

Building a green mortgage market: UK EeMAP workshop

On 20 March, UKGBC hosted the 'Building a green mortgage market' as part of the Energy Efficiency Mortgages Action Plan (EeMAP) project. We welcomed 37 attendees representing construction, finance and academia to provide UK market input into the project. The event was kindly hosted by UKGBC members AECOM and supported by EU Horizon 2020 funding.

Presentations and panel discussion

The event started with a set of presentations introducing the EeMAP project and exploring some of the green mortgage initiatives ongoing in the UK. This session was intended to give attendees an overview of the current state of the UK green mortgage market, highlighting the potential opportunities and challenges facing its development.



Stephen Richardson, WorldGBC

Stephen provided an overview of the EeMAP project, which is a Horizon 2020 funded project being undertaken by a consortium consisting of the European Mortgage Federation, the Europe Regional Network of the World Green Building Council, RICS, E.ON, the University of Venice and the University of Frankfurt. The project is aiming to create an energy efficiency mortgage (EEM) which could offer preferential lending on buying an energy efficient home or for mortgage extensions for energy renovations. It is hoped that regulators will allow lower capital requirements for these products thanks to increased property value, lower running costs and lower risk of default for low energy properties.

Stephen highlighted that this event is one of ten workshops being hosted by Green Building Councils across Europe to feed into the project and help inform the proposed pan-EU framework of guidelines being developed by the consortium. The EeMAP guidelines will be tested in an operational pilot due to start in June 2018. As well as leading to new issuance of EEMs, the pilot will enable lenders to start tagging existing mortgages and begin gathering anonymised data.

Marco Marijewycz, E.ON

Marco presented the findings of the consumer research undertaken by E.ON for the EeMAP project. Consumers in the UK, Italy and Sweden were presented with a concept for an energy efficiency loan linked to the mortgage with reduced borrowing costs. The idea seemed most appealing to UK and Italian consumers. The research highlighted that the main barriers to uptake would be reluctance to take out and afford additional lending, or homes already being considered to be energy efficient. The financial advantages of lower interest rate and lower bills would be the most important drivers, followed by increasing property value. Consumers want options for both a managed installation service and a self-managed or DIY approach.



Gervase Poulden, Department for Business, Energy and Industrial Strategy

Gervase explained that the idea of green mortgages has strong ministerial support across government departments and he outlined some of the recent activities undertaken by the government in this area. In Autumn 2017, the Green Finance Taskforce was established to help deliver the investment needed to meet the UK's Industrial Strategy and Clean Growth Strategy. The Taskforce has a specific remit to look at how the government can support development of a green mortgage market and is expected to publish its recommendations in Spring 2018. Alongside the Taskforce,

recent consultations have also looked at the range of measures government could undertake to drive interest in energy efficiency and green lending. The options explored include demand side proposals such as fiscal incentives for householders and voluntary actions from mortgage lenders including 'Green tagging' of properties and more accurately reflecting the energy performance of buildings in affordability calculations.



Ian Rigarsford, Ecology Building Society

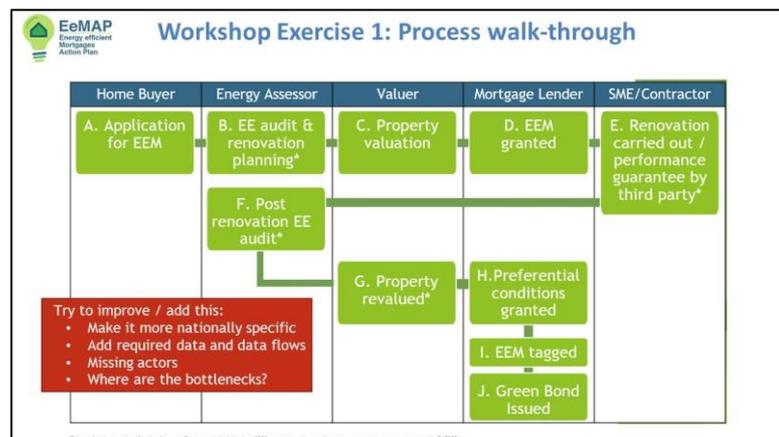
Ian introduced the work of Ecology Building Society and the C-Change discount, which is probably the most successful example of a green mortgage offering in the UK. Ecology position themselves as an ethical finance pioneer and assess their lending on environmental benefits as well as financial aspects such as lower energy costs. The C-Change discount can be applied to sustainable homes or renovations and offers a sliding scale linked to the environmental rating of the property. The 'sustainable homes discount' is usually available for new build and conversion projects offer tiered discounts based on property's proposed energy rating, ranging from 0.75% for EPC A to 1.25% for Passivhaus Certified. The discount is applied to the whole of the mortgage for the duration of the loan. Alternatively, the 'retrofit discount' is available for any existing home requiring extensive home improvements including works to improve the thermal performance with a discount of 0.25% applied for each EPC grade improvement.

