Project Case Study: Green Homeowner Loans

Project theme:

Innovative financial models for heat pump deployment

Project lead:

Hometree (formerly Home Infrastructure Technology Limited)

Partners:

N/A

Contact:

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Funding:

£367,507.20

Project duration:

August 2022 – March 2025

Date of publication:

July 2025

What were the objectives of the project?

Hometree's Green Homeowner Loan project aimed to:

1. **Facilitate affordable financing for residential renewables** by developing a point-of-sale loan that offers monthly repayments competitive with those typically made to fund conventional boiler systems. This would remove the upfront cost as a barrier for consumers considering switching from gas to a heat pump.
2. **Make the financial product accessible to installers and customers** by integrating it within a digital consumer journey platform.

N.B. This project started as Home Infrastructure Technology Limited (HIT), which was acquired by Hometree in September 2023 during the Heat Pump Ready programme lifecycle. Following the acquisition, the finance business continued to operate as a distinct division within the Hometree Group, with no change of personnel. Still, the additional support and resources provided by Hometree enabled the business to grow more rapidly and to deliver on some of the funding ambitions intended to be researched during the project but not expected to deliver within this period.

What activities were funded?:

- **Market research** with two key groups: financial institutions to understand their appetite for providing the necessary capital, and consumers to understand what loan conditions (e.g., interest rate, loan period monthly repayments) are attractive to different consumer groups.
- **Developing the Hometree platform (also known as Core)** to enable point-of-sale consumer lending.
- **Designing a finance product** to unlock affordable finance through an Asset-Backed Securitisation (ABS)[1].
- **Performing a real-world trial** to understand customer demand for the product.

What did the project achieve?:

Hometree set up a new ABS for renewable assets, marking the UK's first residential renewable securitisation. The establishment of this securitisation allows heat pump (and other renewables) financing to be offered at low interest rates (circa 7-8% APR) over long loan terms (up to 25 years, depending on technology), yielding monthly repayments competitive with a boiler replacement sold using point-of-sale finance[2]The interest rates and terms are substantially different from those generally available in the "home improvement point of sale" market, where typical term limits are 10 years and interest rates are around 13%.

Moreover, Hometree developed a fintech platform, 'Core,' that offers customers point-of-sale loans through verified green lenders. This platform acts as the business's customer-facing arm, giving customers access to loans through a purpose-built platform. The platform provides Hometree with tools and analytics to help ensure high-quality installs, including job validation tools and training portals for installers.

Although not directly funded within the project, Hometree set up and now operates a residential ABS facility funded by Barclays and Canada Pension Plan Investment Board (CPPIB) during the project period. This will provide up to £300m of funding over the next two years. Establishing the securitisation was a complex project, lasting around nine months. It required engaging specialist legal support, negotiating with the institutional funders, and establishing a bespoke corporate structure with a security trustee, corporate service provider, servicer, and backup servicer.

[1] Hometree has packaged together the repayments from thousands of residential renewables, including solar, batteries and heat pumps. Pooling together these repayments means that they become a single, interest-bearing security which can be invested in.

[2] Securitisations enable lower interest rates to consumers for a number of reasons. Through diversifying risk across a whole pool of assets, individual defaults on loans pose less of a threat. This reduced risk profile in turn reduces the cost of capital. Moreover, ABSs offer predictable cash flows, appealing to institutional investors seeking steady returns who can afford to provide low cost capital, such as pension funds.

Project objective 1: Facilitate affordable financing for residential renewables

Securitisation involves consolidating numerous debt instruments, such as loans for renewable installations, into a bankruptcy-remote[3], independently managed holding company. Initially funded by institutional lenders, this entity is typically sold through public markets via a series of bonds once it has scaled.

Hometree's ABS will consist of the debt of tens of thousands of renewable installations, making the pooled cash flow large enough to attract institutional investors. Investors benefit from a diversified asset pool that generates steady cash flows from interest and loan repayments.

Given the domestic heat pump retrofit market is still relatively small and cannot on its own be relied on to generate >£100m per year of lending for the ABS (which is typically the threshold at which these structures become viable in the long term), Hometree's ABS will also admit other renewables retrofit contracts such as for Solar PV, batteries and EV charging points.

