report and Background Information for Lenders

Introduction

The Energy Efficiency Partnership for Homes is a network of over 450 organisations working together to reduce the energy consumed by UK households as well as the number of people who are unable to adequately heat their homes in winter.

Each year in the UK, some 1.5 million homes are bought and sold. Home moving seems to offer an ideal opportunity to encourage and incentivise energy efficiency improvements. The Partnership's Home Purchase and Finance Group aims to make the most of this opportunity, leading to reductions in energy use and carbon dioxide emissions from UK housing.

The Group represents a wide cross-section of participants in the home purchase supply chain including mortgage lenders, surveyors, energy assessors, Government departments and sustainable energy agencies.

In 2005, the Home Purchase and Finance Group commissioned research to quantify the market opportunity for financial products that promote sustainable energy use (commonly referred to as "green mortgages"). The Group also developed a framework definition of what might constitute a green mortgage (see Section 3).

The Group was keen to share its ideas with the wider home purchase and finance industry. On 28 November 2006, over 40 delegates came together to discuss the opportunities for and barriers to green mortgages. Discussions are summarised below. This report includes an account of the proceedings at the seminar (Section 1) and background information about green mortgages and issues for providers to bear in mind when developing these products (section 2).

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SECTION 1 - The Seminar

Summary of Discussions

Paul Ellis of the Ecology Building Society, Chair of the Home Purchase and Finance Group, introduced the day by outlining the challenges associated with tackling climate change and the work undertaken by the Home Purchase and Finance Group to date.

Jackie Bennett of the Council of Mortgage Lenders explained their commitment to addressing environmental issues associated with home buying and selling.

Richard Lloyd of Hockleys Surveyors gave an overview presentation of the need to address climate change and the potential business benefits of developing green mortgage products.

A panel discussion session then took place. This included short presentations from speakers followed by a Question and Answer session. The panel speakers were:

- *Jon McGowan, Head of Consumer Marketing, Energy Saving Trust*
Jon outlined research undertaken by the Energy Saving Trust into consumer attitudes towards environmental issues and specifically sustainable energy.
- *Andrew Hannan, Specialist Surveyor, Communities and Local Government*
Andrew brought delegates up to date with plans for the implementation of Home Information Packs (HIPs). HIPs will provide the delivery mechanism for Energy Performance Certificates in the marketed sales sector, and the Certificates are expected to act as a significant trigger to improvements in domestic energy efficiency at or around the point of home sale/purchase. "Dry-runs" of HIPs are taking place in a number of locations around England, with consumers being offered HIPs, Energy Performance Certificates and, in some cases, Home Condition Reports during their home-moving process. HIPs will be launched across England and Wales in summer 2007. It was recognised that

there are interesting opportunities for mortgage lenders to engage with HIP providers in stimulating action based on Energy Performance Certificates.

- *Vance Duhaney, Public Affairs Manager, Energy Retail Association*
Vance indicated that, while there is no consensus view from the energy suppliers on green mortgages, there is recognition that they offer an interesting option for stimulating energy efficiency improvements. He talked about the move from a traditional “energy supply” model towards Energy Services Companies (ESCOs); energy companies would seek to supply heat and light as part of a service, rather than simply supplying units of gas and electricity. In many ESCo models, energy efficiency improvements are provided to the householder, with the costs of these being offset by the savings in fuel bills which are then realised.
- *Robin Murray, Economist and Developer of the Green Home Service*
Robin gave a detailed and useful presentation on the development of the Green Home Service, a pilot approach to motivating energy efficiency in the able-to-pay sector in London. The approach brings together elements of an Energy Services Company model, with online networking and information sharing, and personal benchmarking of energy/environmental footprints. The hassle factor of having energy efficiency works carried out is seen as a key barrier to action in the able to pay sector. The Green Home Service effectively offers a concierge service to help make energy improvements to a property without that hassle. Linking with the home moving cycle, there seem to be opportunities to offer “hassle-free” services to assist homebuyers/sellers with various aspects of their move and to integrate energy improvements and financial products in a seamless service offering.

The following issues arose during discussions:

Consumer Demand

- There is **no mainstream consumer demand** for green mortgages at present. For some, this suggests that the market does not and will not exist. It was pointed out, however, that fifteen years ago, there was only a limited demand for buy-to-let mortgages, so it is not always easy to predict how **consumer demand will change over time** and some lenders’ research suggests that demand is emerging.
- **Affordability** of housing is a key driver for consumers at present.
- **Energy Performance Certificates** and Home Information Packs have a role to play in equipping the consumer with more information on which to base their judgements.

