



UK Government

# WARM HOMES LOAN SCHEME SCHEME RULES



This document is intended to provide participating lenders with guidance on the rules and requirements of the Warm Homes Loan Scheme. It sets out responsibilities and processes lenders must follow when participating in the Scheme.

06.2026

# Warm Homes Loan Scheme – Scheme Rules



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## **Summary**

### **About the Warm Homes Loan Scheme**

The WHLS provides grants to help reduce the cost of consumer borrowing for low-carbon heating and clean energy home retrofit technologies.

### **About this Document**

This document is for lenders participating in the Warm Homes Loan Scheme (WHLS).

It explains:

- The financial mechanism underpinning the Scheme
- Which technologies and properties are eligible
- Who can apply
- What applicants must do at each stage of the process
- Our approach to audit and compliance
- Where to find further help, contacts, and resources

### **Disclaimer:**

The positions set out in this document relate to the Warm Homes Loan Scheme at launch. The Scheme remains subject to further iteration and the positions set out here should not create any expectation as to the future design of the Scheme. We reserve the right to amend all positions set out within this document for any reason with 30 days written notice, and to ensure that proposals in future provide value for money and are consistent with subsidy control principles. These changes will not apply retroactively.

# 1. Introduction

## **Warm Homes Loan Scheme (WHLS) overview**

1. The WHLS, referred to throughout this document as ‘the Scheme’, is a government supported, lender-led initiative designed to increase the availability of affordable finance for low-carbon home upgrades across the United Kingdom. It forms part of the Department for Energy Security and Net Zero’s (DESNZ) wider Warm Homes Plan and aims to address key barriers that have historically constrained consumer uptake of retrofit measures, particularly high upfront costs and limited access to affordable finance products.
2. Under the Scheme, participating lenders will offer consumer loan products for eligible measures, supported by a government funding mechanism intended to improve affordability while preserving lender autonomy over credit decisions and product design.
3. The Scheme is structured to operate within existing regulatory frameworks, including the Consumer Credit Act and in alignment with the FCA Consumer Duty, with clear scalability and market development over time.
4. The Scheme targets households who are ‘able to borrow’ – meaning those eligible borrowers who are motivated to install green technologies but lack the upfront savings to do so and are either deterred by the current cost of borrowing or unable to access more affordable products due to restrictive eligibility criteria.

## **How to use this document**

5. This document is for lenders who are interested in or already taking part in the WHLS. It explains how the Scheme will operate and details the rules and requirements participating lenders must adhere to.
6. This document should be used in addition to the Application Form and accompanying guidance, and the Grant Funding Agreement, which together provide a comprehensive view of all the requirements on lenders and Scheme processes.

## **Queries and further information**

7. Any questions on the WHLS Scheme documentation should be directed to the WHLS Enquiries team at [gfpolicy@energysecurity.gov.uk](mailto:gfpolicy@energysecurity.gov.uk).
8. Any queries on the Application Process should be directed to the WHLS Application team at [CGL-WarmHomesLoanScheme@energysecurity.gov.uk](mailto:CGL-WarmHomesLoanScheme@energysecurity.gov.uk)

## 2. Roles and responsibilities

### Role of Government

1. The Department for Energy Security and Net Zero (DESNZ) is responsible for the overall policy and Scheme Rules. Throughout this document, DESNZ is described as ‘the Department’.

### Role of Lenders

2. Lenders who participate in the Scheme shall:
  - Complying with all Scheme Rules
  - Actively monitor, prevent and detect fraud and error (including by customers and installers, where reasonable), and report instances of fraud to the Department
  - Managing risks around non-compliance with eligibility requirements for borrowers, measures and installers
  - Complying with all aspects of the Grant Funding Agreement
  - Providing grant supported financing to consumers
  - Managing all complaints and queries related to the financing they provide
  - Taking all reasonable action to ensure they are in compliance with the Scheme Rules

### Role of Eligible Borrowers

3. Eligible borrowers are responsible for:
  - Applying for finance, providing accurate information to their chosen lender and seeking advice on the appropriateness of the financing product for their individual circumstances
  - Seeking advice on the appropriateness of the measures they are looking to install for their individual circumstances
  - Organising installation of their chosen measure with a certified installer
  - Paying that installer
  - Repaying their loan to their chosen lender

### Role of MCS

4. MCS (Microgeneration Certification Scheme) is the quality assurance and consumer protection organisation for small-scale renewable energy technologies (50kW for electrical technologies, or 45kW for heat technologies (70kW if multiple heating units are installed in the same installation)) such as solar panels, heat pumps, and battery storage in the UK. MCS develops and publishes product and design and installation standards for microgeneration technologies and runs an installer and a product certification scheme.

5. MCS certification provides a consistent, nationally recognised framework for installer competence, product and installation quality for small-scale renewables. It also provides the primary consumer protection framework for small-scale renewables, including setting requirements for financial protection products, managing complaints relating to installation quality and workmanship, dispute escalation, resolution and access to remediation mechanisms.
6. For microgeneration technology installations (solar panels, battery storage systems, heat pumps) to be eligible for the Warm Homes Loan Scheme, an MCS certified product must be installed by an MCS certified installer, to the relevant MCS design and installation standard for that technology.
7. Lenders must ensure that installations financed through their Scheme products are delivered by MCS installers, who are certified for the relevant technologies, and that MCS certification is verified within their processes.
8. MCS will facilitate the sharing of relevant data with lenders via Application Programming Interfaces (APIs) for the purpose of installer and installation certification verification.

## 3. Scheme scope

### **Intended market and customer segments**

1. The Scheme is designed to support households that are able to borrow and repay finance but face barriers to investing in low carbon home upgrades due to upfront costs and limited access to suitable lending products.
2. The Scheme is primarily targeted at owner-occupiers and private rented sector landlords, referred throughout this document as 'eligible borrowers' seeking to finance an eligible measure.
3. The Scheme does not introduce income-based eligibility thresholds and relies on lender-led affordability and credit assessments in line with existing regulatory requirements that apply to the lender. It is intended to support a broad range of customers across the able to pay market, rather than a narrow or specialist segment.

### **Timeframe**

4. The Scheme is being developed as a multi-year programme, with an initial lender application window opening in June 2026 and an initial consumer launch phase from September 2026. See Section 7 for information on application and onboarding. The launch is expected to be followed by a subsequent application window which will open in late 2026 for onboarding in early 2027, with exact dates to be confirmed and communicated well ahead of opening. Following this, there are

expected to be annual windows for application and onboarding. Lenders will only need to apply for the Scheme once.

5. This document focuses on the initial launch phase of the Scheme, setting out the scope and parameters relevant to lender participation. Any future changes to Scheme scope, product coverage, or delivery arrangements would be subject to further policy decisions and communicated separately.

### **Funding availability**

6. Scheme funding will be deployed as a shared fund from which participating lenders may draw support down, in line with agreed Scheme Rules and reporting requirements. Further detail on the funding mechanism, drawdown arrangements, and controls is set out in Section 6 of this document.

### **Geographic extent**

7. Any domestic property located in the United Kingdom is eligible under the Scheme, which is designed to operate alongside existing schemes in the devolved administrations.

### **Types of finance products supported**

8. The Scheme is designed to support a range of consumer lending models, recognising differences in lender business models, customer preferences, and distribution channels. Subject to meeting Scheme requirements, supported product types include:
  - Personal unsecured lending (personal loans and embedded/point of sale finance offered in conjunction with installers, suppliers or other intermediaries)
  - Personal secured lending (secured against the property as a first or second charge mortgage)
9. Lending to business or SPV type structures will not be allowed.
10. Novel finance such as property linked finance, subscription or leasing products will not be eligible for the first phase of the Scheme, but their inclusion in future iterations of the Scheme will be kept under review.
11. Lenders retain responsibility for product design, pricing, underwriting, and distribution, within the parameters set by the Scheme and in compliance with their existing regulatory obligations, including applicable FCA Rules.

### **Loan caps, tenor, and product parameters**

12. The Scheme has set parameters around supported loan products, to ensure consistency with Scheme objectives and value for money considerations. These include:
  - Maximum size of loans supported for each available technology and their associated ancillaries, set at values that will account for a wide range of property and installation circumstances (see section 4.19).

- Grant support available for tenors three years and longer.
  - The grant must be passed on to borrowers by reducing the nominal interest rate.
13. Lenders retain flexibility to design products aligned with their risk appetite and customer base, including via variation by product type and customer profile, subject to the Department's approval.
14. In parallel with the Scheme application assessment process, there is a separate product approval process. There is no limit to the number of products each lender can develop, provided that each product has been approved in accordance with the Scheme Product Approval Process.

## 4. Eligibility Criteria

### **Lender Eligibility Criteria**

1. The Scheme is open to all lenders that meet minimum regulatory, operational, and conduct standards. Applicants must
  - Be, or have applied to be, authorised and regulated by the Financial Conduct Authority (FCA) to undertake the relevant lending activities. (Note: Lenders will not have the right to enter into new loan agreements with borrowers if they lose their FCA authorisation/permission to lend. Lenders will not have the right to enter into any loan agreement with borrowers until they have been authorised by the FCA).
  - Demonstrate sufficient financial and operational capability to design, launch, and administer consumer loan products, including customer servicing, reporting, and complaints handling at a scale appropriate to customer base and targeted customer segments.
2. Participation is subject to a formal application and assessment process. Where lenders have applied but not yet received FCA authorisation, applications will be provisionally approved if lenders meet the other eligibility criteria outlined in the second bullet point of section 4.1 of the Scheme Rules. Lenders may not offer WHLS loans, use Scheme branding or claim to be a WHLS lender until they are fully approved by the Department. Nor can they offer WHLS Loans, use Scheme branding or claim to be a WHLS lender if they lose their FCA authorisation. Further exclusions and Tax and Regulatory requirements can be found in lender application guidance.
3. Section 7 of this document and the Application Form and accompanying guidance outline this assessment process in greater detail.

## **Eligible borrowers and properties**

4. The Scheme is designed to support eligible borrowers who are able to borrow and repay a personal finance product and wish to install an eligible measure for their domestic property. Lenders are only permitted to lend to the following eligible borrower groups, on a personal lending basis:
  - Owner-occupiers of existing domestic properties
  - Private Rented Sector (PRS) landlords
5. The Department will not impose any income-based eligibility thresholds, mandatory minimum energy efficiency upgrade requirements, or any Scheme level restrictions by property type. Lenders remain responsible for undertaking creditworthiness and affordability assessments in line with their regulatory obligations and may apply additional criteria as part of their own product design (i.e., a requirement to evidence an Energy Performance Certificate).
6. Participating lenders will be able to develop products that support one, or all of the eligible consumer groups at their discretion.
7. For the purposes of the WHLS, a domestic property is defined as any building or structure that is currently used or suitable for use as a dwelling. In mixed-use cases, where the property is used for both residential and a business use, installations are eligible where they are principally intended to meet the energy needs of the domestic household. Incidental use for business or non-domestic purposes does not in itself render a property ineligible (for example short term lets, secondary but associated buildings like annexes or converted garages, or where a property owner might run a business from their home).
8. Owners of multiple properties may apply for a loan for each property.

## **Eligible measures**

9. The Scheme will support financing for a defined set of eligible retrofit measures, selected to deliver meaningful carbon and bill savings and to be suitable for delivery through market led finance.
10. Participating lenders will be able to develop products that support one, some, or all of the eligible measures at their discretion.
11. The Scheme is intended to complement other government grant schemes in the able to pay space. This is currently limited to the Boiler Upgrade Scheme (BUS) and the Scottish Government's Home Energy Scotland Scheme. For example, where an applicant in England or Wales is looking to install a heat pump and is applying for a BUS grant, they can apply for a WHLS loan from a participating lender to cover any costs of installation above the level of the BUS grant received.