EeMAP technical workshop

The second session of the event was the technical workshop to gather feedback on the EeMAP proposals for building performance assessments which are intended to be used during the pilot phase. Stephen Richardson presented the current proposals in detail, after which the delegates were given two separate tasks to complete.

Process walk-through

The first task was a short review of the proposed EEM application process and its relevance for the UK market. The EeMAP project has developed a process walk-through which sets out the key steps for a homeowner applying for funds for an energy renovation. Delegates were asked to comment on the process and make it more nationally specific, highlighting required data flows, missing actors and potential bottle-necks. Below are some of the key themes and comments from the discussions.



Actors

- Mortgage brokers are a key stakeholder to inform householders at the start of the process. A key target audience will be those buying to renovate
- Manufacturers are increasingly developing technologies and apps to track product performance. These should be rewarded/recognised in the process to help drive performance.
- The renovation planning stage should involve a qualified Retrofit Coordinator or an architect, particularly for deeper renovations.
- Performance guarantees from third parties are not currently available in the UK and will be expensive.
- What will the energy supplier actively monitor how the energy bill changes post-installation?

Data and information

- Energy assessors must be aware of local planning policies to understand what can practically be done to improve the property (e.g. solid wall insulation, window replacements)
- Will the lender require the submission of a renovation plan and, if so, over what timeframes will the improvements be required?
- For new builds, there will also be a step for pulling together the documents required to qualify for EEM.

Customer information

- Initial valuation to put a property on the market needs to consider possible energy efficiency improvements and potential for EEM qualification.
- Property energy survey and building passport must be in place at the point of purchase for the home buyer to view improvement options and EEM availability.
- A new online tool will be needed for modelling property and options, including solution design, grant availability, status of requirements for planning approval and potential valuation impact.
- If the bills are higher than expected after the energy efficiency work, will advice be offered to the householder to change their behaviour?



Quality assurance

- The Each Home Counts Quality Mark could be linked to the EEM. Other options could include the BRE Home Quality Mark.
- Lender may need to commission a separate energy audit or audit the EPC to avoid the risk of fraud.
- Is the installer at risk if the work is considered not good enough?
- Warranties may be needed for retrofit similar to NHBC construction insurance for new builds.

Building Performance Assessment Proposals

The second task for delegates was reviewing the building performance assessment proposals for the EeMAP pilot phase. Delegates worked in groups to assign a traffic light rating to each proposal and provide further comments. The ratings below are taken as averages across all of the groups, along with some of the key points of feedback.

Criteria 1: Qualification thresholds for EEM

Rating: Green

- The standards for new buildings should be a minimum and the same principle as renovation should apply with a scale of improved loan conditions for going further than the minimum.
- There is still an outstanding question about how NZEBs would apply in the UK. There is currently no agreed definition and it is not clear how relevant the standard will remain after Brexit.
- Properties in London are already required to achieve a 35% improvement over national building regulations. Would all new properties in London automatically qualify for a green mortgage?
- Renovations should meet Building Regs Part L 1B/2B as a minimum to provide additionality.

Criteria 2: Data and reporting

Rating: Amber

- In-use data will include unregulated energy use which is independent of the property. There are examples of companies using software to normalise in-use data for occupancy and behaviour. This technology could support more meaningful comparison of the measured and the calculated energy performance.
- If the use data doesn't match the rating, is the EEM withdrawn?

- Issues with data-sharing must be addressed. If consent for data is withheld then is the mortgage not given, or is this a condition for obtaining the mortgage?
- Consumer will need to demand a contract that guarantees performance. If it doesn't then the contractor should pay.
- Rented properties (particularly commercial) may need specific lease provisions to allow the collection of energy data.