Incentives

- The tax system currently incentivises people to **move rather than improve** their properties, an imbalance which could act against green mortgages or green home improvement loans.
- Consumers need to be **incentivised to take action**.
- The **tax advantages available in the buy-to-let market** could provide an opportunity for improvements in that sector.

Product Development

- Many of the product attributes of green mortgages (as outlined in the Group’s definition) already exist. Technically, this means that **lenders could roll out a green mortgage product tomorrow** by bundling together existing product features and by effective branding. However, delegates believed that, while this approach might sell some green mortgage products, it would not necessarily achieve the wider change in thinking and consumer behaviour that the Group is seeking to achieve.
- It is important that **products are robust**, meaningful and trusted.
- Lenders want to lend people money. Any **products should be kept simple** and should be seen by the consumer as enhancing affordability, increasing asset value or generating income streams from energy exports.

- **Remortgages and improvement loans** are an important opportunity for leveraging in energy efficiency.
- A shortcoming of the Energy Performance Certificate (EPC) is that it is not reflective of the full carbon footprint of a property. One company is considering an **EPC+** which would incorporate more information about appliances and act as a platform for testing the concept of personal carbon allowances.

Development Decisions

- **Patterns of development** can work against environmental objectives, for example, building on flood plains presents risks (which are of particular concern to those insuring properties), whilst dispersed developments have higher transport impacts.
- The major issues on energy efficiency are with the **existing stock** rather than new build.

Reputational Benefits

- The **marketing and PR benefits** of aligning with green issues are widely recognised; however, the link between the actual mortgage and the energy efficiency of the property was seen as tenuous.
- There is a potential need for **research into the CSR obligations and issues** for companies operating in the home purchase and finance sector. This could help to place green mortgages within the landscape of CSR requirements affecting the industry.

Supply Chain Issues

- Surveyors often **struggle to upsell products** above and beyond the basic survey required for a sale.
- Home finance is a **heavily regulated industry**, and any green mortgage initiatives or accreditation would have to fit with the regulatory regime without adding further paperwork burdens.
- **Partnership working** between lenders, Government and utilities could have an important role to play and the potential for Energy Services Companies was discussed (see above).

The final session of the workshop enabled delegates to work in small groups to discuss the drivers and opportunities for green mortgages, the barriers to them, and how those barriers could be overcome.

Delegates identified the following drivers or opportunities:

- Commercial drivers (specific to the individual lender and their required return on investment)
- Reputational drivers - improved PR from association with green issues. There was discussion of the need for a major player in the mortgage market to take the lead so that others would follow.
- Supply-led provision of products (ie, the lenders are deciding what to sell) within a benevolent and increasingly environmentally-aware consumer market
- Customer retention - the opportunity to retain customers through on-selling of green home improvement loans etc.
- Customer benefits - reduced bills, payback periods
- Affordability - reducing bills improves affordability
- Provision of A-G ratings on properties and their potential to link to mortgages
- Buy to let market - favourable tax regime and investor benefits
- Potential for partnerships with energy suppliers

A number of barriers were highlighted:

- The possible lack of a commercial driver - more expensive products cut into margins and the margin at the point of lending is all important
- Lack of consumer demand

Delegates further identified some **solutions and actions** that could be taken:

Getting the Message Across

- A clear concise message needs to be developed if it is to resonate with consumers at the time of moving (when their minds are full of other issues)
- More targeted communication about energy efficiency should be undertaken
- Research into consumer attitudes could be undertaken
- A “kite mark” approach to products and properties
- Allocation of carbon credits for improvement work done – these could be awarded to Consumers and could be “exchanged” into rewards

Information and Advice

- Provision of energy efficiency information by lenders to householders, eg in leaflets
- Surveyors can provide advice if the lenders request them to do so
- Provision of information to lenders about the corporate governance responsibilities of Directors regarding the environment (ie, what do they have to do?)
- Greater education and information about energy saving/energy wasting behaviour