12. The BUS has specific eligibility criteria that consumers need to meet in order to receive a grant. Further information can be found in guidance here. If the BUS updates its guidance or scheme eligibility criteria the WHLS will mirror any such change, subject to confirmation to participating lenders by the Department.

13. WHLS eligible measures are:

| Technology         | Eligible measure               | Further detail                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Low-carbon heating | Air-to-water source heat pumps | Eligible for those in receipt of an applicable BUS or other devolved nation scheme grant, or who wish to take out a loan for the whole installation cost. The heat pump installation must not be replacing an existing low-carbon heating technology (i.e. an existing heat pump).                                                                                                                                              |
|                    | Air-to-air source heat pumps   | Only following their introduction as an eligible measure in the BUS Scheme, contingent upon the development of new product, design and installation standards by MCS. Further information will be provided when they become available. <b>Please note that this means air-air heat pumps are not currently eligible for applications to the Warm Homes Loan Scheme as they cannot meet the requirement to be MCS certified.</b> |
|                    | Ground source heat pumps       | Including water source heat pumps and those on shared ground loops. Eligible for those in receipt of an applicable BUS or other devolved nation scheme grant, or who wish to take out a loan for the whole installation cost. The heat pump installation must not be replacing an existing low-carbon heating technology (i.e. an existing heat pump).                                                                          |

|                                    |                                 |                                                                                                                                                                                                                                                                                   |
|------------------------------------|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                    | Biomass boilers                 | For rural properties only, where an applicant is in receipt of an applicable BUS or other devolved nation scheme grant.                                                                                                                                                           |
|                                    | Heat network connections        | Domestic connections where properties have the opportunity to connect to an existing or planned low carbon network. Heat network connection installations are exempt from the 'Installer Eligibility' requirement that measures must be installed by an MCS-registered installer. |
| Electricity generation and storage | Solar photovoltaic (PV) systems | New roof-top mounted solar panels, Including the addition of solar panels to an existing installation. An EV chargepoint is an eligible ancillary cost as part of a solar PV installation.                                                                                        |
|                                    | Electrical battery storage      | Both standalone battery installations and those paired with solar PV. An EV chargepoint is an eligible ancillary cost as part of a battery installation.                                                                                                                          |
|                                    | Micro-renewables                | Domestic wind turbine and micro hydroelectric systems only.                                                                                                                                                                                                                       |

14. Only measures explicitly listed above and any associated ancillaries are eligible to be financed using Scheme funds. This includes the relevant installation, labour and other ancillary capital costs that are required to deliver and enable the effective operation of a given measure.
15. For a heat pump installation, we would expect a typical installation quote to include ancillary works such as necessary improvements to radiators, pipework and water tanks. The Scheme will not fund insulation as part of a heat pump installation.
16. For a solar installation, we would expect a typical installation quote to include ancillary works such as scaffolding, temporary safety equipment for installation and grid connection. EV chargepoint installation and associated electrical works will also be permitted as part of a solar and/or battery installation. The Scheme will not

fund replacement roofing or other structural work that may be required prior to solar being installed.

17. For a battery installation, a typical installation quote may include integration with existing PV system (if present), setup of monitoring apps or control systems and installation of isolators, breakers or protection devices.
18. An EV chargepoint installation must only be made as part of a solar and/or battery installation to be eligible under the Scheme. EV chargepoints are not permissible as a standalone measure. EV chargepoint installers and residential chargepoints must be Office of Zero Emission Vehicles (OZEV) approved. To be OZEV approved, an installer must be a member of a Competent Persons Scheme. Further information on how to apply to be an OZEV authorised installer can be found [here](#) and further information on eligible chargepoints can be found [here](#). Borrowers who have already received a grant from OZEV or any other source will not be eligible for a loan from the Scheme to cover the costs of installing that chargepoint.
19. Measures must be installed in line with applicable MCS technical standards and Scheme requirements, which includes that total costs are within the maximum size of loan supported for each available technology:

| Eligible measure           | Loan cap amount (£)                        |
|----------------------------|--------------------------------------------|
| Solar PV                   | 15,000                                     |
| Electrical storage battery | 15,000                                     |
| Air-water source heat pump | 20,000 (prior to BUS grant being deducted) |
| Air-air source heat pump   | 10,000 (prior to BUS grant being deducted) |
| Ground source heat pump    | 35,000 (prior to BUS grant being deducted) |
| Biomass boiler             | 20,000 (prior to BUS grant being deducted) |
| Heat network connection    | 7,500                                      |
| Micro-renewable system     | 20,000                                     |

Any ancillary work funded by a loan must also fall within the relevant measure caps. The Department reserves the right to amend these measure caps over time.

20. Where a customer is seeking additional finance to fund further costs not covered by the Scheme (i.e. insulation, windows and doors, roofing repairs in advance of a solar installation etc.), participating lenders are free to offer additional, separate finance products in line with their usual lending requirements if they wished – for example, a standard unsecured personal loan.
21. The list of eligible measures is set at Scheme level and may be reviewed over time in response to policy decisions and delivery experience.
22. Any future changes to any part of the Scheme's eligibility will be communicated in advance with at least 30 days written notice and will not apply retrospectively, in line with the provisions of the Grant Funding Agreement.

### **Installer eligibility**

23. To ensure installation quality, consumer protection, and Scheme integrity, all works financed under the Scheme must be carried out by installers that meet Scheme approved certification requirements.
24. For the purposes of this Scheme:
  - The Microgeneration Certification Scheme (MCS) is the approved certification body for eligible measures.
  - Installers must be MCS certified for the specific eligible measure they are delivering at the point of installation. This does not include any relevant ancillary work associated with an installation referenced in the eligible measures section above.
25. Lenders are expected to ensure that installations financed through their Scheme products are undertaken by MCS certified installers and that certification is verified as part of their processes. This will be enabled through an API with MCS at the consumer application quote stage and at the post-installation verification stage (see sections 5.22-5.26 for more detail below).

## **5. Scheme operation and consumer journey**

### **Overview**

1. The Scheme is designed to operate through a lender-led, end-to-end consumer journey. While each lender will develop and deliver their own consumer

journey appropriate to their borrowers' needs and preferences, it is expected that consumer journeys will share common features including:

- Consumer awareness and engagement
  - Loan application and approval
  - Installation and verification
  - Payment to customer/installer and commencement of loan repayment
  - Repayment and Ongoing Customer Management
2. While the Scheme sets out common principles and minimum requirements, lenders retain responsibility for customer interactions, credit decisions, and loan servicing within the agreed Scheme framework and complying with existing regulatory requirements.
  3. There will also be a clear, role-based complaints and consumer protection model in place, aligned with existing regulatory and assurance frameworks, to ensure eligible borrowers are routed to the appropriate part. The Department will provide eligible borrowers and lenders a guide or visual diagram of where eligible borrowers need to go to for various types of complaints through our planned communications. Further detail can be found in 5.32-5.40.
  4. The consumer journey set out below is most relevant to unsecured (i.e. personal loans) and secured finance (i.e. additional mortgage borrowing) products and may differ for point-of-sale (POS) finance where sufficient eligibility and verification steps are already in place.

### **Awareness and engagement**

5. Consumer awareness of the Scheme will be supported through a combination of government-led signposting and lender-led marketing activity.
6. Scheme information, such as eligibility criteria, eligible measures and participating lenders will be provided on a WHLS page hosted on the government's upcoming Home Energy Advice (HEA) tool.

### **Branding and marketing**

7. UK Government branding will be used to help eligible borrowers recognise that participating products form part of a government-supported initiative.
8. Government channels will provide high-level information about the Scheme and signpost eligible borrowers to participating lenders. This will include ministerial communications as well as Scheme information on GOV.UK and the HEA tool.

9. Lenders are expected to help support the Department by responding to any reasonable requests for supportive quotes, figures or other materials that could assist with Government led information provision and marketing for the Scheme.
10. Lenders remain responsible for marketing their individual financial products and engaging customers through their own channels, subject to applicable regulatory requirements including FCA rules around consumer credit and the Consumer Duty.
11. Lenders must use the “Funded by UK Government” branding for any marketing of products supported by the WHLS. This must also feature on any webpage for a Warm Homes Loan Scheme supported product.
12. Once onboarded to the Scheme, lenders may use the phrase “This product is supported by the Warm Homes Loan Scheme”. Lenders may ask the Department for specific support in their own marketing in the form of supportive quotes, figures or other relevant materials.
13. When using UK Government branding as part of their marketing lenders must comply with branding guidelines outlined in the Funded by UK Government branding pack that will be shared with lenders when they apply.
14. The Department will reserve the right to require lenders to cease or correct any use of UK Government branding if it is not in line with the branding guidelines or being used on products that are not supported by the Scheme.
15. The Department reserves the right to require the immediate removal of UK Government branding from any marketing material at any time.

### **Consumer application**

16. The application stage is lender-led and reflects existing lending practices, with specific Scheme Application requirements applied where necessary.

### **Application requirements**

17. Eligible borrowers apply directly to a participating lender (or via an FCA approved intermediary, where applicable).
18. Lenders assess applications in line with their standard creditworthiness and affordability processes. Applications must be supported by documentation required by the lender and by the Scheme to confirm eligibility of the borrower, the property and the measure.
19. Lenders ask eligible borrowers to confirm they are not applying for a loan for a measure that is being funded by another public grant or loan (with the exception of the Boiler Upgrade Scheme and the Home Energy Scotland Grant for Heat Pumps).
20. Sections 5.22 – 5.24 are steps lenders must implement to ensure a borrower is eligible to receive a loan before offering one.

## Quotes

21. For non-embedded finance journeys, a valid quote for the proposed works is required as part of the application, issued by an MCS certified installer.
22. Quotes must:
  - be dated within the last six months
  - be addressed to the applicant
  - be issued on company headed paper
  - include the installer MCS number
  - come from an installer that is MCS
  - show the full installation address
  - include an itemised cost breakdown of all improvements
  - show the system size for the eligible measure (i.e. kW capacity)

## Pre-installation checks

23. Lenders must undertake checks to confirm:
  - The proposed installation is for a measure eligible under the Scheme;
  - Tenure and property type eligibility;
  - Installer certification status (using an API with MCS where applicable);

The amount of finance applied for falls within the relevant cap for that particular eligible technology.

24. Lenders will no longer be required to use the Department's Energy Efficiency Installation Checker to check the measure does not already exist at the property, at this stage. This requirement may be reinstated in future.

## Lodgement and API verification

25. Installers are required to lodge completed works in the MCS Installation Database, generating an MCS certificate. The certificate provides the basis for lenders to verify that installation requirements have been met.
26. The detailed technical arrangements for data sharing and API based verification are still under development. MCS have indicated a proposed approach to API integration based on their existing partner APIs. Interested lenders will be asked to confirm if this approach is compatible with their systems; if this is not the case then alternative solutions will need to be developed between the parties.

## Loan Disbursement

27. The Department will only pay out grant claims in arrears, after receipt of MCS verification relating to an eligible loan. It is up to the lender to decide when to disburse loans to customers (i.e. upfront in full, as deposit, direct to installer, after

verification, or otherwise). The corresponding risk also sits with the lender; i.e. providing a loan at lower nominal rate prior to receiving the funds from the Department. Further detail can be found in the Grant Funding Agreement.

### **Post-installation**

28. Following successful installation and verification by the lender any remaining funds are paid out to the customer or the installer, dependent on the payment arrangements agreed by the lender.

### **Repayment and ongoing customer management**

29. Repayment and ongoing customer management are the responsibility of the lender and operate under existing regulatory frameworks. This includes:
- Loan servicing and repayment collection
  - Management of arrears, forbearance, and customer support
  - Ongoing customer communications

### **Links to CCA and FCA rules**

30. The Scheme does not alter lenders' existing obligations in relation to consumer credit regulation or MCOB regulation, where applicable.
31. Consumer lending under the Scheme is fully subject to existing consumer protection legislation and FCA conduct requirements, including the Consumer Duty, where applicable (e.g. recognising some credit unions may have exemptions).

