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Green mortgages

Incentivising homeowners to make energy-efficient home improvements

Green mortgages are designed to incentivise borrowers who live in energy-efficient homes or are willing to make their properties more environmentally friendly. While these deals may not always seem attractive at first glance, they offer unique benefits and are growing in popularity.

Government initiatives are also fuelling this growth. As part of its vision for a net-zero future, the government expects all homes to achieve an EPC rating of C or better by 2050. With around 60% of homes currently rated D or lower, according to the Office for National Statistics (ONS), a wave of upgrades is expected in the coming years.

The Financial Conduct Authority (FCA), the mortgage regulator, sees green mortgages playing a 'significant role' in facilitating these sustainable upgrades. In addition to regulatory support, green finance projects aimed at reducing household carbon emissions are receiving a significant financial boost. The government has awarded £4.1 million in funding to 26 different schemes, including small-scale providers, to expand sustainable finance options for homeowners and buy-to-let landlords^[1].

Understanding green mortgages

A green mortgage, also known as an 'energy-efficient mortgage' (EEM) or 'eco-friendly mortgage', is a financial tool designed to promote and facilitate environmentally friendly home enhancements. Various financial institutions, including banks and credit unions, offer these mortgages. The main objective is to incentivise homeowners to invest in energy-saving upgrades and sustainable construction practices.

These home loans offer favourable terms to those buying or living in homes with high Energy Performance Certificate (EPC) ratings – typically A or B. They also reward homeowners who undertake green renovations like installing

solar panels or heat pumps, often with reduced interest rates or cashback incentives.

Functioning of green mortgages

Green mortgages incentivise homeowners to make energy-efficient home improvements by offering financial benefits. These enhancements include installing solar panels, energy-saving windows, upgrading insulation and enhancing heating systems. The upgrade cost is typically incorporated into the mortgage amount, spreading the investment over the loan's tenure. The rationale behind this strategy is that the energy savings from these upgrades will balance the additional mortgage cost.

In certain circumstances, homeowners may even qualify for a lower interest rate or discounted fees when choosing a green mortgage. Due to their reduced energy consumption, lenders view energy-efficient homes as less risky, making them more inclined to offer favourable terms to borrowers dedicated to sustainability.

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Monetary savings

One of the significant benefits of green mortgages is the potential for long-term financial savings. Energy-efficient upgrades can reduce utility bills, freeing up funds to counterbalance the increased mortgage cost.

Home value boost

Energy-efficient improvements can enhance a home's value. As sustainability becomes a priority for more homeowners, properties with greener features will likely be more appealing in the real estate market.

Reduced environmental impact

By investing in energy-efficient upgrades, homeowners directly contribute to lowering

carbon emissions and preserving natural resources. This aligns with global efforts to combat climate change and foster a sustainable future.

Improved comfort

Many green improvements, like superior insulation and efficient heating systems, can enhance indoor comfort by maintaining consistent temperatures and minimising drafts.

Eligibility for green mortgages

While green mortgages offer numerous benefits, potential applicants should consider their eligibility and financial circumstances. Lenders often require borrowers to undergo a home energy assessment to ascertain potential energy savings and verify the feasibility of the proposed upgrades. Additionally, borrowers should evaluate the projected energy savings against the upgrade cost to ensure the investment makes financial sense. ■

Looking to find out more about green mortgage options?

Please get in touch with us if you require additional information or have any queries about green mortgages. We're here to help you navigate the path towards sustainable home ownership. To learn more, please contact us.

Source data:

[1] <https://www.gov.uk/government/publications/green-home-finance-accelerator-discovery-phase-projects/green-home-finance-accelerator-details-of-discovery-phase-projects>