Supply Chain Actions

- Encouraging a **major lender** to take the lead would stimulate the rest of the market; this could involve working with a mutual society which has slightly different drivers (social, community interests)
- **Local councils** and their partners could provide energy audits or surveys of properties, as they have significant expertise and track record in this area and are perceived as objective and independent of the process. **Energy advisers** can also ensure that householders are offered high quality and consistent advice about energy saving options.
- **Estate agents** could agree to reduce fees for highly energy efficiency homes, on the basis that the homes will be selling for a higher price (cost neutral approach for agents)
- **Intermediaries** could be paid higher commissions in return for providing advice about energy efficiency

Product Development

- Embedding energy efficiency in **remortgages** – extended financing could be offered to customers taking out a remortgage or home improvement loan on the basis that they undertake energy efficiency improvements
- Identifying **resources** to undertake testing or piloting of green mortgage products

SECTION 2: ISSUES TO THINK ABOUT IN DEVELOPING GREEN MORTGAGE PRODUCTS

Carbon Offsetting

Some of the green mortgages currently in the marketplace are based around offsetting the carbon emitted from the home on which the mortgage is offered. Examples include elements of the Norwich and Peterborough Green Mortgage or the Co-operative Building Society’s product.

Carbon Offset actions include planting trees, or promoting the use of sustainable energy and renewable energy measures anywhere around the globe – not necessarily at the point the carbon is emitted. Therefore, carbon offset based mortgages do not in themselves encourage the householder to take any action to reduce the carbon emissions from their own home. Because they don’t encourage personal action, carbon-offset schemes can be controversial:

“...but companies developing schemes around carbon offset initiatives need to be aware of the potentials, is the wider message these schemes send out, says Fern [the Forests and the European Union Resource Network].”Carbon offset

projects may salve our conscience but they won't solve the problem of global warming. On the contrary, by creating the illusion that 'all is well', as long as we pay a little extra, they may further delay global agreement on decisive action to avert dangerous climate change." “
Is it OK ... to offset your carbon emissions?, Leo Hickman's guide to a good life, Tuesday March 28, 2006 The Guardian

Carbon offset mortgages alone do not meet the Home Purchase and Finance Group's definition of a green mortgage (below) which sees a green mortgage as one which encourages the owner to "buy or to work towards a high energy performing home".

The Code for Sustainable Homes

The Code has been introduced by the government as the national standard for the sustainable design and construction of new homes. It is a voluntary star rating system that shows the sustainability of a new home as a complete package. The Code was introduced on the 1 April 2007.

The Code is designed to enable developers to demonstrate the sustainability of new homes and is designed to have a high profile with consumers. The Code sets minimum standards for energy and water use at each level and, within England, replaces the EcoHomes scheme, developed by the Building Research Establishment (BRE). For more information about the code, see the website of the Department for Communities and local Government <http://www.communities.gov.uk/index.asp?id=1506120>

For finance companies thinking of developing green mortgage products, the Code provides an easy way of identifying new homes that have environmental standards better than building regulation standards.

Energy Advice Providers

Impartial energy advice is provided to householders by a range of different companies and agencies. For finance companies thinking of establishing a green mortgage product, it's important to think about linkages to advice providers, who can give customers specific impartial advice about what may need to be done in their home to make it more energy efficiency.

The Energy Saving Trust, funded by government runs a network of energy advice providers across the UK. For more information about this network see <http://www.est.org.uk/myhome/localadvice/>

Plus energy advice centres funded by a range of other sources (such as European funding) and operating principally at a local level are located in several places across the UK.

As a condition of their license to supply electricity, energy retail companies are obliged to give impartial advice to customers. This is linked to their obligation under the Energy Efficiency Commitment (below).

The Energy Efficiency Commitment

The Energy Efficiency Commitment (EEC) is the main source of non-householder funding for domestic energy efficiency improvements in the UK. Under the EEC, energy suppliers are obliged to achieve an energy saving target by promoting domestic energy saving measures. The bulk of EEC funding is spent on supporting the installation of cavity wall installation, as this is the single most cost-effective energy saving measures. However, EEC schemes have been, and are, run to promote other products such as energy efficient white goods (fridges, washing machines), energy efficiency light bulbs, and televisions.

The Energy Efficiency Commitment could be of potential interest to finance companies. In order to achieve their EEC targets, energy suppliers build a wide range of commercial partnerships with companies who can help them reach customers who need to make energy efficiency improvements - particularly people living in homes with unfilled cavity walls. Finance companies offering green mortgages could possibly provide a source of such contacts.