### **Complaints routing and consumer protection model**

32. The Scheme adopts a clear, role-based complaints and redress model, aligned with existing regulatory and assurance frameworks.

### **Lender responsibilities**

33. Lenders are responsible for complaints relating to:
- Loan products;
  - Affordability and credit decisions; and
  - Loan servicing and repayment
34. Through the relevant Consumer Credit Act (CCA) provisions, lenders can also be held liable for installation quality issues and mis-selling (if the CCA is applicable to the lender and/or product). Eligible borrowers will be reminded (through guidance issued by the department) to contact their installer in the first instance (and subsequently MCS if needed) to report and resolve these types of issues.
35. Complaints should be handled in line with FCA rules and, where relevant, the CCA, with escalation routes through established ombudsman services.

36. The Scheme will look to understand the nature of consumer complaints and issues being managed by lenders, to support ongoing monitoring of the Scheme and lender compliance with the Grant Funding Agreement and Scheme Rules. The data sharing and reporting requirements can be found in Appendix 3.
37. For the initial launch of the Scheme, we will align where possible with existing returns that lenders must make as part of their FCA obligations on complaints. We are considering additional information that we may require, including breakdowns on complaints by types of issues and resolution outcomes.

### **Installer responsibilities**

38. Installers are responsible for complaints relating to installation quality and workmanship. MCS provides the primary framework for installer standards and dispute escalation.

### **Department responsibilities**

39. The Department is only responsible for complaints relating to:
  - Scheme Rules
  - The application of Scheme eligibility or requirements
40. The Department will not intervene in individual lending decisions or installation disputes.

## **6. Financial mechanism**

### **Overview**

1. The Scheme uses a government funded financial mechanism to support the provision of more affordable consumer finance for eligible home upgrades, while maintaining lender-led delivery and established regulatory protections.
2. The mechanism is designed to:
  - Improve affordability for eligible borrowers
  - Preserve lender autonomy over product design and credit risk
  - Ensure public funding is deployed efficiently and transparently
  - Minimise any distortion to the existing market mechanisms and economic incentives across a diverse range of products
3. The Scheme does not involve Government underwriting of individual loans or intervention in lenders' credit decisions.

4. The primary mechanism underpinning the Scheme is a principal reducing capital grant. Under this approach:
  - Government funding is provided to participating lenders in the form of a non-repayable capital grant of up to 20% of the loan amount (paid in arrears upon verification of installation)
  - The grant is used to reduce the effective principal of eligible loans
  - Contractually the lender originates and services the loan on the full eligible loan amount at the reduced rate. The grant reduces the lender's credit exposure by reducing the principal at risk, while preserving lender returns equivalent to earning the Market Rate on the original principal.
5. This structure is intended to lower the effective cost of providing reduced rate loans for eligible borrowers without requiring Government to buy-down interest rates directly.
6. For the avoidance of doubt, all references to rates in this Financial mechanism section are to the Annual Fixed Rate (i.e. the nominal interest rate), and do not refer to any effective rate, APR, or IRR measure. For the full glossary of terms please see Appendix 2.

## **Grant Calculation**

7. The amount of grant funding will be calculated at loan level. The calculation will take account of:
  - The eligible loan amount
  - The loan term
  - The relevant Starting Rate (prior to application of the grant)
  - The relevant Target Rate (after application of the grant)
  - The applicable grant cap
8. The grant is available for eligible loans with a term of 3 years or more. The grant is intended to deliver an equivalent reduction in Target Rate of up to 5% pts from the relevant Starting Rate, subject to the Scheme cap. Where the applicable grant cap is reached, the achievable reduction in Target Rate may be lower. This is more likely to occur for longer term loans, or in any case where the calculated grant exceeds the maximum amount permitted under the Scheme.
9. Where the Starting Rate on a loan is below the Target Rate reduction, the grant will be limited such that the resulting borrower rate does not fall below zero. The Scheme is intended to reduce the borrower's cost of credit and shall not result in a negative rate outcome.
10. The Starting Rate for the purposes of calculating the government grant must be the lender's Market Rate for an equivalent unsubsidised product at the point of origination if there is no other buy-down before the government grant. The policy supports loans with multiple buy-down components, which may be applied in any sequence by

participating parties. Where multiple buy-downs are present, lenders must identify and report:

- the Target Rate enabled by the Government grant, calculated on a standalone basis and separately from any other buy-downs; and
- the final Contractual Rate offered to the customer after all buy-downs

11. The table below illustrates how capped grant percentages may vary by Starting Rate and loan term. For detailed computation methodologies relating to the grant, please refer to Appendix 6.

| Grant (%)         | Loan tenure (years) |      |      |      |       |       |       |       |       |       |
|-------------------|---------------------|------|------|------|-------|-------|-------|-------|-------|-------|
| Starting rate (%) | 1                   | 2    | 3    | 4    | 5     | 6     | 7     | 8     | 9     | 10    |
| 0%                | 0.0%                | 0.0% | 0.0% | 0.0% | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| 1%                | 0.0%                | 0.0% | 1.5% | 2.0% | 2.5%  | 3.0%  | 3.5%  | 3.9%  | 4.4%  | 4.9%  |
| 2%                | 0.0%                | 0.0% | 3.0% | 4.0% | 4.9%  | 5.8%  | 6.8%  | 7.7%  | 8.6%  | 9.4%  |
| 3%                | 0.0%                | 0.0% | 4.5% | 5.9% | 7.2%  | 8.6%  | 9.9%  | 11.2% | 12.5% | 13.7% |
| 4%                | 0.0%                | 0.0% | 5.9% | 7.7% | 9.5%  | 11.2% | 12.9% | 14.5% | 16.1% | 17.7% |
| 5%                | 0.0%                | 0.0% | 7.3% | 9.5% | 11.7% | 13.8% | 15.8% | 17.7% | 19.6% | 20.0% |
| 6%                | 0.0%                | 0.0% | 7.3% | 9.5% | 11.6% | 13.6% | 15.6% | 17.5% | 19.3% | 20.0% |
| 7%                | 0.0%                | 0.0% | 7.2% | 9.4% | 11.5% | 13.5% | 15.4% | 17.3% | 19.0% | 20.0% |

|     |      |      |      |      |       |       |       |       |       |       |
|-----|------|------|------|------|-------|-------|-------|-------|-------|-------|
| 8%  | 0.0% | 0.0% | 7.2% | 9.3% | 11.4% | 13.3% | 15.2% | 17.0% | 18.8% | 20.0% |
| 9%  | 0.0% | 0.0% | 7.2% | 9.3% | 11.3% | 13.2% | 15.0% | 16.8% | 18.5% | 20.0% |
| 10% | 0.0% | 0.0% | 7.1% | 9.2% | 11.2% | 13.1% | 14.9% | 16.6% | 18.2% | 19.7% |

12. Funding rates and calculation assumptions are subject to change. The Department retains the right to adjust this over time in response to market conditions, consumer demand, budget availability and Scheme performance.

### Budget Allocation Model

13. Scheme funding will be managed through a central funding pot managed by the Department, accessible to all participating lenders in line with Scheme rules and reporting requirements, on a first-come, first-served basis.
14. The central pot model is intended to:
- Maximise utilisation of available funding
  - Support competition between participating lenders and products on a like-for-like basis
15. The Department will provide monthly draw-down data on the central funding pot, with forecasts intended to give advance notice of funding expiring at least six months ahead of fund closure.
16. The Department will notify lenders six months in advance when forecasting data indicates the Scheme has six months' worth of funding remaining. Grant supported lending can continue during this period, but lenders may wish to consider how to transition their products to continue without grant funding.
17. The Department will then give lenders one month's notice that grant funding will stop and will honour the grant for any eligible loans made during this one-month notice period.

### Payment Flow

18. The Scheme is designed so that public funding is linked to confirmed delivery, rather than being paid in advance of installation or verification. This means:
- Lenders originate and issue loans to eligible borrowers
  - Installations are completed and verified in line with Scheme requirements

- Grant funding is claimed by lenders in respect of eligible, verified loans
19. The Department will pay out grant claims monthly in arrears, after receipt of MCS verification relating to an eligible loan.
  20. It is for the lender to decide when to disburse loans to customers or installers (i.e. upfront in full, as deposit, after verification, or otherwise), subject to Scheme rules and its own lending processes. The lender remains responsible for any timing risk where it provides a supported rate before receiving grant funding from the Department.
  21. Lenders will need to calculate the correct grant amount for each eligible loan using the methodology provided by the Department and set out in Appendix 6, and aggregate these amounts into their monthly grant claim. The Department reserves the right to audit claims at an individual loan level for accuracy.
  22. Where a grant is later found to have been claimed in error, or where Scheme requirements have not been met, the Department will require repayment of the relevant grant.

## **Reconciliations & Clawbacks**

23. To protect public value and Scheme integrity, the Scheme includes clawback (Event of Default/non-compliance with scheme rules) and reconciliation (no fault) arrangements where grant funding has not been used, or could not be passed through in line with Scheme requirements.
24. Any reconciliations due will need to be assessed on a quarterly basis and can be netted off against future grant claims, where available.
25. Reconciliations will apply in circumstances where grant support can no longer be fully passed through to the borrower including:
  - Full early repayment or refinance
  - Partial early repayment or regular overpayment
  - Default with subsequent recovery
  - Loan cancellation
  - Loan disposals (where a lender treats funds received from the disposal of Scheme loans as full early repayment)
26. The reconciliation computation is based on the amount of grant support no longer required at the relevant event date. The calculation will compare the lender opening balance, any overpayment received from the borrower, and the present value of any remaining expected borrower payments, to determine whether, and what proportion of, any grant should be recovered. Further detail on the

calculation methodology is set out in Appendix 7, with a supporting calculator provided to participating lenders.

27. For full early repayment or refinance, reconciliation will be equal to the remaining unvested grant at the event date. The amount recovered will not exceed the grant amount paid in respect of that loan and will be recovered from the lender through reconciliation against future grant claims, or through alternative repayment arrangements where future claims are not available.
28. For partial repayment or overpayment, reconciliation should recover the grant support no longer required as a result of the accelerated repayment. Any residual grant should continue to be vested over the remaining life of the loan.
29. Arrears, whether temporary or continuing, or agreed payment holidays will not trigger recovery or top-up. If a loan with temporary arrears later has an early repayment or overpayment, any reconciliation due will be calculated by reference to the original loan term.
30. Where a loan enters full default, any unvested portion of the grant shall be treated as a loss to the Scheme. Default outcomes shall be managed in accordance with the lender's recovery processes.
31. The lender is expected to calculate the proportion of the vested grant at any event date.
32. To reduce administrative burden for both participating lenders and the Department, the reconciliation policy includes a set of proportionality thresholds:
  - a small balance write-off threshold, whereby any outstanding grant amount below 5% of the total grant amount may be written off, and
  - a cumulative de minimis threshold which ensures that reconciliation is only triggered once the difference between grant amount paid and grant amount vested reaches 5% of the total grant amount on an individual loan basis. From that point onwards, all subsequent differences will be recovered through the standard quarterly reconciliation process
33. Where recovery proceeds are subsequently realised following a default event, the Department shall be entitled to a share of such recoveries in accordance with the recovery methodology set out in Appendix 7. Recovery proceeds shall be calculated on a net basis after deduction of permitted recovery costs and shall be shared between the lender and the Department on a *pari passu* basis reflecting the original funding proportions of the eligible loan.
34. Lenders will need to retain sufficient loan-level records to support grant and reconciliations calculations. This includes the grant claimed, relevant borrower and lender payment profiles, repayment or prepayment events, any reconciliations value calculated, and evidence needed to support audit and reconciliation.
35. Where a loan has been disposed, the originating lender retains responsibility for determining the appropriate treatment of the loan for reconciliation purposes.

