



Department for
Energy Security
& Net Zero

Green Home Finance State of the Market Review

Report 2

March 2023



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Executive Summary

This State of the Market Review (SotMR) aimed to provide an updated assessment on the number and types of products being offered for investing in the energy efficiency of UK owner-occupied dwellings.

The SotMR comprised a desk-based review of all existing financial products available to owner-occupied households. This report provides findings from reviews in August 2022 and February 2023, as well as drawing on findings from the first review in August 2021 to show how the green home finance market has changed over time.

Key messages

This review indicated that the number of green home finance products increased relatively rapidly from 51 in 2021 to 75 in 2022, and then remained mostly constant over the last 6 months.

The profile of products remained largely unchanged since 2021, with a focus on mortgages for highly efficient homes (i.e. EPC A/B) and mortgages for retrofits including cashback and increased loan value for more efficient properties.

Introduction

The State of the Market Reviews were designed to determine the scope and details of the offerings of UK lenders for homeowners to invest in energy efficiency of their domestic dwellings. The reviews support the evaluation of the Green Home Finance Innovation Fund (GHFIF), a programme funded under the £505m Energy Innovation Programme (EIP), which aimed to support the development and piloting of green finance products marketed to consumers planning to finance home improvements with energy efficiency measures.

These reviews were conducted at three points in time: the start of the GHFIF evaluation, interim evaluation, and final evaluation stages. The purpose was to provide information on the state of the lenders market in the UK in terms of the features of such products. It provided insights into how the market evolved over time and the proportion of change brought about by the GHFIF.

This report is an update to the State of the Market Review, conducted as part of the GHFIF process evaluation, and presents the results of a review of financial lenders who provide mortgage and refinancing products to UK households. It covers all products that were on offer as of 24 August 2022 and on 28 February 2023, and refers to the initial review conducted alongside the process evaluation in August 2021.

Methodology

This State of the Market Review involved an online search of existing financial products from over 80 UK lenders. The review was conducted alongside the GHFIF impact evaluation and focuses on the listing of mortgage lending institutions as outlined by the UK Finance industry association of lenders.

Overall trend

The market analysis focused on tracking available green home financing mortgage products from the lenders included in the surveying, which were the majority of residential lenders in the UK, in order to provide some understanding on the maturity of the green lending market by the number of products and their key features.

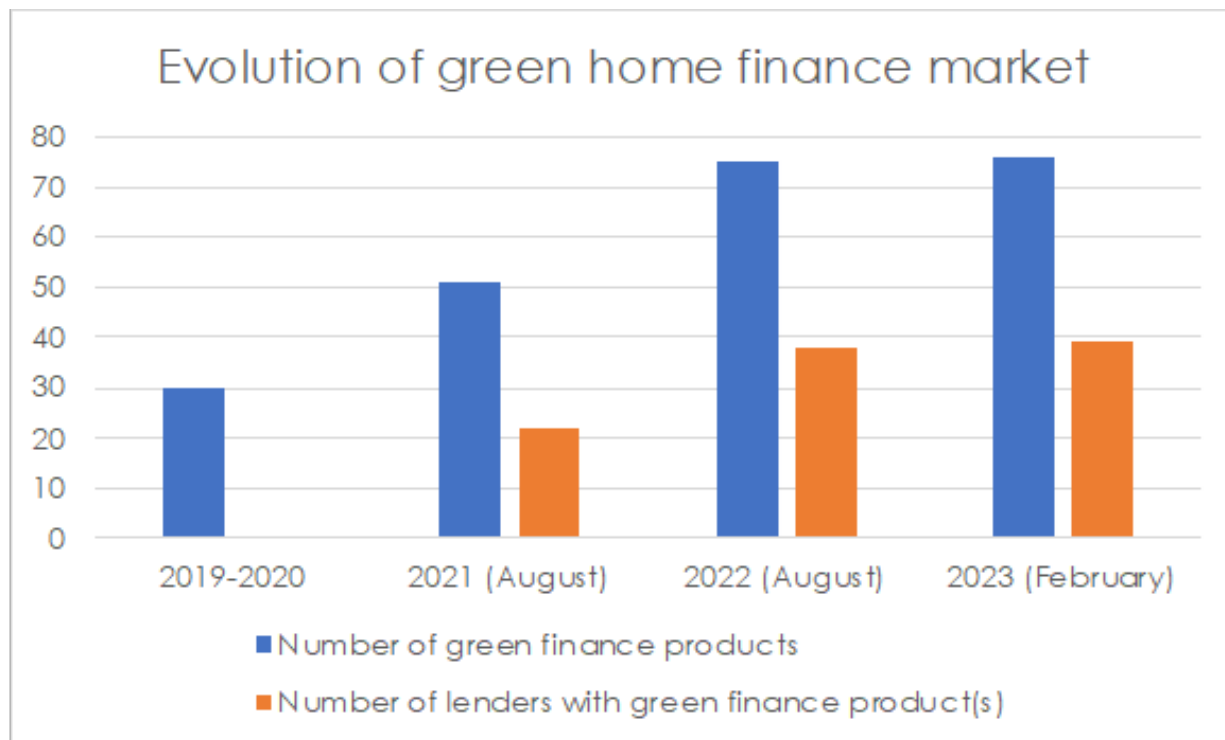
This review found that the number of lenders and number of products offering green financing to residential customers grew over the period. Many green mortgages used the Energy Performance Certificate for the purpose of eligibility, either by defining 'green' as buildings with a Band A or by lending to increase performance to band B and above.

