

# Briefing Green mortgages

April 2022

## Summary

On 1 April 2022, the energy price cap is set to increase by 54 per cent from £1,277 to £1,971. Those hit hardest will be living in the least energy efficient homes.

In the UK, nearly 19 million homes have an energy performance certificate (EPC) rating of D or worse. With the increase, homes rated EPC D or worse will be paying an average of £470 per year more on their energy bills than homes rated EPC C or better. Most of UK's least efficient homes are owned by the people who live in them. Faced with upfront costs, many of these homeowners lack solutions or resources to upgrade their homes.

Private capital is essential to help these households bring energy bills down, and this will also support the UK in meeting its climate targets and reducing its dependence on fossil fuels. Green mortgages are part of the solution, helping to unlock private finance into retrofits.

In the upcoming prime minister's energy strategy, the government should announce **minimum energy efficiency standards**, reforms to **Stamp Duty Land Tax**, and **work with banks to increase consumer awareness of energy efficiency products** to drive the uptake of green mortgages.

## Green mortgages encourage greater energy efficiency

Green mortgages offer homeowners ways to finance energy efficiency measures, for example, through discounted mortgage rates, cashback, or free valuations. There are broadly two types on offer:

1. **Mortgages with lower mortgage rates for those buying new builds or newly renovated properties with high energy efficiency.** Typically, lenders require properties to be EPC A or B to access these rates, which represents just three per cent of UK homes.
2. **Remortgages which release equity** to fund energy efficiency upgrades.

Green mortgages can help households who would not otherwise be able to afford energy efficiency measures. Whilst the average cost per household for upgrading homes to EPC Band C is less than £10,000, 63 per cent of homes need to spend as little as £1,000. In the current cost of living crisis, it is vital to find other means to fund renovations which can save families money.

Homeowners could either secure additional borrowing or borrow against the equity of their home to cover the initial cost of home energy efficiency measures, at a lower interest rate than a personal bank loan or credit card.

## State of the market

Since Barclays launched the first green mortgage in 2018, many other high street banks and building societies – such as Nationwide, NatWest, Halifax, and Santander – have followed suit. Today, according to [MFB for Intermediaries](#), there are 316 green mortgage products on the market.

The increase in green mortgage products reflects how energy efficient housing is increasingly seen as lower risk by high street banks and building societies. Not only is energy efficient housing more likely to hold its value but, if a homeowner is spending less money on energy bills, they will have more disposable income to repay their mortgage.

Whilst green mortgages still represent a small proportion of the UK's [£265 billion](#) mortgage market, demand is expected to grow further. Polling suggests there is strong public interest in green mortgages. A survey by [Leeds Building Society](#) found that four in five brokers received an increase in inquiries about green mortgages in the last three months of 2021.

## Barriers and solutions to uptake

Despite the interest, [Countrywide Surveying Services](#) found that 94 per cent of brokers are yet to sell a green mortgage product. Low demand can be explained by two barriers: incentives and information.

### Barrier one: green mortgages need greater incentives

Whilst green mortgages can offer financial incentives, such as lower rates, and added [green value](#), some homes will be deterred by the payback period. Analysis by [PwC](#), for example, found that, on energy bill savings alone, it would take the average household ten years to recoup the cost of upgrades. Whilst energy bills are high, however, potential savings would be higher, shortening the payback period.

On top of this, comparative analysis conducted by [MoneySavingExpert](#) found that any green mortgage deal offered by a high street bank could be “substantially” beaten on interest rate by a standard, non-green mortgage product on the wider market.

### Solution: minimum energy efficiency regulation and stamp duty reform

It is welcome that the government is proposing minimum energy efficiency standards on private rented properties, so that they are at least EPC band C by 2028. The government should implement this and set a target to ensure all tenures of housing are EPC band C or above by 2030, at the point of sale. Minimum standards will provide

a greater incentive for homeowners to upgrade their homes and provide confidence to green mortgage lenders.

As proposed by the [UK Green Building Council](#), the government could embed an energy efficiency adjustment to Stamp Duty. This would adjust the tax up or down dependent on the property's energy use and carbon emissions, with a rebate from the total stamp duty paid for homeowners who invest in energy efficiency measures within the first two years after purchase. Knowing that homeowners could reduce their tax bills by upgrading their home would drive more people towards energy efficiency products, such as green mortgages.

### **Barrier two: lack of information**

Since the market is still in its infancy, it is hardly surprising that [43 per cent](#) of customers have not heard of green mortgages.

A wider lack of information about energy efficiency improvements is also an issue. Research by [Which?](#), for example, found that not knowing 'where to start', 'what the options are and what they involve' and 'where to get trusted independent advice' were all significant perceived barriers to installing low carbon heating.

### **Solution: work with banks to increase consumer awareness**

The government's net zero strategy has committed to working with mortgage lenders to support homeowners upgrade their energy efficiency.

This partnership should not only focus on improving consumer awareness of green mortgage products and their benefits, but on streamlining the whole process. To this end, the government should provide mortgage lenders with lists of accredited retrofit providers by location. This would help match supply and demand regionally, ensuring consumer confidence and making the process from loan to retrofit easier.

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