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IMMOBILIEN FINANZIERUNG

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DIGITALER
SONDERDRUCK

PFANDBRIEFE UND COVERED BONDS

GREEN MORTGAGES –
MAKING ENERGY EFFICIENCY FINANCING EASIER

VON LIGIA BOGDAN



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GREEN MORTGAGES – MAKING ENERGY EFFICIENCY FINANCING EASIER

In the light of the current economic environment with rapidly rising energy prices, energy efficiency is top of mind for many current and future homeowners. According to the following article, green mortgages can make energy efficiency financing easier and deliver a triple win – lower electricity bills, environmental impact, and a more comfortable home. However, affordable financing is oftentimes a key hurdle in making energy efficiency improvements. The author therefore advocates, inter alia, more of these incentivized products offered by banks across European markets in cooperation with energy companies.

Red.

Easier access to affordable financing for home renovations and energy efficiency measures should provide an added incentive for consumers to better insulate their homes, replace an old heating system with a more efficient boiler or a heatpump, and generate their own electricity by adding solar panels on their roof.

Highly appealing and relevant

Results of consumer research conducted by E.ON last year show consumers find green mortgage propositions highly appealing and relevant as a way of financing energy efficiency improvements. The research was part of the Energy Efficiency Mortgages Initiative (energyefficientmortgages.eu), an EU Horizon 2020 funded initiative, seeking to introduce a greener, more sustainability focused means of buying, renovating, and living in our homes.

The consumer research workstream comprised of developing the green mortgage proposition, testing it with focus groups to get feedback and refine it, and conducting a comprehensive online survey. The survey was sent to approximately 4000 participants in eight European markets: Germany, Italy, Sweden, Spain, Portugal, Netherlands, Romania, Hungary.

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The objectives of the research were to understand the role energy efficiency plays for consumers applying for a mortgage, how appealing and relevant they find the green mortgage proposition and what additional product features could further drive appeal. In what follows you will find the answers to these three questions outlined with our research findings.

What role does energy efficiency play for consumers when applying for a mortgage? Across markets consumers are more ready than ever for energy efficiency conversations, climate change is becoming a mounting concern and there is a sense of urgency to act now and play a part in reducing CO₂-emissions. Benefits of energy efficiency measures are also becoming clearer for many consumers in terms of financial and environmental impact.

Consumer knowledge: still a gap to bridge

Most consumers have encountered an EPC (energy performance certificate) since it is increasingly mandated for home purchases or rental agreements yet understanding on what makes a house "A" or "B" rated can be improved. In Germany, over 70 percent of respondents have heard about EPC-ratings and claim to understand them, a significantly higher percentage than in other markets where understanding lies between 40 and 60 percent. Yet, there is still a gap to bridge, and greater education is needed to bring consumers up to speed.

While sustainability is not among the top factors for choosing a mortgage (key factors are interest rate, monthly repayments, total amount paid over term), there is a strong consideration for making energy efficiency improvements, with more than 50

percent of respondents in Germany very likely to consider them.

About 44 percent are likely to consider a loan to make energy efficiency improvements while 42 percent are also likely to add additional borrowing for energy efficiency improvements to their new/existing mortgage.

Which green mortgage proposition did we test? In developing the green mortgage proposition, we looked across European markets for best practice examples and co-created the proposition with several European banks. Figure 1 shows the description of the proposition we tested with respondents in Germany.

A flexible proposition

As you can see, we offered a discount rate of 0,12 percentage points from an average mortgage rate of 1,2 percent back in 2021. Of course, nowadays with interest rates at above 3 percent and rising we suggest offering a higher discount for a green mortgage product. We designed the proposition to be flexible, fitting for consumers buying a new build with a high EPC-rating and also for consumers buying a house with a low energy efficiency, renovation being the larger market with a greater potential for decarbonization.

We also highlighted that the amount for energy efficiency improvements can be added on top of the new/existing mortgage at the same interest rate as the underlying mortgage and much lower than any consumer loan. In addition, if the owner can prove, via an updated EPC-rating, that the house has now reached A/B-rating, the underlying mortgage interest rate is discounted as well.

We also summarized for the respondents the concrete benefits of a green mortgage:

- **Financial savings:** The green mortgage provides a discounted rate versus standard rate, saving consumers money each month on the mortgage payments. Any additional borrowing is also provided at the same discounted rate.

Figure 1: Green Mortgage product description for German consumers

The Green Mortgage is a new product that rewards customers whose homes are energy efficient. It provides a discounted mortgage rate (minus 0,12 percentage points) versus other available mortgages meaning you pay less interest each month!

To qualify for the mortgage, your home needs an energy efficiency rating of A+/A/B. Should your energy efficiency rating be below that, you can make your home more energy efficient by:

- **Borrowing discounted funds to make your home more energy efficient:**
 - You can choose to pay the loan back over a time period that suits you
 - The interest rate for the additional borrowing is discounted at the same rate as the mortgage (i.e. much lower than a consumer loan)
- **Using your own funds to make your home more energy efficient:**
 - You can pay for any work required to make your home more energy efficient from savings or money you have available

Improvements which can boost your home's energy efficiency include insulation, heating systems, solar panels, solar hot water, smart heating thermostats, electric vehicle charging points et cetera.