36. In such cases, the originating lender may either:
- treat the disposal as a full early repayment event, with any associated clawback calculated in line with the approach set out above; or
  - retain provision for any future reconciliation liability, such that responsibility for reconciliations remains with the originating lender and is reflected through the ongoing quarterly reconciliation process. In this case, the lender must ensure that any disposal documentation enables continued compliance with Scheme reporting and reconciliations requirements.
37. Where ineligibility or non-compliance is identified after grant payment, clawback will be calculated in proportion to the share of the loan that did not comply with scheme rules, where this can be determined.

## **Duplicate Funding**

38. Lenders must take reasonable steps to satisfy themselves that borrowers are not receiving other public grant funding for the same measures, other than the Boiler Upgrade Scheme (BUS) or the Home Energy Scotland Scheme. As a minimum, this should include obtaining a borrower declaration confirming that no such funding has been received or will be claimed and that appropriate recovery action will be taken where it is later established that funding has been received from the scheme and other public funding.
39. Provided the lender can demonstrate that it has undertaken reasonable checks, the Department will not seek clawback from the lender in instances where a borrower is subsequently found to have accessed additional grant funding in breach of this requirement.
40. Permitted Duplicated Funding includes Boiler Upgrade Scheme and the Home Energy Scotland Scheme. Permitted Duplicated Funding also includes retailer or installer discounts that are in addition to the Scheme Interest Rate Reduction. The Scheme Interest Rate Reduction must not replace any Additional Interest Rate Reduction being offered by retailer or installer discounts.

## **Payment Schedule**

41. Each month, lenders are required to:
- by the 5th working day of the month, upload pre-determined data into our Data Management System (DMS). This will include loan-level data enabling the calculation of the net grant payable, including any potential settlement (gross eligible principal reduction per loan, less any reconciliation, recovery or clawback amounts due). This will form the “claim value” and

- by the 15th of the month, provide a signed declaration confirming the accuracy of the data submitted and the Claim Value for that month.
42. The DMS data upload and signed declaration constitute the “Grant Claim”. Monitoring Officers will review the Grant Claim to confirm its accuracy and will request, where required, any additional information. Payment will be made, for fully evidenced claims, by the 15th of the month following submission.

## 7. Application and onboarding process for lenders

### Overview of lender lifecycle

1. Participation in the Scheme follows a structured lifecycle, from initial market engagement through to live delivery and ongoing participation.
2. At a high level, the lender lifecycle comprises:
  - Formal lender application and assessment
  - Approval and contractual onboarding
  - Product development, assessment & approval
  - Go-live
  - Ongoing participation and monitoring

### Application window

3. The Department will invite formal applications to participate in the Scheme through defined application windows. The first commenced in June 2026 to slightly truncated timelines. Future windows are intended to be open for a longer period. The Department intends to launch a subsequent application window in late 2026 for onboarding in early 2027, with exact dates to be confirmed and communicated well ahead of opening. Following this, there are intended to be annual windows for application and onboarding. Lenders will only need to apply for the Scheme once and when accepted will be issued with a Funding Agreement covering the lifetime of the Scheme. The use of time limited windows is intended to enable consistent assessment across applicants and support effective capacity planning.
4. In the event any given application window has significantly more applicants than anticipated, we reserve the right to extend the timeframe for assessing lenders. In the event the overall Scheme has significantly more applicants than anticipated, we reserve the right to not accept further applications. The Department reserves the right to end the Scheme, with notice periods outlined in the Grant Funding Agreement.

5. The application process will enable us to assess a lender's eligibility for the Scheme. Further detail on the assessment process can be found below. Lenders will have additional time after onboarding to develop and launch their products.
6. Where lenders have applied for, but not yet received, their FCA authorisation, lenders may seek conditional approval. The Department will assess the application and confirm all other criteria have been met, but lenders may not offer WHLS loans, use Scheme branding or claim to be a WHLS lender until FCA authorisation is received; the Department has confirmed this; and the Department has communicated approval to the lender.
7. Lenders already onboarded onto the scheme looking to introduce additional financial products will not have to apply multiple times for the Scheme but can simply submit their additional product for approval.

### **Assessment and due diligence**

8. Applications will be subject to a structured assessment and due diligence process by the Department that considers:
  - Regulatory status and compliance;
  - Operational capability and readiness, including ability to meet the Scheme's data sharing and reporting requirements;
  - Financial assessment of the applicant company including legal structure and governance arrangements;
  - Proposed product structures; and
  - Alignment with Scheme objectives and requirements.
9. The assessment process is designed to be criteria-based rather than a competition, meaning that all lenders fulfilling the eligibility criteria will be onboarded, subject to 7.4 above.
10. Detailed assessment criteria are outlined in the Application form and guidance.

### **Fraud management**

11. Lenders are required to implement and maintain a *Fraud Management Plan* that sets out their approach to identifying, managing and limiting fraud/error risks associated with their delivery within the scheme.
12. Lenders will be expected to continue implementing, monitoring and managing fraud controls to deter, prevent, detect and respond to fraud, error and non-compliance.
13. The Scheme does not intend to replace lenders' existing fraud obligations but builds on established good practice.

## **Approval and acceptance**

14. Following assessment, applicants will be notified of the outcome of their application by the Department. Approval to participate in the Scheme:
  - is subject to meeting all eligibility and assessment requirements; and
  - may be subject to conditions that must be satisfied prior to onboarding.
15. Approved lenders will be invited to proceed to sign the Grant Funding Agreement and begin onboarding with the Department.
16. Lenders who have previously been removed from the Scheme under the conditions of the Grant Funding Agreement may apply to join the Scheme again through the normal lender on-boarding process once they are satisfied that they have remedied the cause of their removal.
17. Previously removed lenders must submit a full application including due diligence and a statement setting out how previous failings have been addressed.

## **Grant Funding Agreement (GFA)**

18. Participation in the Scheme will require lenders to enter into a Grant Funding Agreement (GFA) with the Department. The GFA will mainly cover, but is not limited to the following:
  - The terms under which grant funding may be claimed;
  - Reporting, assurance, and compliance obligations
  - Provisions relating to reconciliation and clawback; and
  - Mechanisms for reporting subsidy control (minimum financial assistance) for applicable loanes e.g. landlords
19. The GFA will be legally binding and take precedence over the Scheme Rules and guidance for lenders in the event of any inconsistency.
20. The final form of the agreement will be issued as part of the formal onboarding process.

## **Product development and sign-off**

21. We would encourage lenders to begin product development as soon as possible. Once onboarded, if not already done so, lenders will be responsible for developing and finalising their Scheme compliant products. This stage will include:
  - internal product development and approval; and
  - confirmation that products align with agreed Scheme parameters.
22. The Scheme will not mandate a single product design and will allow for variation across participating lenders.

23. To start lending under the scheme, lenders are required to get approval for their products using the form provided. Lenders are required to ensure that products offered as part of the scheme are in compliance with the Scheme Product Requirements as outlined in the Scheme Rules. Further guidance is also outlined in the Product Approval Form.
24. This is so that the Department has visibility over what lending products are being supported, and to check that the full grant is being passed to eligible borrowers (by way of lower interest rates). Lenders will be asked to provide pricing information for their product, and a comparable non-scheme product to enable the Department to make this assessment.
25. A Product Approval Form must be completed for each product with distinct attributes (product type and associated Market Rate) and submitted for approval.

### **Key assessment metric**

26. The key metric that a lender's approval request will be assessed against is the Market Rate against which the Scheme interest rate reduction will be applied (either before or after any other buy downs).
27. Lenders are required to evidence their Market Rate by providing pricing information on their closest comparable product, this could be a general home improvement loan, or another embedded finance product.
28. Where no comparable product exists, lenders may instead provide evidence of the underlying cost stack and pricing methodology.

### **Change Management**

29. We recognise that products may change over time.

### **Substantive changes**

30. Lenders are only required to notify the Department and resubmit a Product Approval Form when making substantive changes to an approved product (such as an interest rate change outside the approved threshold). Lenders may not proceed with the change until the Department has approved it.
31. Where a lender wishes to increase or decrease the Market Rate beyond the permitted tolerance of 1% (this tolerance will apply to the minimum and maximum ranges approved), the lender will be required to submit a new product approval form.
32. This will enable the Department to undertake reasonable assurance checks that the lender continues to comply with its legally binding commitment to pass the grant on in full. This requirement for reapproval may be waived by the Department at its discretion, for example in cases where a significant market-wide event materially affects interest rates.

### **Minor Amendments**

33. To accommodate routine market movements, lenders will be permitted to adjust their Market Rate within an agreed tolerance of  $\pm 1\%$  of the approved Market Rate without requiring further approval but should notify the Department of the change.
34. This flexibility is intended to allow lenders to respond to normal changes in funding costs and market conditions while maintaining compliance with the Scheme requirement to pass the grant through to eligible borrowers.
35. Lenders must notify the Department of any other minor amendments (such as changes to eligible measures or adjustments to loan terms). These will not require re-approval, and lenders are not required to wait for the Department's acknowledgement before making the change.
36. Lenders are encouraged to consult with the Department if they have any doubts about whether the change complies with any scheme rules or eligibility requirements.

### **Go-live requirements**

37. Before launching products to eligible borrowers, lenders will need to confirm in a declaration submitted to the Department that their organisation, and its products, are fully ready and able to comply with all relevant operational, regulatory, and reporting requirements set out in the Scheme rules, Scheme Product Approval process and the Grant Funding Agreement.

### **Launch and ongoing participation**

38. Following Go-live, lenders may offer Scheme supported products to eligible borrowers for the duration of their participation. Ongoing participation is subject to the conditions outlined in the Grant Funding agreement

## **8. Monitoring, assurance and governance**

### **Scheme oversight model**

1. The Scheme operates within a clear oversight and governance framework, designed to ensure the effective use of public funds while supporting market-led delivery.
2. Overall Scheme oversight is retained by the Department, acting as Scheme Administrator, responsible for day-to-day management, monitoring, data collection, and assurance activities. Participating lenders operate within this framework through grant funding arrangements, including defined data reporting requirements to support Scheme monitoring, evaluation, and, where appropriate, statistical publication.

3. Monitoring focuses on aggregated Scheme compliance across key domains, including lending activity, installations, and associated outcomes. Lenders will be required to provide consistent and timely data to enable effective oversight, while maintaining responsibility for their own lending decisions and customer relationships.
4. The Scheme does not involve government participation in individual lending decisions or day-to-day customer management. Assurance processes will focus on compliance with Scheme requirements, data quality, and appropriate use of public funds, supported by proportionate audit and reporting arrangements.

### **Data and audit requirements**

5. To access grant funding, lenders will be required to provide monthly reporting to the Department to support monitoring, assurance, audit, and evaluation of the Scheme. Lenders will be required to submit data through standardised data reporting templates before the reporting deadline (exact dates to be confirmed), as part of the claims process for the month.
6. Data requirements are designed to be proportionate and to align, where possible, with lenders' existing systems and regulatory reporting. Data will be used to support aggregated Scheme monitoring and, where appropriate, statistical outputs.
7. Lenders will be required to submit data monthly through standardised data reporting templates which will be shared by the Department with lenders who apply for the Scheme. These will be submitted via Excel Templates, directly into the Department's Data Management System - WebPortal. Data validation rules will be applied at the front-end to ensure accuracy and completeness of reporting. The collection and processing of personal data by the Lender in connection with the Scheme data requirements, and its sharing of such personal data with the Department for the purposes set out hereunder and in the Grant Funding Agreement, will be carried out in accordance with the assimilated law version of the General Data Protection Regulation 2016/679 (UK GDPR) and the Data Protection Act 2018, as further set out in the Grant Funding Agreement. Full details of the Scheme data requirements are outlined in Appendix 3.
8. Lenders will be required to maintain sufficient loan-level data to support grant , clawback, and reconciliation calculations, as well as and audit activities. This includes records of borrower and lender payment profiles, grant values, loan lifecycle events and any clawback calculated. The relevant loan-level data fields are set out in Appendix 3. The templates to report this data will be shared by the Department before the Scheme launch.