Energy Performance Certificate

The Energy Performance Certificate will be introduced as part of Home Information Packs as a compulsory element in home purchases from June 2007. The Energy Performance Certificate will give homeowners - and potentially mortgage lenders - much more information about the contribution a property makes to climate change.

The Energy Performance Certificate will include information about the energy performance of the home expressed both on a scale relating to energy cost (the SAP Standard Assessment Procedure rating) and an environmental impact rating. Both of these ratings will be based on an assessment of the home carried out by an energy assessor. To see the design of the Energy Performance Certificate, please click [here](#)

The Energy Performance Certificate will also provide recommendations of cost-effective actions which the home owner can take to improve the energy efficiency of their home. These actions will include those on the list below:

Insulation Measures

Hot water cylinder and pipe work insulation
Loft insulation top up to 250mm
Cavity wall insulation
Solid wall insulation - interior and exterior cladding
Double glazing
Secondary glazing
Draught Proofing

Heating Measures

Installation of a full heating controls package
Installation of thermostatic radiator valves
Installation of a room thermostat
Installation of modern heating controls
Solar water heating
Hot water cylinder thermostat
Condensing mains gas boiler
Condensing combi boiler
Installation of a biomass boiler
Automatic controlled fan-assisted storage heaters
Condensing warm air boiler
Condensing LPG boiler
Condensing oil boiler

Other Measures

Solar Photovoltaic (PV) System
Low Energy Light Bulbs

Section 3: What is a Green Mortgage?

A definition proposed by the Home Purchase and Finance Group of the Energy Efficiency Partnership for Homes

A green mortgage (home loan or further advance) offers a financial incentive which encourages the home owner to buy or to work towards a high energy performing home. Energy use is just one aspect of homes' impact on the environment and a green mortgage may also offer incentives for other positive environmental features of a new or existing home.

The Home Purchase and Finance Group of the Energy Efficiency Partnership for Homes have defined a green mortgage as follows:

- It encourages consumers to buy, or to work towards, a high energy performing home
- It offers one or more defined financial incentive(s) linked to the home's energy use (see below)
- It encourages the consumer to access advice and support on domestic energy use prior to making improvements (advice to be provided by external approved body, eg, EEAC)
- It has defined qualifying criteria, based either on a minimum energy standard, or a commitment to make certain improvements to the home (see below)

Characteristics of a Green Mortgage

Financial Characteristics of the Product

The type of incentive could include one or other of:

- Lower rate mortgage - a competitive rate for the individual lender organisation
- Cash back
- No early repayment charge
- Fee free
- Higher loan to value
- More favourable length of term

Qualifying Criteria

Either

- Home has an energy performance measurably (using an agreed standard) better than the minimum building regulations standard¹.

Or

- Home owner commits to undertake action either from the list of recommended measures in their Home Energy Report, or where this is not available (eg in a remortgage situation) from a general list of suitable measures. Action taken could include:
 - o Cavity wall insulation/interior or exterior cladding/ roof insulation
 - o Boiler replacement
 - o Micro-renewables measures, such as solar photovoltaic panels, solar hot water heating, ground source heat pumps

