Add To My Mortgage

Add To My Mortgage Final Report

Project Overview[1]

The Add To My Mortgage (ATMM) Project sought to develop an entirely novel digital lending platform, and to test it in real-world trials with consumers, green vendors (installers of home energy efficiency upgrades such as solar panels, heat pumps etc), and mortgage lenders. The grant-funded project ran from February 2020 to March 2022.

The platform would enable consumers to pay for green home upgrades, at the point of sale, via their green vendor, with the source of funds being a *further advance on the consumer's existing mortgage*, from their existing mortgage lender.

To our knowledge this was (and is) a unique proposition worldwide.

We were provided with grant funding of £0.97M by the Department for Business, Energy and Industrial Strategy's Green Home Finance Innovation Fund which contributed to an overall project cost of £1.63M. Our grant application was co-signed by NatWest.

Aims and Objectives

Firstly, the key aim of the project was to determine whether it is possible to use mortgage further advances as the source of funds for a Point-of-Sale[2] finance offering for green home upgrades, and whether this would be able to assist in unlocking consumer demand, enable the green home retrofit industry to scale, and help achieve the UK's climate targets for 2030 and beyond.

Secondary (but also important) aims were to understand how to provide consumers with confidence that they are buying an appropriate green measure, at a fair price, from a reputable green vendor, and how to provide mortgage lenders with

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[2] A finance product offered to a customer by the seller of goods or services, to directly support the purchase of those goods and services. Examples are car finance (offered by the dealer at the time you purchase the car) or "buy now pay later" products offered by many online retailers to allow customers to spread the cost of large purchases.

dependable information about the green measures being used to improve the energy efficiency of the homes in their mortgage lending book.

The key original objective was to build and demonstrate a digital point-of-sale lending platform that integrated with the systems of at least one “Big Six” mortgage lender, and to show that mortgage further advances (of around £10,000 to £30,000) could be arranged through the platform with considerably reduced effort, bureaucracy and time than is typical with mortgage lending today.

In order to achieve this, we also had objectives to recruit a cohort of green vendors, and vet, onboard, train and support them in using the platform, and to sign up with a number of mortgage lenders and integrate our platform and processes with theirs.

We intended to facilitate over 1,000 consumer applications through the test platform during the project period, and to demonstrate that the platform could not only generate recurring trade and revenue but be profitable and self-sustaining at scale.

The objectives were essentially unchanged throughout the project, with the exception of the scale of applications we expected to run through the platform, which was eventually significantly smaller than the original target due to a combination of the impact of COVID, unforeseen delays with key external parties, and in some cases simply having underestimated the difficulty of overcoming project challenges.

An important objective of the project was to ensure that by completion we would have a clear plan for how to scale up. This was achieved and we are now actively working on developing and scaling the platform, our network of installer and lender partners, and the lending products that the platform can offer.

Outcomes

During the project we built and validated the digital lending platform and recruited and onboarded 20 green vendors to use it.

We signed agreements with 12 mortgage lenders including Lloyds Banking Group, Nationwide, NatWest and Barclays (four of the “Big Six”) and submitted mortgage additional borrowing business to each of these.

A total of 991 potential consumer applicants were pre-qualified through the platform by green vendor partners (to determine whether they had a home that was suitable for a green measure and had an existing mortgage with one of the lenders on our panel) during the various phases of the project, from which 224 introductions were created. This led to 80 lending applications being commenced.

At the end of the project period only a very small handful of measures have been fully installed, partly due to us identifying and having to overcome many more challenges than anticipated in developing a digital mortgage lending consumer journey, but also due to exceptional supply chain challenges (for solar PV) and delays in the launch of the government's proposed Boiler Upgrade Scheme (for Heat pumps). We expect the rate of installations to accelerate during the second quarter of 2022 and will be continuing to scale up the platform beyond the end of the grant-funded project.

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Key achievements

The key achievement of the project was the design, development, testing and refinement of the green lending platform which was accessed by consumers and green vendor staff via desktop and mobile devices, and through email and SMS notifications. The platform represents a significant piece of intellectual property that we now own, which we believe has commercially highly valuable features and abilities that no other lending platform includes. Developing the platform allowed us to conduct real-world tests in order to understand how best to meet the needs of homeowners, green vendors, and mortgage lenders and to contribute to the acceleration of the green retrofit industry.

Through the development of the platform we have created a robust vetting, onboarding and management process for us to manage a large group of green vendor partners, and a methodology for evidencing the energy efficiency improvement made to a home, in compliance with the Green Loan principles set down by the Loan Market Association (LMA).

The platform connects directly into the intermediary lending systems of one Big Six lender, to provide applicants with an immediate bespoke list of further advance product options, all within our web user interface (UI). We will continue to develop the platform and add further direct integrations.