### **Compliance monitoring**

9. Lender compliance will be assessed through data provided in the lender data reporting templates which help inform a set of standardised Grant Compliance Indicators. Compliance monitoring is designed to be proportionate and risk-based, avoiding unnecessary burden on participating lenders.

10. Grant Compliance Indicators will be calculated by the Department using the monthly data reporting submissions and assessed on a quarterly basis as part of regular grant management meetings with lenders.
11. The Department retains the ability to hold lenders to account through this mechanism, with options ranging from grant termination (instances of significant non-compliance), improvement plans and lending limitations (instances of moderate non-compliance) and information resolution (instances of minor non-compliance).
12. Full details of the lender Grant Compliance Indicators are outlined in Appendix 4.

### **Public reporting**

13. The Department will publish details of all single Minimum Financial Assistance (MFA) awards in excess of £100,000 of grant funding, as and when they occur. The Department will also publish Official Statistics reports to GOV.UK on Scheme delivery, each month following the first month of delivery. This will include reporting on the volume and value of loans issued (by month and cumulative), and their distribution by both geography and individual lenders.

### **Scheme controls**

14. The Scheme includes a set of preventive and detective controls to protect public funds and ensure Scheme integrity. These controls cover:
  - eligibility verification;
  - compliance with Scheme rules and contractual terms; and
  - reconciliation of grant funding.
15. Controls are designed to operate alongside, rather than duplicate, lenders' existing internal controls and regulatory obligations.
16. Lenders will be required to operationalise the controls required to mitigate key risks in line with the Department's agreed Scheme's risk appetite position. Full details of the Scheme's control requirements are outlined in Appendix 5.

### **Property Audits**

17. To detect and reduce the risk of fraud, the Department will need to operate a programme of on-site audits. Lenders will therefore be required to include wording in their loan documentation confirming that, by accepting the loan, the applicant agrees to permit the Department or its nominated agent to request access to the property at any reasonable time for scheme compliance purposes. Lenders must seek the applicant's active confirmation of this, for example through a mandatory tick box.

### **Market conduct and interest rate reporting**

18. The Scheme is designed to operate within existing market conduct and competition frameworks.

19. Lenders retain autonomy over pricing and product design, subject to regulatory requirements. To support transparency and value for money assessment, lenders will be required to provide information on pricing and interest rates for Scheme-supported products.
20. This information is intended for monitoring and assurance purposes only and does not constitute price control. The pricing and interest rate data required for each loan issued under the Scheme will be set out in the Department's Lender Data Reporting Templates, as described in Appendix 3.
21. Under the Grant Funding Agreement, the Department retains the right to audit participating lenders in relation to Scheme compliance.
22. Where issues of non-compliance are identified, the Scheme provides for proportionate remedial action, which may include:
  - Corrective actions;
  - Suspension of grant claims; and/or
  - Recovery of funding, (under the Clawback procedures), where appropriate.
23. Audit and remedial processes are intended to be risk based and proportionate.

### **Dispute resolution process**

The Grant Funding Agreement outlines the formal process of dispute resolution. It includes formal conversations, remedial action plans and removal from the scheme.

### **Evaluation framework**

24. The Scheme will be subject to a formal evaluation framework, designed to assess Scheme processes, effectiveness, value for money, and market impact over time. Evaluation is expected to consider:
  - consumer outcomes (including affordability and use of installed technologies);
  - lender participation and behaviour;
  - contribution to wider policy objectives; and
  - lessons for future Scheme development.
25. Evaluation activities will be conducted separately from routine monitoring and will focus on aggregated evidence and analysis. They will not affect individual lending decisions or lender participation in the Scheme.
26. Lenders are required to support the Department's evaluation by facilitating contact with WHLS supported loan recipients where reasonable.

## 9. Queries and feedback

1. For any queries or feedback regarding the WHLS or this document, please contact [gfpolicy@energysecurity.gov.uk](mailto:gfpolicy@energysecurity.gov.uk)

## Appendix 1. Related publications and useful links

Full Scheme documentation can be found at:

<https://www.gov.uk/government/publications/warm-homes-loan-scheme-apply-to-participate-as-a-lender-phase-1>.

## Appendix 2. Glossary

| Term                           | Definition                                                                                                                                                                                                                                                                                         |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Clawback                       | A legal repayment requirement arising from confirmed ineligibility, fraud, misuse of grant or other non-compliance.                                                                                                                                                                                |
| Repayment-event reconciliation | Recalculation of grant support no longer required following a non-default repayment event.                                                                                                                                                                                                         |
| Recovery                       | Proceeds realised through the lender's recovery processes following arrears, default or another borrower-credit event.                                                                                                                                                                             |
| Nominal Rate                   | <p>The annualised interest rate applied to the loan balance, expressed on a nominal basis and not adjusted for compounding within the year.</p> <p>All references to rates in financial mechanism are to the nominal rate (also referred to as the Annual Fixed Rate) unless otherwise stated.</p> |
| Permitted Duplicate Funding    | Has the meaning given in the Scheme Rules Section 6.39.                                                                                                                                                                                                                                            |

|                  |                                                                                                                                                                                                                                                                                                                                          |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| APR              | <p>The effective annual rate that reflects the total cost of borrowing, including interest, fees, and compounding effects, expressed as a standardised annual percentage.</p> <p>Provision of the APR is a contractual obligation, but it is not used for the purposes of grant calculation or policy calibration under this Scheme.</p> |
| Market Rate      | <p>The lender's prevailing interest rate for an equivalent unsubsidised product offered in the market at the point of origination, expressed as a nominal Annual Fixed Rate.</p> <p>This must reflect the lender's standard pricing, prior to the application of any grant or buy-down from government or other sources).</p>            |
| Starting Rate    | <p>The rate used for the purposes of calculating the government grant, expressed as a nominal Annual Fixed Rate.</p> <p>This will normally be equal to the Market Rate. Where multiple buy-down components are present, the Starting Rate shall refer to the rate used as the baseline for deriving the grant.</p>                       |
| Target Rate      | <p>The borrower interest rate intended to be achieved after application of the government grant, expressed as a nominal Annual Fixed Rate.</p> <p>The Target Rate reflects the policy objective (e.g. up to c.5 percentage points reduction from the Starting Rate), subject to the grant cap.</p>                                       |
| Contractual Rate | <p>The interest rate agreed between the lender and the borrower and specified in the loan agreement, expressed as a nominal Annual Fixed Rate.</p> <p>This represents the final borrower rate after application of all applicable buy-downs or subsidies.</p>                                                                            |
| Settlement       | <p>The administrative netting or repayment of an amount established through reconciliation, clawback or recovery sharing.</p>                                                                                                                                                                                                            |

|                       |                                                                                                                                                                                                                                                                                                                                          |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BUS                   | Boiler Upgrade Scheme. A Government grant scheme supporting low-carbon heating installations, particularly heat pumps, with specific technical and eligibility standards. Similar schemes operate in the devolved administrations.                                                                                                       |
| CCA                   | Consumer Credit Act. UK legislation governing consumer credit agreements and associated consumer protections.                                                                                                                                                                                                                            |
| EPC                   | Energy Performance Certificate. A certificate that provides an energy efficiency rating for a property, expressed on a scale from A (most efficient) to G (least efficient), based on a standardised assessment methodology.                                                                                                             |
| FCA                   | Financial Conduct Authority. The UK regulator for financial services, responsible for regulating participating lenders and enforcing conduct requirements.                                                                                                                                                                               |
| FCA Rules             | Means the FCA's Handbook of Rules and Guidance non-Handbook Guidance as amended and/or supplemented from time to time, including without limitation, the Principles for Business sourcebook ( <b>PRIN</b> ), mortgages and home finance: conduct of business sourcebook ( <b>MCOB</b> ) and consumer credit source book ( <b>CONC</b> ). |
| GFA                   | Grant Funding Agreement. The legally binding agreement between the Department and participating lenders governing grant payments, reporting, compliance, and clawback arrangements.                                                                                                                                                      |
| Installer             | A business undertaking installation of eligible measures under the Scheme, required to hold appropriate certification (such as MCS) for the relevant technologies.                                                                                                                                                                       |
| MCS                   | Microgeneration Certification Scheme: The approved certification body for installers and installations of eligible low-carbon technologies under the Scheme                                                                                                                                                                              |
| Point-of-sale Finance | Finance offered to consumers in connection with an installation, typically arranged through installers or intermediaries rather than directly with the lender, also called embedded finance.                                                                                                                                             |

|                                |                                                                                                                                                                                                                                                                                                                   |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PRS landlord                   | A landlord in the Private Rented Sector. The segment of the housing market where residential properties are owned by private landlords and rented to tenants, excluding social housing. Under the Scheme, PRS eligibility applies to private landlords financing eligible measures in domestic rental properties. |
| Owner occupier                 | Owner occupier refers to someone who has bought the property that they live in.                                                                                                                                                                                                                                   |
| Rural                          | In line with BUS guidance, rural areas are defined by the Office for National Statistics (ONS) as locations outside settlements with populations exceeding 10,000 people.                                                                                                                                         |
| The Department                 | Referred to as “the Authority” in the Grant Funding Agreement. This is the Department for Energy Security and Net Zero.                                                                                                                                                                                           |
| The Lender                     | Referred to as “the Grant Recipient” in the Grant Funding Agreement. This refers to the organisation providing financing products and claiming Warm Homes Loan Scheme grant funding under the scheme.                                                                                                             |
| Eligible Borrower              | Borrowers who meet the eligibility requirements set out in section 4 of the scheme rules.                                                                                                                                                                                                                         |
| Heat Pump                      | A type of low-carbon heating technology that can be installed under the Boiler Upgrade Scheme.                                                                                                                                                                                                                    |
| Eligible Measures              | Measures which meet the eligibility requirements set out in section 4 of the scheme rules.                                                                                                                                                                                                                        |
| Scheme Interest Rate Reduction | Has the meaning given section 3.1b of the Grant Funding agreement.                                                                                                                                                                                                                                                |

## Appendix 3. Lender Data Reporting Templates

### Grant Claim Data

| Data Attribute Name  | Data Type (e.g. Text, Numerical etc.) | Categorical Data | Validation Rules                                                                                       | Personal Data |
|----------------------|---------------------------------------|------------------|--------------------------------------------------------------------------------------------------------|---------------|
| Lender               | Text                                  | Yes              | Must match approved lender list                                                                        | No            |
| Lender ID            | Text                                  | No               | Must match assigned lender ID (format WHLS_00X)                                                        | No            |
| Total Grant Value    | Numerical                             | No               | Must be £<br>Must be >0                                                                                | No            |
| Declaration Month    | Month                                 | No               | Must be Month (MMM-YY)                                                                                 | No            |
| Total Clawback Value | Numerical                             | No               | Must be £<br>Must be more than or equal to 0<br>Must be less than or equal to loan grant value claimed | No            |
| Attestation          | Text                                  | No               | N/A                                                                                                    | No            |