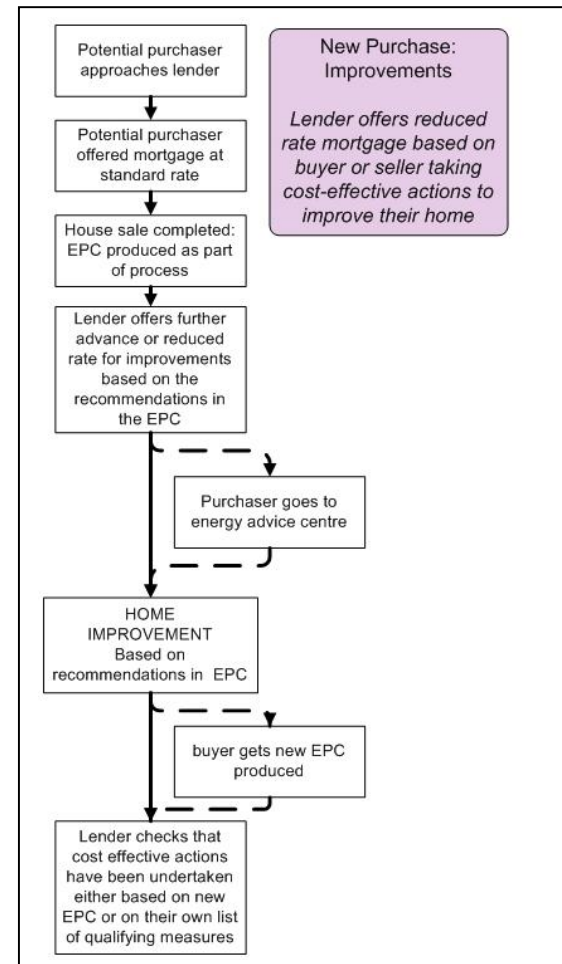
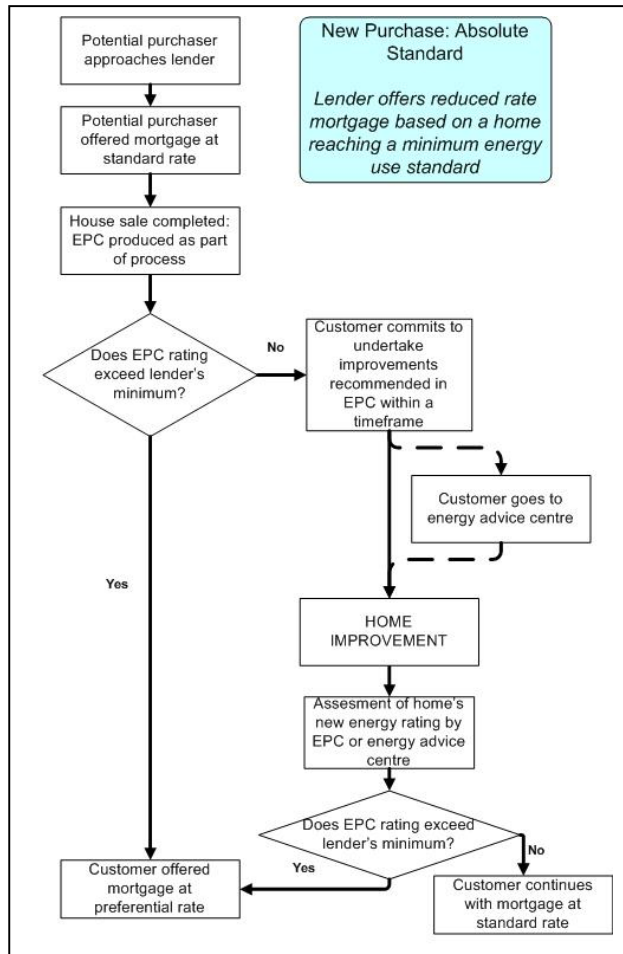
¹ Sustainability and energy standards for homes are currently under review by the Government, and in particular the new Code for Sustainable Homes (which will have a minimum energy performance standard) is in development. The group will recommend a specific level using the EST Best Practice Standard, the Code for Sustainable Homes or equivalent.

Some models of a green mortgage in line with the Home Purchase and Finance Group's Definition

Based on the definition above, the diagrams below outline ways in which lenders may seek to develop a green mortgage.