Through integration with a host of third-party providers, some of which we are working with to develop innovative solutions, we have created a digital journey that allows a consumer to go through an initial qualification and illustration journey for additional mortgage borrowing in just a few minutes. Rather than requiring consumers to find and enter arcane information such as their existing mortgage details, or other financial paperwork that they are unlikely to have easily to hand, the platform uses digital data services, including OpenBanking, to help the applicant automatically pre-populate the key data needed to generate a mortgage illustration.

During the project period we initially operated as an Appointed Representative of a regulatory principal firm (to allow us to arrange consumer mortgage contracts), and then were successful in securing the necessary mortgage advising and arranging permissions directly from the Financial Conduct Authority (FCA), who accepted that our proposed approach was compliant with the relevant regulatory frameworks. During the project, our team acquired skills and qualifications relating to arranging and advising on regulated mortgage contracts.

Barriers and challenges overcome

The project has run during an extraordinary period, where unprecedented external factors have impacted all aspects of the lives of people across the world. The COVID-19 pandemic of course had a significant impact on our work and the outcomes we were able to achieve.

We anticipated that the “legacy” nature of the mortgage lending industry would represent a barrier to us developing and launching an innovative all-digital platform, however the scale of the challenge in this area far exceeded our expectations. A common message from lenders has been that they are extremely interested strategically (and in principle) in our approach, but that in practice they consider it to be too hard, too expensive, and too slow to bring about changes, or to amend or streamline legacy policies within the timeframe of this project. We have made significant in-roads in this area, but the scale of the challenge here cannot be understated, and even after two years of development, it has still not been possible to put in place a fully digital lending journey with any mortgage lender. This is exacerbated by mortgage further advance transactions being much rarer than full mortgage applications (in part due to the heavily broker-centric nature of the UK consumer mortgage market) which means that often, there is limited resource within lender organisations to develop new functionality or processes for this type of lending. We continue to work with lenders to try to help them address these issues.

At the start of the project, we anticipated that both green vendors and consumers might be instinctively “nervous” of the idea of mortgage borrowing as a point-of-sale financing solution, but through market research and testing we were able to develop messaging and marketing materials that substantially mitigated any concerns.

One barrier that we have been unable to make any significant progress with involves the Financial Conduct Authority (FCA). As part of the project, we wished to explore whether mortgage affordability rules could be developed in order to make it easier for consumers to obtain additional borrowing to improve the energy efficiency (and running cost) of their homes. Where it can be demonstrated that an energy efficiency upgrade to the home will generate real-world cost savings, (through energy bill reductions) that exceed the additional mortgage repayments (and subject to meeting some other basic qualification constraints), we believe that it should be possible for additional borrowing to be *“deemed affordable”*, i.e. that it should be able to be approved without the need for onerous full affordability verifications by lenders. However, we were informed by the FCA that while in theory mortgage affordability rules could be innovated within their regulatory sandbox, in practice they are considered so important that it is very unlikely a proposal for this sort of innovation would be supported.

Key learnings / findings

Through our market research and live testing of the various iterations of our platform, we have gained detailed insights into what will drive all the key participants (homeowners, green vendors and the broader green supply chain, and mortgage lenders) into turning talk into action in respect of improving the energy efficiency of homes.

For homeowners it is surprisingly simple: green upgrades **must make financial sense**. Many consumers are motivated by climate change concerns, and want to *"do the right thing"*, but for the majority of homeowners this can only happen if there is also a firm financial rationale for doing so. For most green upgrades this simply means that consumers must be able to fund the green home improvement for a monthly cost that is lower than the utility bill (i.e. energy) savings that result from the green upgrade being installed. We call this "Pay As You Save" (PAYS).

For green vendors to invest in scaling their businesses (and the rest of the supply chain alongside) it is essential not only to have a suitable point of sale finance option (which ATMM has proven itself to be), but for one platform to offer a breadth of finance options that can address the needs and circumstances of different consumers. For example, around 55% of homeowners do not have a mortgage, so additional mortgage borrowing is not available to them, so the platform will need to provide other loan options that are suitable for people in this situation.

Mortgage lenders have a genuine wish to help their customers to improve the energy efficiency of their homes. However, innovating around mortgage lending is extremely difficult, and will take years to come to fruition across the whole industry. At the moment, arranging additional mortgage borrowing is slow (in our experience it takes at least two weeks but can take 8 weeks or more), it is complex (even with the improvements that ATMM has brought), and in relative terms, it is only a very small fraction of overall mortgage lending. For some mortgage borrowers we believe it may be better initially to obtain funds through an unsecured loan and then to refinance this loan as part of arranging a whole Green Mortgage at the appropriate time in the customer's mortgage cycle, though this hypothesis is as yet untested.

Finally, we have learnt that, while the FCA is aware of and supportive of decarbonisation goals, affordability and safeguarding rules mean it is challenging to innovate in a way which is advantageous to additional green borrowing. This means that at present, additional mortgage borrowing for green measures can only happen within conventional affordability headroom, and with a detailed affordability assessment being undertaken by the lender as part of their underwriting process.