### Loan-level reporting data template

| Data Attribute Name | Data Type (e.g. Text, Numerical etc.) | Categorical Data | Validation Rules                                                   | Personal Data |
|---------------------|---------------------------------------|------------------|--------------------------------------------------------------------|---------------|
| Application Source  | Single Choice                         | Yes              | Direct'<br>'Broker'<br>'Installer'<br>'Comparison Site'<br>'Other' | No            |

|                                         |                           |     |                                                                                                                                                               |    |
|-----------------------------------------|---------------------------|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Application Source - Other              | Text                      | No  | N/A                                                                                                                                                           | No |
| Application status                      | Single Choice / Free Text | Yes | 'Started'<br>'Submitted'<br>'Approved'<br>'Withdrawn'<br>'Rejected'<br>'Declined – credit'<br>'Cancelled – installer'<br>'Duplicate'<br>'Other coded reason ' | No |
| Application status – Other coded reason | Text                      | No  | N/A                                                                                                                                                           | No |
| Application Status Update Date          | Date                      | No  | Must not be in the future                                                                                                                                     | No |
| APR                                     | Percentage                | No  | Must be %                                                                                                                                                     | No |
| Arrears status                          | Numerical                 | Yes | Current / 30 / 60 / 90+                                                                                                                                       | No |
| Contractual Rate                        | Percentage                | No  | Must be %                                                                                                                                                     | No |
| Current Loan Performance Issues         | Multiple Choice           | Yes | No issues'<br>'Arrears'<br>'Forbearance'<br>'Default '                                                                                                        | No |
| Date loan disbursed                     | Date                      | No  | Must be date from scheme start date onwards                                                                                                                   | No |
| Date loan formally approved             | Date                      | No  | Must be date from scheme start date onwards                                                                                                                   | No |

|                                            |               |     |                                                                                                                |    |
|--------------------------------------------|---------------|-----|----------------------------------------------------------------------------------------------------------------|----|
| FCA vulnerability category (if applicable) | Single Choice | No  | Health'<br>'Life Events'<br>'Resilience'<br>'Capability'                                                       | No |
| Full Installation Address – Line 1         | Text          | No  | N/A                                                                                                            | No |
| Full Installation Address – Line 2         | Text          | No  | N/A                                                                                                            | No |
| Full Installation Address – Line 3         | Text          | No  | N/A                                                                                                            | No |
| Full Installation Address – Line 4         | Text          | No  | N/A                                                                                                            | NO |
| Full Installation Postcode                 | Text          | No  | Must be valid postcode                                                                                         | No |
| Lender                                     | Text          | Yes | Must match approved lender list                                                                                | No |
| Lender ID                                  | Text          | Yes | Must match assigned lender ID (format WHLS_00X)                                                                | No |
| Lender Specific Loan ID                    | Text          | Yes | Must be unique (primary identifier)                                                                            | No |
| Loan amount                                | Numerical     | No  | Must be between £1 - £65,000                                                                                   | No |
| Loan Clawback Value                        | Numerical     | No  | Must be £<br><br>Must be more than or equal to 0<br><br>Must be less than or equal to loan grant value claimed | No |

## Warm Homes Loan Scheme – Scheme Rules

|                                        |               |     |                                             |     |
|----------------------------------------|---------------|-----|---------------------------------------------|-----|
| Loan grant value claimed               | Numerical     | No  | Must be £<br>Must be >0                     | No  |
| Loan Product Type - Agreement          | Single Choice | Yes | Debtor-Creditor<br>Debtor-Creditor-Supplier | No  |
| Loan Product Type - Security           | Single Choice | Yes | Secured'<br>'Unsecured'                     | No  |
| Loan Recipient Contact Number          | Number        | No  | Must not be more than 15 digits             | Yes |
| Loan Recipient Email Address           | Text          | No  | Must contain '@'                            | Yes |
| Loan Recipient Name                    | Text          | No  | N/A                                         | Yes |
| Loan term                              | Months        | No  | Must be between 1-240                       | No  |
| Market Rate                            | Percentage    | No  | Must be %                                   | No  |
| Monthly repayments                     | Numerical     | No  | Must be £                                   | No  |
| Payment holiday / restructure          | Single Choice | No  | Must be 'Y' or 'N'                          | No  |
| Primary Resident Name                  | Text          | No  | N/A                                         | Yes |
| Property Use Attestation (Residential) | Single Choice | No  | Must be 'Y' or 'N'                          | No  |
| Redress amount (if applicable)         | Numerical     | No  | Must be £                                   | No  |
| Starting Rate                          | Percentage    | No  | Must be %                                   | No  |

|                                                  |                  |     |                                                                                                                                                                                                                |    |
|--------------------------------------------------|------------------|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Target Rate                                      | Percentage       | No  | Must be %                                                                                                                                                                                                      | No |
| Tenure Type                                      | Single Choice    | Yes | Owner Occupier'<br>'Private Rental Sector'                                                                                                                                                                     | No |
| UPRN                                             | Text             | Yes | Must be 12-digits                                                                                                                                                                                              | No |
| Withdrawal /<br>rejection reason<br>codes        | Single<br>Choice | Yes | "Loan amount exceeds<br>maximum threshold"<br>"Quote provided by non-<br>MCS registered<br>tradesperson"<br>"Ineligible measure"<br>"Ineligible property"<br>"Lender<br>credit/affordability check"<br>"Other" | No |
| Withdrawal/rejection<br>reason code –<br>'Other' | Text             | No  | N/A                                                                                                                                                                                                            | No |

### Measure-level reporting data template

| Data<br>Attribute<br>Name     | Data Type<br>(e.g. Text,<br>Numerical<br>etc.) | Categorical<br>Data | Validation Rules                 | Personal<br>Data |
|-------------------------------|------------------------------------------------|---------------------|----------------------------------|------------------|
| Actual Cost<br>of Measure     | Numerical                                      | No                  | Must be £                        | No               |
| Installed<br>capacity<br>unit | Single choice                                  | Yes                 | 'kw'<br>'kWp'<br>'kWh'<br>'kWth' | No               |

## Warm Homes Loan Scheme – Scheme Rules

|                                     |               |     |                                                                                                                                                                                                                                                                                                                                   |    |
|-------------------------------------|---------------|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Installed capacity value            | Numerical     | No  | Must be numeric value                                                                                                                                                                                                                                                                                                             | No |
| Lender                              | Text          | Yes | Must match approved lender list                                                                                                                                                                                                                                                                                                   | No |
| Lender ID                           | Text          | Yes | Must match assigned lender ID (format WHLS_00X)                                                                                                                                                                                                                                                                                   | No |
| Lender Specific Loan ID             | Text          | Yes | Must be unique (primary identifier)                                                                                                                                                                                                                                                                                               | No |
| Loan Measure Type                   | Single Choice | Yes | "Air-to-water source heat pump"<br>"Air-to-air source heat pump"<br>"Ground-to-water source heat pump"<br>"Water-to-water source heat pump"<br>"Biomass boiler"<br>"Solar PV"<br>"Electrical storage battery"<br>"Heat network connection"<br>"Domestic pole- or building-mounted wind turbine"<br>"Domestic micro-hydro turbine" | No |
| MCS Installation Certificate Number | Numerical     | No  | To be defined                                                                                                                                                                                                                                                                                                                     | No |
| MCS Installer Certification Number  | Numerical     | No  | To be defined                                                                                                                                                                                                                                                                                                                     | No |

|                        |           |    |           |    |
|------------------------|-----------|----|-----------|----|
| Quoted Cost of Measure | Numerical | No | Must be £ | No |
|------------------------|-----------|----|-----------|----|

### Complaints-level reporting data template

| Data Attribute Name                                                            | Data Type (e.g. Text, Numerical etc.) | Categorical Data | Validation Rules                                | Personal Data |
|--------------------------------------------------------------------------------|---------------------------------------|------------------|-------------------------------------------------|---------------|
| Complaint Handled - Closed'                                                    | Count of                              | No               | Between 0-999                                   | No            |
| Complaint Handled - Still Open'                                                | Count of                              | No               | Between 0-999                                   | No            |
| Complaint Not Yet Responded To'                                                | Count of                              | No               | Between 0-999                                   | No            |
| Complaint Open'                                                                | Count of                              | No               | Between 0-999                                   | No            |
| Lender                                                                         | Text                                  | Yes              | Must match approved lender list                 | No            |
| Lender ID                                                                      | Text                                  | Yes              | Must match assigned lender ID (format WHLS_00X) | No            |
| Loan Complaint Category 'Access to product (including temporary restrictions)' | Count of                              | No               | Between 0-999                                   | No            |

|                                                                                    |          |    |               |    |
|------------------------------------------------------------------------------------|----------|----|---------------|----|
| Loan Complaint Category 'Claims under section 75 of the Consumer Credit Act (CCA)' | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Financial difficulties'                                   | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Fraud'                                                    | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Incorrect credit records (not fraud related)'             | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Information provision or content (including commission)'  | Count of | No | Between 0-999 | No |

|                                                                                                  |          |    |               |    |
|--------------------------------------------------------------------------------------------------|----------|----|---------------|----|
| Loan Complaint Category 'Irresponsibility of lending and/or unaffordability of product'          | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Other'                                                                  | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Other product design'                                                   | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Other product performance, general administration and customer support' | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Other product sale'                                                     | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Price, sums, fees and charges'                                          | Count of | No | Between 0-999 | No |

|                                                  |          |    |               |    |
|--------------------------------------------------|----------|----|---------------|----|
| Loan Complaint Category 'Return of goods'        | Count of | No | Between 0-999 | No |
| Loan Complaint Category 'Suitability of product' | Count of | No | Between 0-999 | No |

### Fraud reporting data template

| Data Attribute Name              | Data Type (e.g. Text, Numerical etc.) | Categorical Data | Validation Rules                            | Personal Data |
|----------------------------------|---------------------------------------|------------------|---------------------------------------------|---------------|
| Fraud ID                         | Text                                  | No               | N/A                                         | No            |
| Case End Date (If applicable)    | Date                                  | No               | Must be date from scheme start date onwards | No            |
| Case Started (* Required)        | Date                                  | No               | Must be date from scheme start date onwards | No            |
| Fraud / Non-Compliance Case Type | Single Choice                         | Yes              | Fraud'<br>'Error'<br>'Non-Compliance'       | No            |
| Fraud Case Detailed Description  | Text                                  | No               | Free text allowed                           | No            |
| Fraud Case Summary               | Text                                  | No               | Free text allowed                           | No            |

|                                                         |                 |     |                                                                                                                                                                                                                       |    |
|---------------------------------------------------------|-----------------|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Fraud Loss Type                                         | Single Choice   | Yes | Prevented'<br>'Detected'<br>'Prevented and Detected'<br>'Recovered'<br>'Recovered and Detected'                                                                                                                       | No |
| Fraud Risk Area:<br>Scheme<br>Administration            | Single Choice   | Yes | Identity Fraud'<br>'Manipulation of eligibility or approval processes'<br>'Collusion / Bribery'<br>'Installation Fraud'<br>'Contract Rigging'<br>'Mandate Fraud'<br>'Payment Fraud'<br>'Misuse of Funding'<br>'Other' | No |
| Fraud Risk Area:<br>Scheme<br>Administration -<br>Other | Text            | No  | N/A                                                                                                                                                                                                                   | No |
| Lender                                                  | Text            | Yes | Must match approved lender list                                                                                                                                                                                       | No |
| Lender ID                                               | Text            | Yes | Must match assigned lender ID (format WHLS_00X)                                                                                                                                                                       | No |
| Loan ID                                                 | Text            | Yes | Must be unique (primary identifier)                                                                                                                                                                                   | No |
| Summary of Risk                                         | Multiple Choice | Yes | Scheme admin/administration'<br>' Customer/Beneficiary'<br>' Property'<br>'Measure/installation'<br>' Supplier'<br>'External'                                                                                         | No |