In terms of changes, the products have adapted to the lending environment with interest rates increasing over the period and some lenders removing product features (such as cashback),

the overall review found that lenders have maintained the product availability, and that their broad green features.

Figure 1 presents the evolution of the green home finance market over the period 2019-2023 which shows a steady increase in number of products on the market between 2019 and 2022 which evened out in the last 6 months. It also presents a modest increase in number of lenders providing these products on the UK lending market.

Figure 1: Evolution of green home finance market



Findings in August 2022

In the summer of 2022, the review was conducted to update from the previous June 2021 review of products. During that period, a number of changes in the lending market were identified. The findings at this time showed:

- 46.3% (38 out of 82) of lenders had a green mortgage-related products on the UK market.
- 7 lenders left green home finance market, but 15 new lenders joined the list, resulting in net growth in number of lenders offering green finance products.
- 15 old products became unavailable and 3 cancelled the cashback component; and 16 new products were introduced in 2022.
- Most of the products (22) have higher interest rate comparing to the previous rates after Bank of England base rate increased; only a few products (3) provide lower interest rates or higher cashback.
- Some products (10) remained unchanged since 2021, and some products from 2021 (5) don't provide details publicly anymore.
- No particular emerging trend in additional fees, penalties (Early repayment charges: ERC) and insurance requirements.
- 17 green home finance products require EPC band B or above for purchasing and 10 require EPC at least band C for retrofit.
- Some retrofit mortgages limit the share of mortgage spent on improvements, some of them ask for the approved EPC ratings, and some use EPC ratings as criteria of interest rates.
- European lenders (e.g., BNP Paribas) cooperated with UK energy providers (e.g., E.ON UK) in piloting the innovative Green Mortgage product under European Energy Efficient Mortgage Action Plan (EeMAP) in 2018.
- Some lenders (4) provided only green loan for business before 2021, and now added green mortgage products for general customers to their product portfolios.
- Some lenders (5) provided green mortgages only to owner-occupiers before 2021 now have extended green Buy-To-Let products to landlords.
- Some lenders (4) only had green products in their countries outside of the UK before 2021 (e.g., Santander, Ulster Bank, Danske Bank, Pepper Money), now all of these have launched green products for the UK market.

Findings in February 2023

The review in August of 2022 was conducted before the Autumn budget and the subsequent changes in interest rates in the bond and short-term lending markets. As an update on the situation from that period, the review was conducted again to reflect the current situation.

With the increase of the Bank of England base rate to 4% at the time of researching in February 2023, most of the existing green lenders also raised the interest rate of their green mortgage products. 31 products had higher interest rates compared to the ones in August 2022. 3 products had either lower interest rates or lower borrowing requirements/criteria. 28 products didn't change their interest rates or provided benefits (for example, cashback or service). There are 5 products that were not available in August 2022 that become available in February 2023, and 7 products that were available in August 2022 but not in February 2023. Among the UK's top 10 banks that provide green products: Barclays and NatWest raised their interest and Royal Bank of Scotland lowered the borrowing criteria. Lloyds, Nationwide BS and Santander UK remained unchanged.