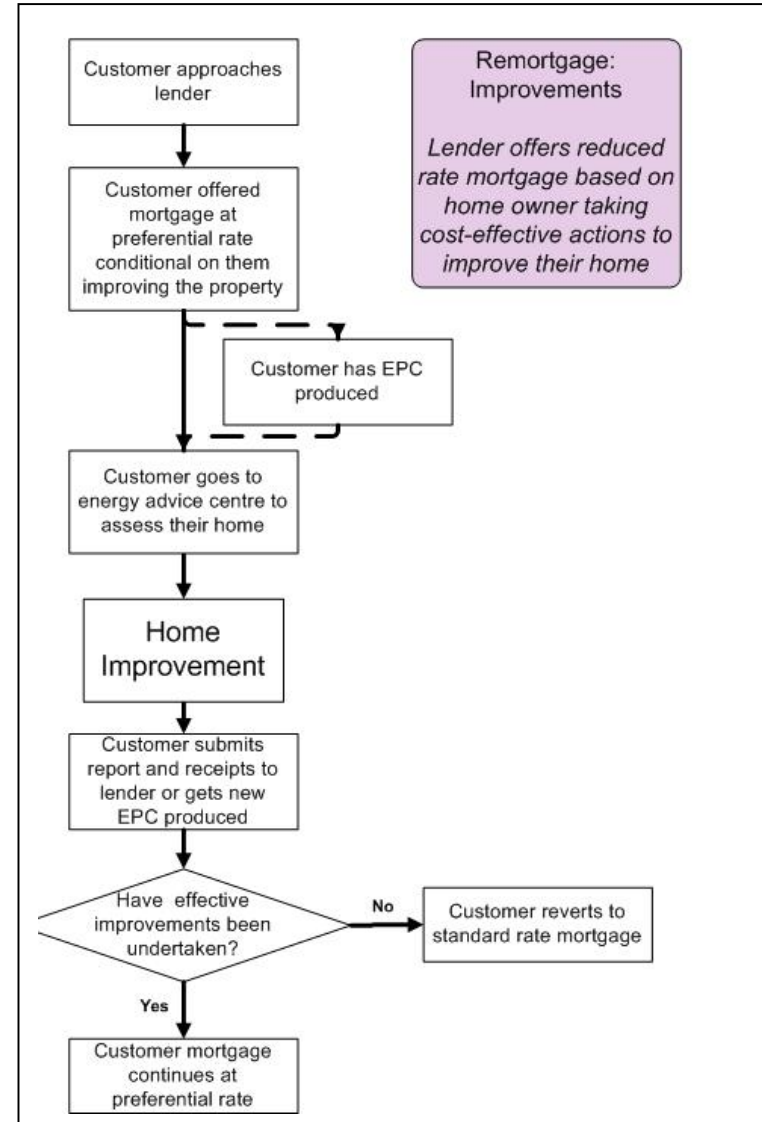
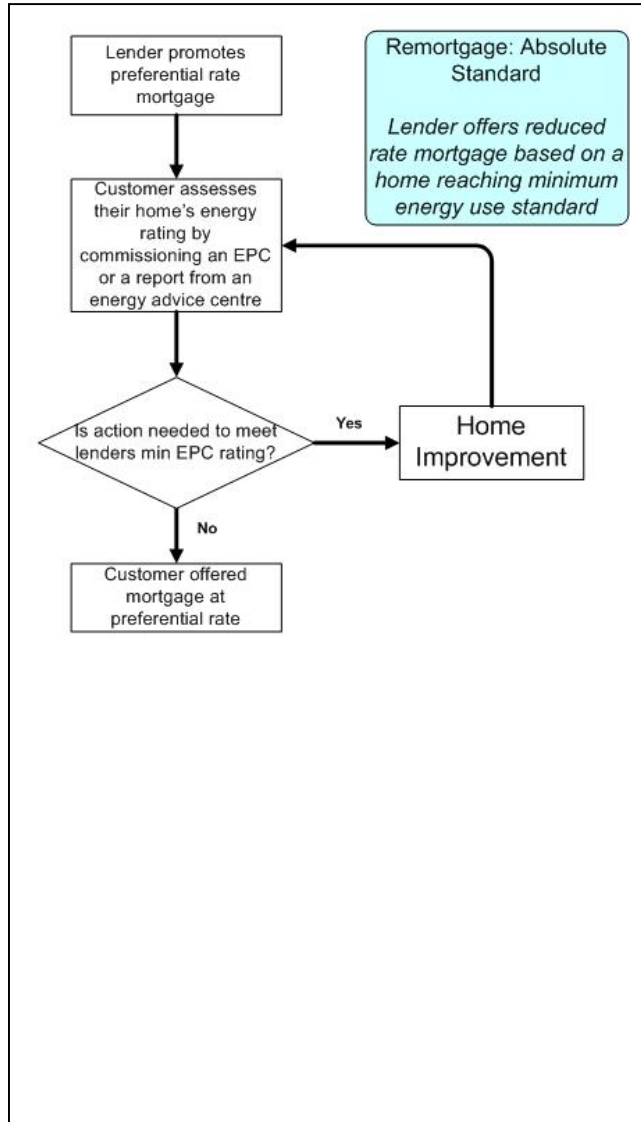
Green Mortgages in new purchase situations:

From June 2007, everyone purchasing a new home will have an Energy Performance Certificate (EPC) available when they make their purchase. The EPC will include an energy efficiency score (known as a SAP rating) for the home, as well as recommendations for cost-effective improvements. Based on the EPC the lender may wish to offer a green mortgage based either around the home achieving a minimum SAP rating, or on the customer undertaking the improvements recommended for their home in the EPC.