## Warm Homes Loan Scheme – Scheme Rules

|                                                      |               |     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |     |
|------------------------------------------------------|---------------|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Who committed fraud, error or non-compliance         | Single Choice | Yes | Homeowner'<br>'Landlord'<br>'Installer/Supplier'<br>'Other'                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | No  |
| Who committed fraud, error or non-compliance - Other | Text          | No  | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | No  |
| Fraud Risk Area: Customer Beneficiary                | Single Choice | Yes | Collusion Between the Department, acting as scheme administrator, and Homeowner/Landlord'<br>'Collusion Between Supplier and Homeowner/Landlord'<br><br>'Ineligible Application - False Information on the Application: Undeclared Partners'<br>'Ineligible Application - False Information on the Application: Income'<br>'Ineligible Application - False Information on the Application: Benefit Receipt'<br>'Ineligible Application - False Information on the Application: Other'<br><br>'Ineligible Application - False Information on the Application: False ID'<br>'Coercion'<br>'Other' | Yes |

|                                                     |                  |     |                                                                                                                                                                                                                                                                     |     |
|-----------------------------------------------------|------------------|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Fraud Risk Area:<br>Customer<br>Beneficiary - Other | Text             | No  | N/A                                                                                                                                                                                                                                                                 | No  |
| Fraud Risk Area:<br>Property                        | Single<br>Choice | Yes | Ineligible Property - False<br>Information on the Application'<br>'Ineligible Property - Non-<br>Domestic'<br>'Property Does Not Exist'<br>'Other'                                                                                                                  | Yes |
| Fraud Risk Area:<br>Property - Other                | Text             | No  | N/A                                                                                                                                                                                                                                                                 | No  |
| Fraud Risk Area:<br>Measure/Installation            | Single<br>Choice | Yes | Measure Already Exists in the<br>Property'<br>'Measure Not<br>Compliant With Standards/Cannot<br>Be Lodged'<br>'Measures Not Installed'<br>'Measure Substitution (And<br>Substitution Not Compliant)'<br>'Overstating the Cost of<br>Measures/Materials'<br>'Other' | Yes |

## Warm Homes Loan Scheme – Scheme Rules

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|                                                     |      |    |     |    |
|-----------------------------------------------------|------|----|-----|----|
| Fraud Risk Area:<br>Measure/Installation<br>- Other | Text | No | N/A | No |
|-----------------------------------------------------|------|----|-----|----|

|                                                   |                  |     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |     |
|---------------------------------------------------|------------------|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Fraud Risk Area:<br>Installer/Supplier            | Single<br>Choice | Yes | <p>Collusion Between Supplier and Homeowner/landlord'</p> <p>'Collusion Between Supplier and Retrofit Co-Ordinator'</p> <p>'Conflict of Interest Between Supplier and Homeowner/Landlord'</p> <p>'Supplier Invoice/Proposal - Charging for Additional/Cancelled Work'</p> <p>'Supplier Invoice/Proposal - For Non-Existing Enabling or Ancillary Work'</p> <p>'Supplier Invoice/Proposal - Charging for Incomplete Measures'</p> <p>'Supplier Invoice/Proposal - Charging for Measures Not Installed'</p> <p>'Supplier Invoice/Proposal - Charging for Non-Compliant Measures'</p> <p>'Supplier Invoice/Proposal - Charging Incorrect Amount'</p> <p>'Supplier Invoice/Proposal - Duplicate Charging for Measures/Labour'</p> <p>'Supplier Invoice/Proposal - Falsified Account Details to Divert Funds'</p> <p>'Supplier Invoice/Proposal - VAT'</p> <p>'Supplier Not Accredited'</p> <p>'Supplier Loses Accreditation (Midway Delivery)'</p> <p>'Neither Main Installer nor Sub-Contractor is MCS Accredited'</p> <p>'Other'</p> | Yes |
| Fraud Risk Area:<br>Installer/Supplier -<br>Other | Text             | No  | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | No  |

|                                        |                  |     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |     |
|----------------------------------------|------------------|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Fraud Risk Area:<br>External           | Single<br>Choice | Yes | 'Mandate Fraud - Unrelated to Scheme Properties'<br>'Mis-Selling of Scheme'<br>'Scams'<br>'Phishing'<br>'Other'                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Yes |
| Fraud Risk Area:<br>External - Other   | Text             | No  | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | No  |
| Fraud identification<br>source         | Single<br>Choice | Yes | Allegation Received From Public'<br>'Due-Diligent Checks Installer'<br>'Due-Diligent Checks Landlord'<br>'Eligibility Criteria/Rules Checking'<br>'Energy Efficiency Installation Checker'<br>'Intel Received From Other Organisation (e.g., Delivery Partner, DESNZ)'<br>'Internal Quality Assuring Checks'<br>'Invoice Checking'<br>'Occupier Eligibility Checking'<br>'Reconciliation Checks: Invoices'<br>'Reconciliation Checks: Measures'<br>'Routine/Site Audit'<br>'MCS: Checking Installation of Measures Meet Requirement'<br>'MCS: Checking Installer Accredited'<br>'Whistleblower'<br>'Other' | No  |
| Fraud identification<br>source - Other | Text             | No  | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | No  |

|                       |               |     |                                                       |    |
|-----------------------|---------------|-----|-------------------------------------------------------|----|
| Fraud Value Detected  | Numerical     | No  | Must be greater than or equal to 0'<br>'Must be in £' | No |
| Fraud Error Value     | Numerical     | No  | Must be greater than or equal to 0'<br>'Must be in £' | No |
| Fraud Value Estimated | Numerical     | No  | Must be greater than or equal to 0'<br>'Must be in £' | No |
| Fraud Value Recovered | Numerical     | No  | Must be greater than or equal to 0'<br>'Must be in £' | No |
| Fraud Value Prevented | Numerical     | No  | Must be greater than or equal to 0'<br>'Must be in £' | No |
| Owning Team           | Single Choice | Yes | Lender'<br>'DESNZ'                                    | No |

## Appendix 4. Lender Grant Compliance Indicators

| Lender Grant Compliance Area     | Lender Grant Compliance Measure | Measure Description                                                                                                  |
|----------------------------------|---------------------------------|----------------------------------------------------------------------------------------------------------------------|
| Customer Offer and Affordability | Grant Claim Accuracy Rate       | Proportion of grant claims failing validation checks based on scheme prescribed methodology or requiring correction. |

|                                          |                                    |                                                                                                                                                                           |
|------------------------------------------|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                          | Average Market Rate Deviation      | The average difference between the lender's Starting Rate and the market benchmark or closest comparator product in the lender's portfolio.                               |
|                                          | Grant Pass on Compliance Rate      | Proportion of loans that fail validation checks confirming that the contractual rate offered to borrowers reflects the interest rate reduction required under the scheme. |
| Credit Risk and Financial Sustainability | Arrears Rate                       | Proportion of active loans that are in arrears (any level)                                                                                                                |
|                                          | Default Rate                       | Proportion of loans that have entered default                                                                                                                             |
| Customer Experience and Protection       | Complaint Resolution Rate          | Proportion of complaints that have been resolved or closed within the reporting period                                                                                    |
| Compliance and Scheme Integrity          | MCS Accreditation Compliance Rate* | Proportion of installations delivered by MCS-accredited installers.                                                                                                       |
| Fraud and Financial Crime                | Fraud Recovery Rate                | Proportion of detected fraudulent value that has been successfully recovered                                                                                              |
| Data Quality and Reporting Integrity     | Data Accuracy / Error Rate         | Proportion of records failing validation checks or requiring correction.                                                                                                  |
|                                          | Timeliness Of Reporting            | Proportion of submissions delivered on time each month.                                                                                                                   |

## Appendix 5. Lender Control Requirements

| Control                                                                                                                                                                                                                                                                                                 | Output                                                                                                      | Risk Addressed                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------|
| <b>Verification of Homeowner Approval -</b><br>The lender must obtain documented homeowner consent/authorisation (e.g., signed declaration or verified digital consent) before submitting the application and prior to any disbursement.                                                                | Consent evidence recorded and retained in the application file (including timestamp and version of wording. | Customer Affordability and Conduct |
| <b>Affordability and Credit Checks -</b><br>Before loan approval, the lender completes affordability and credit checks using regulated lending systems, approved policies, and relevant applicant information.                                                                                          | Credit decision and affordability evidence retained on the application file.                                | Customer Affordability and Conduct |
| <b>Formal Complaints Handling -</b> As complaints arise, the lender manages complaints through its formal complaints handling process, recording the complaint, investigating the matter, and providing a response and resolution in line with policy and regulatory requirements.                      | Complaint records, responses, and resolution outcomes retained.                                             | Customer Affordability and Conduct |
| <b>Suspected Fraud Escalation to the Department, acting as Scheme Administrator -</b> Where a lender identifies a suspected fraudulent loan application, investigates it and the outcome is inconclusive, the lender escalates the matter to the Department in line with scheme reporting requirements. | Fraud escalation, shared lessons learned, and documented review or reporting actions retained.              | Fraud and Financial Crime          |

|                                                                                                                                                                                                                                                                            |                                                                                                             |                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| <p><b>Fraud Incident Response</b> - The lender must maintain and operate a fraud incident response process, including identification, investigation, containment (e.g., suspend disbursement), reporting, and remediation.</p>                                             | <p>Completed fraud incident log/report with investigation steps, outcomes, and any recovery actions.</p>    | <p>Fraud and Financial Crime</p>                    |
| <p><b>Consumer Identity and Property Eligibility Checks</b> - Before loan approval, the lender completes consumer identity verification and property eligibility checks using Know Your Client tools, approved property data sources, and the applicable scheme rules.</p> | <p>Recorded pass/fail identity and property eligibility checks retained on the lender application file.</p> | <p>Fraud and Financial Crime</p>                    |
| <p><b>Installer Accreditation Checks</b> - Before approval and again before installation, the lender verifies that the installer is appropriately accredited using the relevant MCS data source or other approved accreditation records.</p>                               | <p>Recorded installer accreditation check retained on the application and loan file.</p>                    | <p>Fraud and Financial Crime</p>                    |
| <p><b>Quote and Measure Eligibility Validation</b> - Before approving the application, the lender validates the quote and confirms that the proposed measures are eligible under the Scheme rules.</p>                                                                     | <p>Approved quote and measure eligibility record retained on file.</p>                                      | <p>Installation Advice, Suitability and Quality</p> |
| <p><b>Verification of Installation Evidence</b> - Before releasing final payment, the lender verifies installation completion evidence, such as MCS certification or other required completion documentation, using the relevant evidence source or system.</p>            | <p>Verified completion evidence retained on the case file before final payment.</p>                         | <p>Installation Advice, Suitability and Quality</p> |

|                                                                                                                                                                                                                                                |                                                                                                |                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|---------------------------------------|
| <b>Monthly Lender Compliance Meetings</b> – Lenders attend a monthly compliance meeting with the Department to review grant compliance, pipeline volumes, complaints/customer themes, exceptions, operational issues, and outstanding actions. | Agreed lender compliance meeting minutes and action log with owners and target dates retained. | Operational Inefficiency and Capacity |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|---------------------------------------|

## Appendix 6. Grant Calculation Methodology

### Purpose

This appendix provides further detail on the grant calculation methodology used for the Scheme. It should be read alongside Section 6 Financial mechanism. This appendix explains:

- How the principal reduction grant is calculated
- The formulas and parameters used in the calculation
- The records lenders must retain to support grant calculations and audit

### Grant calculation

The grant calculation follows four steps.

Step 1: Calculate the target monthly repayment.

- This calculates the monthly repayment payable by the borrower after application of the grant, based on the Target Rate.

$$M_t = \frac{P * r_t}{1 - (1 + )^{-n}}$$

- Where:
  - $M_t$  = Target Monthly Payment
  - $P$  = eligible loan principal
  - $r_t$  = Target Rate ÷ 12

- Target Rate = the borrower interest rate intended to be achieved after application of the government grant, expressed as a nominal Annual Fixed Rate
- $n$  = loan term in months

Step 2: Calculate the principal after grant.