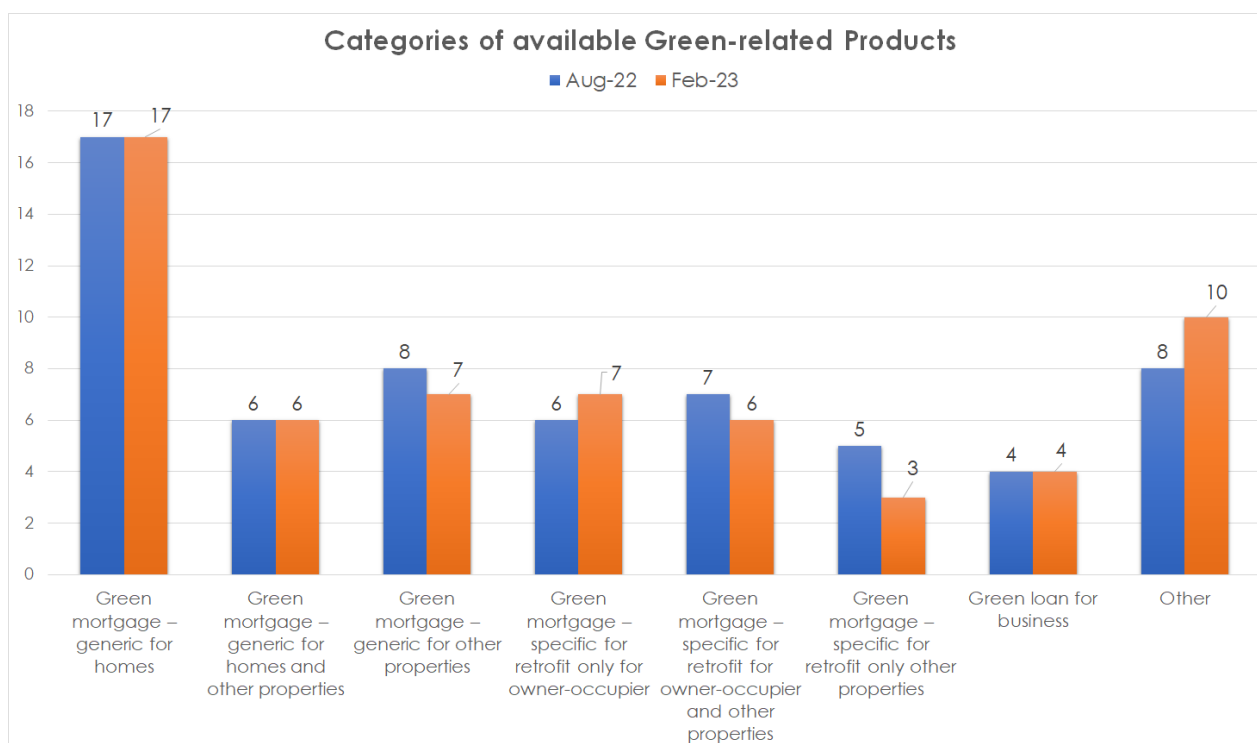
In total, as of February 2023, the key findings were that among the 82 lenders:

- 47.6% (39 out of 82) of lenders currently have green mortgage-related products on the UK market.
- 14.6% (12 out of 82) of lenders have recently expired (7), piloting (1), under-planning (1), or non-UK-market (3) products.
- Six of the firms have 2 products and three firms have 3 products. NatWest Group has 4, and Ecology BS has 8 relevant products.

The 76 identified products are categorised into 6 types:

- Green mortgage - generic for homes
- Green mortgage - generic for other properties
- Green mortgage - specific for retrofit only for owner-occupier
- Green mortgage - specific for retrofit only other properties
- Green loan for business
- Other - including service, cashback only, under-planning products

Figure 2 below shows the range of products on offer across the lenders categorised by product purpose.

Figure 2 - Market review green mortgage product focus

There is no data to show which product offering might be more sought or commonly secured by mortgage holders, though if number of products is an indicator, retrofit and additional borrowing are among the top. These types of products may have an advantage that they will be securitized against the built-up asset value of the home and therefore perceived as lower risk.

The next group are new building, existing building, and products with cashback. For these, they imply a new purchase and are more likely affected by the mortgage holder's ability to service a loan overall and will be subject to mandatory stress-tests that may reduce the number of eligible consumers for these products if additional green borrowing is not separated from the stress test. No products described their stress-test conditions in detail.

The review found that no two products are exactly alike and, where explicitly mentioned, each has varying eligibility and requirements around the performance levels sought/achieved.

Most of the products (38) were in a fixed discounted rate for 2 to 5 years, but some products (5) were in a variable discounted rate for 2 to 5 years. No particular trend emerged in additional fees, penalties (early repayment charges (ERC)) and insurance requirements. Only 15 green products need EPC band B or above for new home purchasing and 8 need at least EPC band C for retrofit.

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