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NEWS

Nearly three quarters of brokers have not seen significant green product innovation in last year – poll results

By Anna Sagar

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Around 72 per cent of brokers said they have seen no change when it comes to lender innovation on housing energy efficiency, such as green mortgages, an exclusive Mortgage Solutions poll has revealed.

According to a Mortgage Solutions poll, around 17 per cent said that they had seen some innovation from a few lenders and only 11 per cent said that had seen lots of innovation from a range of lenders.

Energy efficiency has risen up the agenda partially due to rising energy bills' impact on the cost of living as well as upcoming energy efficiency legislation that could mandate that rental properties have an EPC of C or higher by 2028.

Rachael Hunnissett, green mortgage campaign lead at the Green Finance Institute (GFI), said that since 2019 it had seen the number of green mortgage products rise from four to 60 as lenders "took to reduce emissions from their loan book and reward customers for owning an energy efficiency home".

She continued that up to now, products have focused on homeowners with an EPC A or B rated homes through incentives like discounts, cashback or enhanced affordability.

"The market needs to continue to innovate and deliver green mortgage products that support customers to upgrade their existing homes. Energy efficiency upgrades are not only good for the planet, but can also lead to warmer homes in winter, cheaper energy bills, and an increase in value.

"There is a strong desire from lenders to support their customers and green their loan book, so it's likely that we will continue to see the number of green mortgage products increase," Hunnissett added.

Ross Boyd, CEO, Dashly, said that the current product landscape was a "positive step in the right direction" but they had had "limited impact", noting there had been reported of funds being redirected to ISAs instead of intended retrofitting projects.

"This echoes the issues seen during the mismanaged Covid Bounce Back Loans challenges. Urgent action is needed to not only target homes with high potential for emission reduction but also to establish a robust structure for directing funds towards energy-efficient upgrades.

"Working together, the industry needs to strive for real, sustainable change in the housing market," he added.

'Customer demand is currently not there'

Richard Merrett, director of strategic relationships at SimplyBiz Mortgages and chair of the Mortgage Climate Action Group, said that the results of the poll were not surprising as the market perception was that there has been little innovation from lenders.

However, he said he did not believe that this was the full story, pointing to interesting developments such as Nationwide's zero per cent green further advance deal, Leeds Building Society tweaking its affordability for people buying energy efficient homes and Skipton Building Society's offer of free EPC assessments to mortgage customers.

"What I think is clear though is that the customer demand is not currently there, clearly with the cost of living crisis and inflationary pressures there are understandably other priorities.

"What we need to do collectively as an industry is create the demand through education and through factors such as focusing on the cost saving benefits of living more sustainably – our roles in providing mortgages, advisers and lenders, are after all to help people own homes but also save money," Merrett explained.

He added that there had been good developments from lenders that go "beyond product and proposition", which he said was the "key to unlocking demand".

Merrett said that Lloyds Banking Group, HSBC and OSB Group has created education content, and Natwest were funding a "full retrofit journey" for a sample of its customers.

"I think what the results of the poll ultimately do reflect is we still have a long way to go, particularly with regard to raising awareness amongst the sector. If the knowledge and engagement is there, the excellent adviser community will do a great job in supporting customers with it," he added.

Scott Taylor-Barr, financial adviser at Barnsdale Financial Management, added that it was a "real chicken and egg type of situation" as it's still unclear whether lenders need to bring on innovative products to encourage green alterations or wait for customer demand.

"In all the talk about making UK housing stock more energy efficient, it is the increase in the cost of energy that has got people seriously thinking about how to make their homes more energy efficient; this will increase further if we start to see house prices factor in EPC ratings – there will be a serious incentive to move your D-rated house to a B if it will be worth more and be easier to sell," he added.

Lenders 'struggling' to create innovative products or can't justify spend

Paul Elliott, managing director at Propp, said that the poll was a "fair reflection" of innovation seen in the last 12 months, with GFI figures showing that there had only been four product launches since July last year until now.

"This would suggest that lenders are either struggling to find ways to offer genuinely innovative products, aren't seeing the demand to justify allocating the relevant research and development resource or simply don't see it as a priority at the moment given the tumultuous time we've been through in the last year," he added.

Gary Bush, financial adviser at MortgageShop.com, agreed, noting that most lenders have had challenges around energy efficiency innovation due to events like Brexit, Covid-19, Ukraine war and rising inflation.

"That's no excuse, it's just a statement that it's been one hell of a ride," he added.

Michelle Lawson, director and mortgage and protection adviser at Lawson Financial, added that energy efficiency is "only a concern for a very small minority of people".

She continued: "The costs for solar panels and heat source pumps far outweigh the benefits given by lenders – a couple of basis points or £250 cashback isn't really much of an incentive."

Lawson added that the "break-even point" for most energy efficiency methods can be 10 to 15 years and may not be in their properties long enough to benefit.

"People also don't appear to be buying energy efficient properties first and foremost. Location, layout and size still appears to be a priority for most," she added.

Remortgages a good opportunity for lenders

Elliott continued that there had been some product innovation recently and retrofitting and energy efficiency had "moved further up the agenda with lenders providing more resources for borrowers looking to educate themselves about how to future proof their properties".

"So whilst we may lack specific products to give the retrofit revolution kick start, homeowners have the information available to understand how they can start to futureproof their properties if they have the resource and motivation to do so – there's nothing to stop someone raising money during a remortgage to make EPC improvements if they can afford to do so or consider other additional borrowing options if a remortgage isn't feasible," he added.

Elliott said that building momentum was not only down to lender innovation noting that "brokers will be pivotal given their role in the mortgage advice process, so raising awareness, providing resources and educating brokers is key over the next few years".

Stephen Perkins, managing director at Yellow Brick Mortgages, said that some lower rates and cashback on green mortgage for properties with low EPC ratings had benefitted some clients it was "more by chance rather than a pre-calculated move".

"I do not believe a single client of ours has specifically sought out an energy-efficient home based on the potential mortgage rate or cashback benefit. If they have looked carefully at the EPC rating, it may be to save on the energy bills instead.

"I think more lenders could offer deals on remortgages for home improvements that improve the energy efficiency of the borrower's home, for instance for installing solar panels, insulation or a heat pump system, similar to the market-leading product offered by Nationwide," he noted.

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- Yes, to some extent
- Yes, to a large extent
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Bush agreed that he would expect special rates for remortgaging clients who are borrowing more funds for home improvements such as energy efficiency works, and the "opportunity is there for lenders".

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Anna is a reporter for Mortgage Solutions and assistant editor for Specialist Lending Solutions, both B2B sister titles of YourMoney.com. She has worked as a journalist for over four years, initially in the speciality insurance sector before moving onto mortgages.

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