Importantly, the securitisation of these assets allows for low interest rates to be offered to consumers. Firstly, the risk to the lender decreases by spreading the risk of individual loan defaults across many investors. Moreover, the ABS offers steady revenue for investors, meaning institutional investors, like pension funds, can accept lower returns due to their ability to provide capital for stable, long-term returns. Finally, the scale of an ABS also impacts the cost of finance for the individual consumer. Larger securitisations benefit from economies of scale when dealing with fixed costs, such as legal, administrative and underwriting fees.

Why is this important?:

Heat pumps are a large capital outlay, and a one-off upfront payment is unattractive or prohibitive for much of the UK's population. Financing mechanisms that allow consumers to spread the cost over a longer period, with more attractive and affordable payments, can unlock large portions of the market.

What activities were funded?:

Market research was undertaken to assess the demand from institutional investors for renewable securitisations. This involved engaging with stakeholders to facilitate the debt facility and assessing the appetite for investment. Hometree first had to establish whether this type of product could be securitised on the capital markets and then assess the potential for willing capital providers to offer loans at the proposed interest rate.

Moreover, research was done with different consumer groups to understand the demand for this type of loan for consumers wanting to install a heat pump. **Consumer demand** was assessed through research (such as surveys, interviews and focus groups), and through offering consumer finance for Heat Pumps

[3] This refers to a funding structure whereby the consumer finance contracts are held in an independently owned company, controlled by a professional trustee. It is operated according to a set of legal agreements and in such a way that if there were ever to be any issue where the originator of the contracts – in this case Hometree – got into difficulties or even went out of business, consumers would be unaffected as their agreements would never be put at risk.

at the point of sale via green vendors and seeing whether customers agreed to proceed with the finance application process.

Hometree was funded to **complete research on the regulatory landscape covering Financial Conduct Authority (FCA) regimes** for consumer credit lending. To gain FCA approval, the project had to compile an FCA application, including ancillary paperwork, and deal with queries from an FCA case officer. Obtaining FCA permission to lend was flagged as one of the project's top three challenges to delivering the project.

What were the project findings and did the project achieve this objective?:

This project found a clear willingness from financial institutions to facilitate consumer financing for low-carbon solutions, subject to a credible plan to deliver a substantial volume of lending through the securitisation facility. This is evidenced throughout this project by engagement with major high-street banks, investment banks and institutional investors. The interest from these groups was driven by a desire to bolster green credentials and fulfil Sustainable Financial Disclosure Regulation (SFDR) Article 9 requirements[4], and also a wish to support the creation of renewables securitisation facilities in the UK which has until now lagged behind the US and some mainland European markets in this respect. The company's previous track record in offering low-cost finance in the gas boiler space was also key to accessing institutional funds, as it enabled Hometree to demonstrate a track record of operating consumer finance products and originating business via installers.

While the securitisation terms are confidential, they have met Hometree's expectations and requirements so that Hometree can offer the desired consumer pricing, which Hometree believes is crucial to achieving mass adoption and driving scale-up in the sector. The participants in the securitisation are Barclays Bank and the Canada Pension Plan Investment Board (CPPIB).

While the project successfully facilitated an affordable financing package for residential renewables, there are **challenges associated with this type of product**. In addition to the usual risks associated with loan default, this project encountered further risks introduced by the Consumer Credit Act (CCA). Since the Green Homeowner Loan product is offered through a green vendor and facilitates the supply of goods to the consumer, a 'debtor, creditor, supplier' agreement is entered under the CCA. This means that if the heat pump or renewable energy technology installed through the green vendor is not as described or is faulty, Hometree (as the creditor) is jointly responsible for this along with the green vendor, leaving them exposed to **Section 75**[5] claims under the CCA. This can lead to long-term liability issues and make lending less appealing from Hometree's perspective. Thorough research was undertaken to understand how best to mitigate against Section 75 claims, and risks were mitigated by including extensive validation and verification of every installation funded by Hometree within the Core platform. This benefits Hometree through risk mitigation but, more importantly, gives consumers additional confidence that the work done by their supplier has been independently reviewed. Although providing additional evidence to Hometree (above what is required, for example, to obtain an MCS certificate) could be seen as a burden for installers, Hometree's platform has been designed to be easy

[4] Article 9 funds are the benchmark for sustainable investing, with sustainability as a primary goal.

