



## **'It's not something we can hide from' - the role for lenders and brokers in stimulating the green mortgage market**

Carbon emissions from homes are one of the biggest challenges to achieving the UK's net zero targets, accounting for around 20% of the country's greenhouse gas emissions. The government's climate advisers estimate that approximately £360 billion in public and private investment will be required to decarbonise homes by 2050.

The mortgage industry, particularly green finance, is viewed as crucial in encouraging homeowners to prioritise energy efficiency, whether they are purchasing a new home or upgrading an existing one. Over the years, lenders have introduced various green mortgage products offering incentives such as lower interest rates or cashback for buying energy-efficient homes or making energy improvements, commonly known as retrofitting. Retrofitting typically includes upgrades like new windows, better insulation, heat pumps, or solar panels to enhance energy efficiency.

Despite these offerings, uptake of green mortgages has been slow. Although the number of green mortgage products has grown from just three in 2019 to over 60 in 2024, they still represent a small portion of the overall market.

A major factor behind the slow adoption is low consumer demand. Inconsistent government policies, limited awareness, and concerns over the costs of home upgrades have all contributed to this. As a result, the range of available green finance options remains limited, and the existing products may not be affordable or competitive enough to drive significant consumer interest.

However, change may be on the horizon. For demand to increase, market conditions must improve, with clear and consistent government policies, grants, and greater awareness of

the benefits of energy-efficient homes. The UK's fast-approaching net zero deadline is already prompting positive developments that could boost demand.

One such development is the potential change to minimum energy efficiency standards. The government has committed to consulting on Energy Performance Certificate (EPC) rules for rental homes by the end of the year. Additionally, financial incentives like the Warm Homes Grant, aimed at low-income homeowners and private tenants, and the Boiler Upgrade Scheme, which offers up to £7,500 towards the cost of heat pumps, are encouraging interest. Social housing decarbonisation funds also contribute to these efforts, while the anticipated Future Homes Standard is expected to impose stricter energy efficiency requirements for new homes starting next year.

The private sector is also making significant moves. Octopus Energy has pledged to deliver 100,000 "Zero Bills" homes by 2030. These homes will feature renewable technologies such as solar panels, heat pumps, and storage batteries to eliminate energy bills for homeowners. Octopus Energy is also planning to bring these solutions to existing homes, potentially expanding the reach of energy-efficient housing further. While challenges remain, the increasing discussions around energy efficiency suggest that more homeowners may be motivated to invest in green upgrades soon.

Lenders and brokers have a key role to play in stimulating demand for green finance. They can help by ensuring customers are aware of green mortgage options and the financial incentives available to them, such as lower interest rates and energy bill savings. However, it is important to recognise that improving a home's energy efficiency is a complex issue. Some homeowners may find the cost of retrofitting prohibitive, and lenders and brokers must consider each customer's understanding and expectations regarding energy upgrades.

To address this, initiatives like the Green Mortgage Advice Initiative have been launched to bridge the knowledge gap among mortgage advisers. The Adviser Awareness Group, part of this initiative, aims to help advisers better understand green finance products and the long-term benefits of energy-efficient investments. This group is actively working to raise awareness by creating social media content and other resources to help advisers confidently discuss green mortgage options with their clients.

As demand for eco-friendly homes increases, advisers must be well-informed about the various green mortgage products available. More policy changes, such as EPC-linked

Stamp Duty reforms proposed by the Green Finance Institute (GFI), could further drive demand and encourage more homeowners to invest in energy efficiency improvements.

In the meantime, lenders should assess their green mortgage offerings to ensure they provide genuine value to customers. For instance, Buckinghamshire Building Society is currently working to develop green finance products tailored to the market's needs.

By working together with a "green" mindset, lenders, brokers, and policymakers can help grow a more diverse and accessible range of green finance products. This collective effort will help increase consumer demand for energy-efficient homes and contribute significantly to the UK's net zero goals.

Should you have any questions or require more information, please contact your dedicated Key Account Manager or call us on 01494 879500.

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