- This calculates the reduced principal amount that the lender finances at the Starting Rate, assuming the borrower pays the target monthly repayment calculated in Step 1.

$$P^G = \frac{M_t * [1 - (1 + r_s)^{-n}]}{r_s}$$

- Where:
  - PG = Principal After Grant
  - $M_t$  = Target Monthly Payment
  - $r_s$  = Starting Rate  $\div$  12
  - Starting Rate = the rate used for calculating the government grant, expressed as a nominal Annual Fixed Rate
  - $n$  = loan term in months

Step 3: Calculate the uncapped grant.

- This is the difference between the eligible loan amount and the reduced Principal After Grant

$$G_u = P - P^G$$

- Where:
  - $G_u$  = uncapped grant amount
  - $P$  = eligible loan principal
  - $P^G$  = Principal After Grant

Step 4: Apply the Scheme cap.

- The capped grant is the lower of
  - the calculated grant and
  - the maximum grant allowed under the Scheme cap

$$G_c = \min(P * C, P - P^G)$$

- Subject to:
  - No grant applies where the loan term is below the minimum eligible term.
- Where:

- $G_c$  = capped grant amount
- $C$  = grant cap
- $P$  = eligible loan principal
- $P^G$  = Principal After Grant

### **Low-rate loans**

- The Scheme is intended to reduce the borrower's cost of credit.
- The grant must not be used to create a negative borrowing rate.
- Where the Starting Rate is lower than the Scheme Interest Rate Reduction, the grant shall be limited such that the supported borrower rate does not fall below zero.
- For example, where the Starting Rate is 3%, the grant shall be limited to the amount required to reduce the Target Rate to zero.
- The full Scheme Interest Rate Reduction must not be applied where doing so would result in a negative supported rate.

### **Lender records**

- Lenders must retain sufficient records to support grant calculations until the End Date as specified in the Grant Funding Agreement.
- The list of loan-level records that must be retained are outlined in Appendix 3.
- The Department reserves the right to audit grant calculations at individual loan level.

## **Appendix 7. Reconciliation and Recovery Methodology**

### **Purpose**

This appendix provides further detail on the calculation methodology for reconciliation and recovery under the scheme. It should be read alongside Section 6 and the Grant Funding Agreement.

The appendix explains:

- How the grant vests over time
- How full and partial repayment events are treated
- How key loan events including arrears, payment holidays and default are expected to be treated
- What records lenders should retain to support reconciliation and recovery calculations and audit

## Reconciliation overview

The scheme includes reconciliation arrangements to protect public value and Scheme integrity. Reconciliation may apply where a relevant repayment event occurs:

This may include:

- Full early repayment or refinance
- Partial early repayment or overpayment
- Where grant support can no longer be fully passed through to the borrower

For the avoidance of doubt, all references to rates in this Appendix are to the Annual Fixed Rate (i.e. the nominal interest rate), and do not refer to any effective rate, APR, or IRR measure.

## Grant earning approach

- At loan issue, the eligible loan is supported by a principal reducing grant.
- The grant reduces the amount that needs to be financed commercially by the lender, while the borrower receives the supported repayment profile.
- At origination, the grant is treated as fully provided but not yet vested.

$$G_0 = \text{original grant amount}$$

$$V_0 = 0$$

$$U_0 = G_0$$

- Where:
  - $G_0$  = original grant amount
  - $V_0$  = grant vested at origination
  - $U_0$  = unvested grant at origination
- The grant vests progressively over time as the borrower makes payments under the supported repayment profile.
- The grant vested is regarded as the variance between:
  - Interest vested under the lender profile i.e. reduced principal amortised at Starting Rate
  - Interest vested under the borrower profile i.e. full principal amortised at Target Rate
- The period-by-period grant vesting logic is:

$$E_t = I_t^L - I_t^B$$

- Where:
  - $E_t$  = Grant vested in period t
  - $I^L_t$  = interest vested under the lender profile in period t
  - $I^B_t$  = interest vested under the borrower profile in period t
- This reflects the economic value expected by the lender through borrower cashflows, consistent with the lender's required return.
- The cumulative grant vested at any point is the sum of grant vested in each completed period.

$$V_t = \sum E_t \text{ for } k = 1 \text{ to } t$$

- Where:
  - $V_t$  = cumulative grant vested up to period t
  - $E_t$  = grant vested in each period
- The remaining unvested grant is the original grant amount less the cumulative grant vested. It represents the grant support that has not yet been vested through the borrower's supported payment profile.

$$U_t = G_0 - V_t$$

- Where:
  - $U_t$  = remaining unvested grant at period t
  - $G_0$  = original grant amount
  - $V_t$  = cumulative grant vested up to period t
- In essence, grant vests by reference to the economic value delivered to the lender over time, through the borrower's payment profiles.

## Reconciliation computation

- Where a repayment or other relevant event occurs, reconciliation reflects the portion of grant support no longer required to maintain the lender's economic position.
- At the event date, the model:
  - Identifies the borrower balance before the event
  - Identifies the lender economic balance before the event
  - Applies the borrower repayment or prepayment received
  - Recalculates the borrower's remaining contractual cashflows
  - Calculates the present value of those remaining cashflows at the lender required rate

- The reconciliation amount is calculated as:

$$R_t = B_t^L - P_t - PV_t$$

- Where:

- $R_t$  = reconciliation at event date  $t$
- $B_t^L$  = lender economic balance at event date  $t$
- $P_t$  = borrower repayment or prepayment received at event date  $t$
- $PV_t$  = present value of remaining borrower cashflows after the event, discounted at the lender required rate

- Equivalently, reconciliation can be expressed as the reduction in unvested grant as a result of the event:

$$R_t = U_t - \tilde{U}_t$$

- Where:

- $U_t$  = unvested grant before the event
- $\tilde{U}_t$  = grant support still required after the event
- This reflects the grant support provided to bridge the lender's commercial return and the borrower's supported repayment profile.
- This approach is intended to keep the borrower profile, lender profile and grant earning profile aligned over the life of the supported loan and at each repayment event.
- The lender is expected to calculate the unvested grant at the event date.

### Full early repayment or refinance

- Where a loan is repaid or refinanced in full, there are no remaining borrower cashflows.

$$PV_t(RP) = 0$$

$$Reconciliation_t = U_t$$

- The remaining unvested grant shall be subject to reconciliation, subject to any recoverability rules specified in Scheme guidance or the Grant Funding Agreement.

### Partial repayment or overpayment

- Where a borrower makes a partial repayment or overpayment, remaining borrower payments continues after the event.
- Reconciliation reflects the reduction in grant required due to acceleration of repayments.

$$R_t = \max(0, B_t^{Lopen} - PP_t - PV_t(RP))$$

Where:

- $BL_{t,open}$  = lender opening balance at the event date
- $PP_t$  = borrower prepayment at the event date
- $PV_t(RP)$  = present value of remaining borrower payments after the event
- $R_t$  = reconciliation or grant adjustment at the event date
- Any residual grant continues to vest over the remaining loan term life of the loan through the interest differential between the lender and borrower profiles.

### **Recoverability rule**

The reconciliation amount should not exceed the relevant unvested grant or the value recoverable under the agreed Scheme mechanics.

$$Recoverable\ reconciliation_t = \min(U_t, Recoverable\ value_t)$$

### **Arrears and payment holidays**

- Arrears or payment holidays will not, by themselves, trigger recovery (nor top-up).
- The grant continues to vest in line with the original vesting profile.
- Where a borrower clears arrears by paying amounts already contractually due, reconciliation is not triggered solely as a result of bringing the loan back up to date and grant vesting continues on the original profile. If the borrower also makes an additional payment that accelerates repayment beyond the contractual profile, the standard repayment reconciliation methodology applies, calculated by reference to the original loan term.

### **Default**

- Where a loan enters full default, any unvested portion of the grant shall be treated as a loss to the Scheme. Default outcomes shall be managed in accordance with the lender's agreed recovery processes.
- Default classification shall follow the lender's existing credit policy.
- Where recovery proceeds are subsequently realised following default, such proceeds shall be shared between the lender and the Department in accordance with the Recovery Proceeds section below.
- The Department's entitlement shall be limited to its share of Net Recovery Proceeds calculated in accordance with this Appendix.

### **Recovery Proceeds**

- Following a default event, any recoveries subsequently realised by the lender shall be shared between the lender and the Department on a pari passu basis reflecting the original funding proportions of the eligible loan.
- Recoveries shall be recognised when cash has been received by the lender and shall be assessed on a net basis after deduction of Permitted Recovery Costs.

- Net Recovery Proceeds shall be calculated as:

$$NR_t = GR_t - RC_t$$

Where

$NR_t$  = Net Recovery Proceeds in period t

$GR_t$  = Gross Recovery Proceeds realised in period t

$RC_t$  = Permitted Recovery Costs incurred in period t

- Permitted Recovery Costs shall include reasonable and evidence third-party collection costs, legal fees, enforcement costs, asset realisation costs and other direct costs incurred in obtaining the recovery proceeds.
- General overheads, indirect operational costs, and costs not directly attributable to recovery activity shall not constitute Permitted Recovery Costs.
- The Grant Funding Percentage shall be calculated as:

$$GP = \frac{G_0}{P}$$

Where:

- $GP$  = Grant Funding Percentage
- $G_0$  = Original grant amount paid in respect of the loan
- $P$  = Original eligible loan amount
- 
- The Department's Recovery Share shall be calculated as:

$$DR_t = NR_t \times GP$$

- The Lender Recovery Share shall be calculated as:

$$LR_t = NR_t \times (1 - GP)$$

Where:

- $DR_t$  = Department Recovery Share in period t
- $LR_t$  = Lender Recovery Share in period t
- $NR_t$  = Net Recovery Proceeds in period t
- $GP$  = Grant Funding Percentage
- For the avoidance of doubt, repayment of the Department Recovery Share under this Recovery Proceeds section shall constitute a separate recovery-sharing mechanism

and shall not form part of, nor be treated as a reconciliation amount for the purposes of this Appendix.

- Accordingly, any Department Recovery Share shall be calculated in accordance with this Recovery Proceeds section and shall not be subject to any minimum threshold, floor, cap, ceiling or other limitation applicable to reconciliation amounts elsewhere in these Scheme Rules.

## **Records and reporting**

Lenders will need to retain sufficient loan-level records to support reconciliation and recovery calculations.

Records should include, where applicable:

- Loan identifiers, origination date, eligible loan amount, loan term, maturity date and relevant rate fields, including Starting Rate, Target Rate and Contractual Rate
- Schedule of contractual borrower payments and revised borrower payment profile, where relevant
- Grant value claimed, grant claim reference and grant payment date
- Grant vested, cumulative grant vested and remaining unvested grant by period
- Full repayment, partial repayment, overpayment, refinance, arrears, payment holiday, default, cancellation, ineligibility or non-compliance events, including relevant dates and amounts
- Reconciliation trigger and any outstanding reconciliation amount
- Gross recovery proceeds, permitted recovery costs, Department's Recovery Share including relevant dates and amounts
- Supporting evidence needed to validate grant claims, reconciliation, clawback, recovery calculations and audit

Reconciliations and Department's Recovery share shall be assessed on a quarterly basis and may be netted against future grant claims submitted by the lender. Where future grant claims are not available, alternative repayment arrangements may be agreed between the lender and the Department.

The Department reserves the right to audit reconciliation and recovery calculations at individual loan level.

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This publication is available from: <https://www.gov.uk/government/publications/warm-homes-loan-scheme-apply-to-participate-as-a-lender-phase-1>

Any enquiries regarding this publication should be sent to us at:  
[GFPolicy@energysecurity.gov.uk](mailto:GFPolicy@energysecurity.gov.uk)

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