[5] Section 75 means a credit provider is jointly responsible for any breach of contract or misrepresentation by a retailer

to use. It typically requires approximately 15-30 extra minutes of work per completed installation to provide evidence that allows for payment to be authorised.

Hometree faced significant delays before releasing its fintech platform and loan facility as it took significantly longer than expected to secure additional authorisations from the FCA. As such, the **project had flagged the potential need to develop alternative products** which did not require additional FCA permissions (above those the business already held) to mitigate against the risk of losing time whilst waiting for approval. This led to Hometree deciding to launch a renewables leasing product, which has many similar attributes (duration up to 25 years, low monthly cost due to lower cost of capital) to a loan but which also bundles maintenance and repair services into the monthly fee.

While a leasing product did not require additional FCA authorisations, it did face other challenges in that the current legislation around incentives for domestic heat pump retrofit (the zero VAT rating, and the BUS grant) are each to some degree incompatible with the typical structure of a leasing contract. Hometree successfully worked with HMRC to address the VAT complexities (ensuring that homeowners using a lease would still obtain the benefit of the zero VAT rate) and has had discussions with Ofgem around possible future adjustments to BUS that will reduce complexity and make financing heat pumps alongside BUS simpler in the future.

This project found that achieving adequate scale (e.g., over £150 million) was essential to attract significant investment interest. **This scale was impossible to achieve in heat pumps alone** within the current heat pump market context. As such, heat pumps were bundled with other (more established) technologies like solar PV and battery energy storage. This allowed the project to reach the necessary scale and attract investment. **A larger securitisation ensures the underlying pool of assets is more diversified**, which mitigates the risk of individual heat pump owners defaulting on their repayments.

Project objective 2: Develop a fintech platform to issue loans.

Why is this important?

Developing a **fintech platform is important as it acts as the link between the banks and the end consumer**. Hometree has developed a platform called 'Core' to make this link. As consumer lending is a heavily regulated market, having a central platform allows proper administration of the loans (including underwriting) and the vetting of vendors. Moreover, Core provides Hometree with essential information that ensures high-quality installs, including job validation (with installation paperwork and photos) and an installer portal with training modules and ongoing vendor management.

What activities were funded?

Extensive work on the Core platform was undertaken as part of this project. This included developing an underwriting and affordability assessment framework and lending policies, which were then incorporated into the Core platform. Moreover, the Core platform has to be integrated with several APIs to gain key metrics on each customer and installation. This included affordability assessments, legal agreements, loan management and onboarding of green vendors.

What were the project findings and did the project achieve this objective?

Learnings focussed on feedback from customers and installers. Hometree's consumer research revealed the following:

- 80% of consumers surveyed said they knew what a heat pump is, and of those, 86% would consider replacing their existing heating with one when it reached the end of its life.
- 83% of those who reviewed the relative costs of a heat pump versus a gas boiler (funded by a Hometree finance product) would consider choosing a heat pump over a gas boiler.
- 81% of those who preferred a heat pump over a gas boiler would consider financing it via a Green Loan, and 97% would be interested in an all-inclusive finance package (a lease) that bundles maintenance, repairs and remote monitoring into the monthly price.
- 70% of respondents said that the existence of low-cost finance products like the Green Homeowner Loan would make them more likely to consider switching to a Heat Pump. Those who disagreed with this tended to be people who had a principled objection to borrowing of any kind or who had ample savings and would be able to purchase outright.
- A significant proportion of consumers are open to transitioning to a green home energy system but are fearful of change and nervous that replacing a product they see as reliable (their gas boiler) with something new and different may be a risk too far.
- The two most important factors in determining the attractiveness of a finance product in relation to a heat pump are affordability of monthly payment and competitive interest rate (each was indicated as important by over 70% of respondents).
- The most common area of focus in open-ended discussions was around APR and affordability, with a strong preference for a fixed interest rate (unlike, for example, with a mortgage where variable rates are common) and for this to be low. The most common expectation of “low” was an interest rate of around 5%, which matches up with the sort of rates that would have been available prior to the events of 2021 (which precipitated a very significant change in institutional lending costs). The clear delineation between “low interest” and “higher interest” appeared to be at 8% - a figure below this amount (even 7.9%) was much more attractive than, for example, 8.5%.
- Respondents were generally very comfortable with the idea of borrowing over the expected life of the equipment, which Hometree set at 15 years for air-source heat pumps and 20 years for ground-source heat pumps. This was particularly true in the case of an all-inclusive finance product since the benefits of maintenance, repairs and servicing are provided throughout the equipment's life.
- Around 15% of respondents raised questions about early repayment and what would happen if their home was sold. When the policy and process for these events were explained, there was near-universal agreement that this was reasonable and fair.