Criteria 3: Accreditation and improvement planning

Rating: Amber

- Assessment must be independent with strict randomised audits of improvements to ensure quality. Mortgage lenders could appoint a trusted assessor.
- The planning of energy renovation should incorporate valuation advice to ensure it doesn't have unintended negative consequences.
- Works may need to be provided by a few primary contractors, otherwise the multiple accreditations associated with every element/product will disincentivise the supply chain.
- The requirement for approvals and accreditations will always be more onerous for SMEs to meet. Need to ensure they aren't excluded from benefiting.
- Commercial projects can use performance management framework (soft landings, Investor Confidence Project) to manage risk.



Definition: Energy performance

Rating: Green

- Options a. and b. aren't relevant for the UK which can use the EPC regime.
- EPCs are available for properties on the market but they could be out of date. Important to recalculate EPC when applying, including a routemap for making improvements.
- SAP and SBEM will need to be updated regularly to better reflect new innovative products and technologies.
- There could be issues with EPC model including a renewable technology which either isn't used (unreliable/expensive) or the benefit are not received by the occupants (apartment block).

Definition: measure energy consumption

Rating: Green

- EEM is based on modelled performance, but will there be a penalty if performance is not met?
- What will banks do with the data? In a widespread rollout (beyond pilots) mortgage providers may not have the resources to properly assess data.
- Measured energy consumption could be used to inform future improvement recommendations.
- Energy positive buildings would need consumption to be based on a net number.

Definition: Pilot management

Rating: Green

- Government recognition will be needed beyond the pilot phase.
- How will the national organisations representing EeMAP be constituted?

Delegates

Bill	Drury	AmTrust International
Pad	Bamford	AmTrust International
Gervase	Poulden	Department for Business, Energy and Industrial Strategy
Judith	Britnell	Department for Business, Energy and Industrial Strategy *
Danielle	Bistacchi	Berkeley Group
Andy	Sutton	BRE *
Tassos	Kougionis	BSRIA *
Kim	Vernau	Building Lifepans Ltd
Graeme	Maughan	Capita
Richard	Melville	Cellularity Limited *
Mark	Cunniffe	Consultant *
Chidi	Oti-Obihara	Diolen consult *
Marco	Marijewycz	E.ON
Ian	Rigarlsford	Ecology Building Society *
James	Peck	Ekistics Capital Ltd
Sunny	Parekh	Energy & Utilities Alliance *
Rob	Cartwright	eTech Solutions Limited
Sarah	Fletcher	Greater London Authority *
Liz	Grove	Greengage Environmental
Glyn	Mutton	Hill Group
Diana	Sanchez	Hoare Lea *
Melissa	Ocampo	HSBC Bank
Patrizia	Catanese	IDEA FORGE LTD *
Lucy	Shadbolt	InstaGroup *
Richard	O'Rourke	Kinetik NRG *
Andy	Cook	Max Fordham LLP
David	Adams	Melius Homes *
Nicola	O'Connor	MIMA *
Jane	Soldera	Moody's Investors Service
Sue	Bloomfield	RB&M
James	Bretten	RBS
Daniel	Harris	Saint-Gobain
Rosemary	Coyne	Sustainable Housing Action Partnership *
Sagar A	Sumaria	Sow grow and reap *
Gill	Kelleher	Specific *
Samantha	Crichton	Sustainable Energy Association *
Donal	Brown	SPRU - University of Sussex *
Vasilis	Moschopoulos	University of Sussex *
Brian	Emmott	Terre Initiative Limited *
Thomas	Bouriot	Tuffin Ferraby Taylor LLP *
Richard	Twinn	UKGBC
Stephen	Richardson	WorldGBC

* Attended EeMAP technical workshop

Resources

The presentation slides are available on the UKGBC website for the [panel discussion](#) and the [technical workshop](#).

Further details about EeMAP can be found on the project website: <http://energyefficientmortgages.eu/>

The EeMAP national building assessment briefings are available at: <http://www.worldgbc.org/green-mortgages>

The summary of the EeMAP consumer research is available at: http://energyefficientmortgages.eu/wp-content/uploads/2018/02/EeMAP_D2.7_E.ON_Final.pdf

For further information please contact Richard Twinn, UKGBC (Richard.twinn@ukgbc.org) or Stephen Richardson, WorldGBC (europe@worldgbc.org).