Green Mortgages in remortgage situations:

In the majority of remortgage situations, at least for the next few years, there will not be an Energy Performance Certificate available to quantify the energy performance of the home. In this situation the lender may require an EPC to be produced or may ask that the home owner makes improvements in line with a list of recommended measures.



SECTION 4: SOME GREEN MORTGAGES IN THE MARKETPLACE

Ecology Building Society C-Change mortgage product

The Ecology C-Change Mortgage Discount rewards borrowers with 1% off the Ecology's Standard Variable Rate (SVR) on mortgage funds used to equip their homes with energy saving solutions and renewable energy generation.

The installation of energy saving measures such as insulation, double or triple timber-framed glazing, or a condensing boiler will qualify for the 1% discount. Mortgage funds used for renewable energy generating technologies such as solar panels, wind turbines or wood-fuelled heating will also benefit from the C-Change incentive.

Further details of the Ecology Building Society's C-Change discount are available from <http://www.ecology.co.uk/html/mortgages/discounts.htm#cchange>.

Norwich and Peterborough Green Mortgage

The N&P Green Mortgage has a number of different elements. The highest discount rate from the company's standard variable rate is given for new homes only with a SAP rating of 100 or higher.

A slightly smaller discount is given for customers committing to make an existing property more energy efficient. This mortgage also has a carbon-offset element: for every customer who takes out a "Green" mortgage the company plants 40 trees. The standard minimum advance is £20,000.

Co-operative Bank

The Co-operative bank takes a carbon offset approach in its green mortgage products - A payment is made to Climate Care - an organisation "dedicated to helping solve global warming". However, the Co-operative Bank has recently committed to develop a product that will assist consumers to take action on the energy efficiency".

Further Information

For further information about green mortgages or the work of the Energy Efficiency Partnership for Homes, contact David Weatherall on 020 7222 0101 or david.weatherall@eeph.org.uk or visit www.eeph.org.uk.

Appendix 1: Green Mortgages Seminar - List of Attendees

Emily	Bacon	Partnership
Nigel	Barnard	Derbyshire Building Society
Julie	Bell	HBOS Mortgages
Jackie	Bennett	Council of Mortgage Lenders
John	Brennan	Lloyds TSB
Julian	Brooks	Green Moves
Nick	Butler	Habitas
Sheena	Court	Bank of Ireland Personal Lending UK
Rachel	Crossley	Insight Investment
Paul	Cutbill	Countrywide Surveyors
Neil	Cutland	BRE
Vance	Duhaney	Energy Retail Association
Paul	Ellis	Ecology Building Society
Len	Evans	Lloyds TSB
Emma	Fjellstad	Landscape Planning
Sylvia	Giles	Move With Us
David	Glancey	Standard Life Bank
Andrew	Hannan	DCLG
Richard	Harris	Real Estate Advisory Group Europe Ltd
David	Helliwell	Standard Life Bank
Janice	Hennessey	Barclays
Graham	Hobson	Yorkshire Building Society
Paul C	Holden	Legal&General Surveying Services
Andrew	Johnson	GMAC
Mark	Kenber	The Climate Group
Richard	Lloyd	Hockleys Professional Ltd
Stacey	Lowry	Bank of Ireland Personal Lending UK
John	Malone	Premier Mortgage Services
Jon	McGowan	EST
Oliver	Morgans	British Property Federation
Simon	Munson	J&E Shepherd Surveyors
Robin	Murray	Green Homes Service
Phil	Parnham	Allied Surveyors
Paul	Pashley	Marchwood Associates Ltd
Rob	Prior	Yorkshire Building Society
Paul	Pritchard	Royal SunAlliance
Jonathan	Seager	British Property Federation
Ray	Simmonds	CW Surveyors
Prof. David	Strong	BRE Environment's MD
Nick	Swinburne	Portman Building Society
Michael	Vennard	HBOS Mortgages
Liz	Warren	SE2
David	Weatherall	Partnership
Kevin	Webb	
Nick	Westbrook	Real Estate Advisory Group Europe Ltd
Jo	Wheeler	WWF
Alison	Williams	Nottingham Building Society
Andrew	Wright	Yorkshire Building Society
Zoltan	Zavody	EST