For Hometree Group, the Green Homeowner Loan (and providing innovative finance for domestic renewables retrofit) dovetails exactly into its broader vision of providing installation, financing and maintenance services across its business (Figure 1).

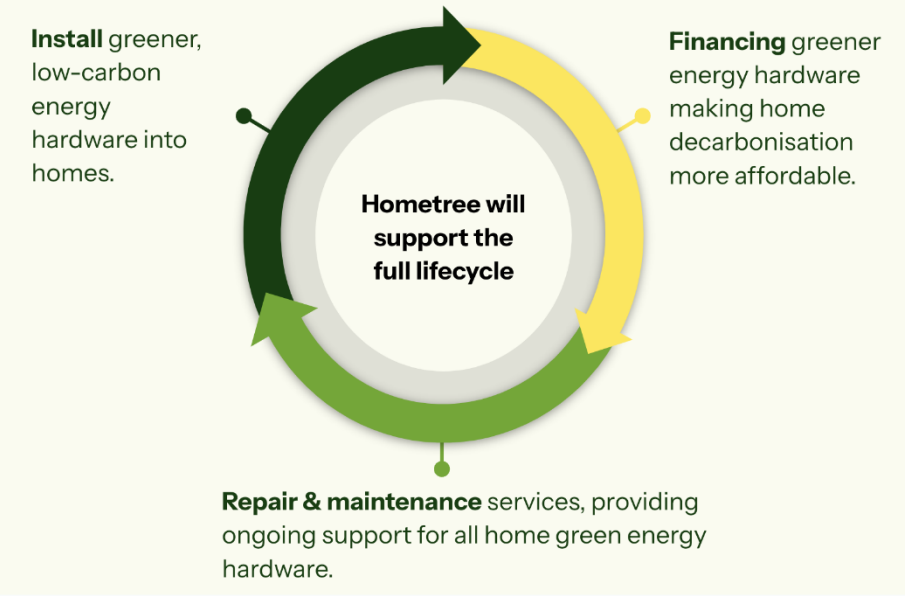

Figure 1: Hometree Group's full lifecycle support offering.

Based on this feedback, the Core platform was successfully enhanced, and the Green Homeowner Loan will be rolled out commercially in 2025. One learning from this project is that the fintech platform must administer lending from a **sector specialist** to mitigate risks. These include the risks of Section 75 claims, which make Hometree liable on behalf of the green vendor for any installation which is not delivered as expected. The Core platform must, therefore, offer Hometree a robust set of metrics on each install, which will be used to verify and validate renewable energy technology installations on a case-by-case basis.

Summary

What impact could this have on accelerating the heat pump rollout?:

The project developed a competitive consumer finance offering by scaling up to £300 million in debt financing and attracting a wide range of investors. This can open up portions of the market that are not attracted to (or are unable to afford) a large capital outlay or high-interest financing.

What's next?

With the new securitisation facility, Hometree plans to introduce innovative financing products to the UK residential renewable market, including zero-deposit leases, low-interest loans, and long-term financing options of up to 25 years. These offerings are designed to make renewable energy more affordable and accessible for UK households.

Where to find out more

https://www.hometreefinance.co.uk/

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