Source: EEMI Consumer Research (Energy Efficiency Mortgage Initiative)

- **Energy costs savings:** Energy efficient homes can save between 20 and 50 percent on energy bills.
- **Increased property value:** Energy efficient homes typically generate a higher sale price in the market (potential increase of 3 to 10 percent based on studies conducted in Italy).
- **Improved CO₂-footprint:** Homes with a higher energy efficiency rating produce less CO₂ emissions, typically around one tonne CO₂ savings per year, the equivalent of an extra 100 trees.

Since green mortgages is a more complex product requiring energy efficiency improvements, we also showed respondents

how the customer journey would work in a simplified way. The duration of this journey varies but we expect it to be more than three months since it takes time to renovate, insulate a home, change heating system, and add solar panels.

Customer journey: at least three-month-long

At the end of the journey, a new EPC-rating is required to prove an energy efficiency rating of A or B and get the discount on the current mortgage as well.

How did consumers react to the green mortgage proposition and what barriers need to be overcome? All markets were re-

ceptive to the green mortgage proposition we tested. In terms of clarity, in all markets more than 75 percent were clear on how the green mortgage product works.

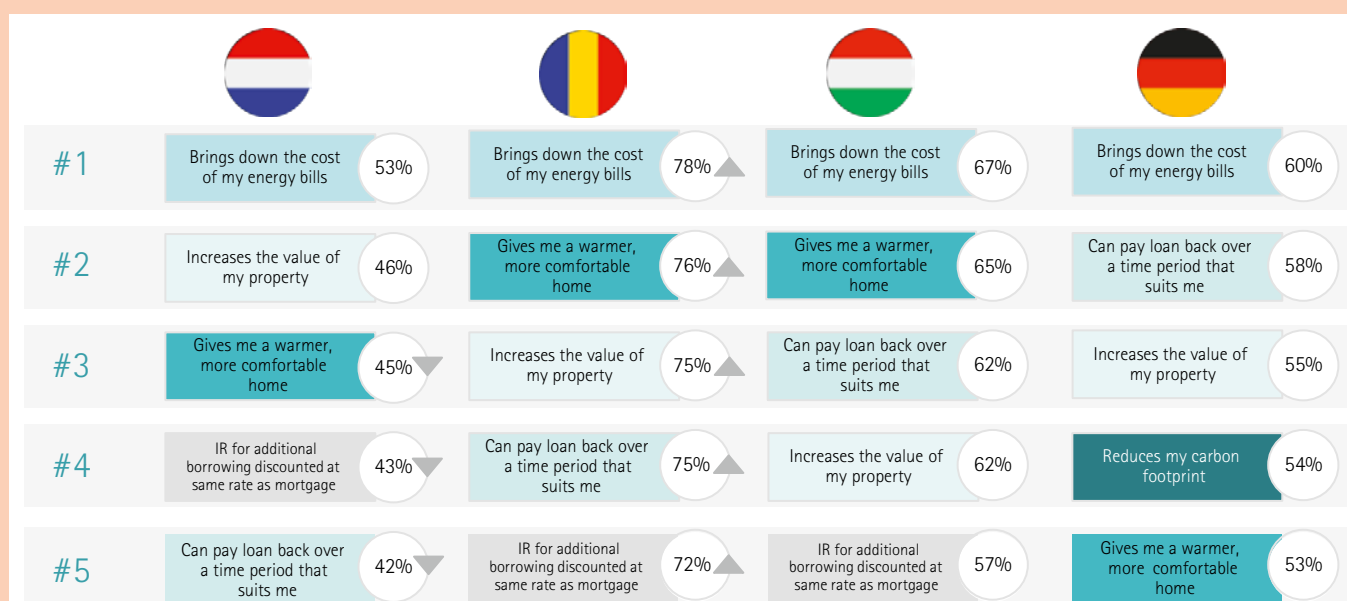
Appeal correlated closely with relevance, with over 80 percent of consumers finding the proposition relevant and appealing in Italy, Spain, Portugal, Romania and Hungary, over 70 percent in Germany and slightly more muted in Sweden and the Netherlands with around 60 percent. The slightly lower appeal in Sweden and the Netherlands might be driven by the already higher level of energy efficient buildings in these countries.

"Killing two birds with one stone"

Consumers appreciated the double win of a green mortgage and here are some quotes from consumers in Germany:

- "I find this offer very good because I save money overall and do something for the environment, if I design or build my property sustainably and my energy costs can also be significantly reduced. In addition, this significantly increases the attractiveness of my property for a possible later sale."
- "First of all, it's not only cheaper, but it also ensures that I have a better CO₂-footprint and that's actually very practical, it's like killing two birds with one stone."









Figure 2: Top 5 appealing attributes of the Green Mortgage (in percent)



Base: All respondents Italy (n = 503); Sweden (n = 505); Spain (n = 514); Portugal (n = 504); Netherlands (n = 507); Romania (n = 508); Hungary (n = 506); Germany (n = 500)

Source: EEMI Consumer Research (Energy Efficiency Mortgage Initiative)

Figure 3: Appeal of Government benefits

	Market average								
No VAT charged for all energy efficient products you buy for your home	63%	64%	59%	61%	66%	56%	76%	64%	57%
Additional subsidies for energy efficient products (50% rebates on products such as solar panels)	62%	57%	59%	58%	66%	54%	77%	65%	58%
Additional borrowing for energy efficient improvements charged at a 0% borrowing rate	60%	56%	52%	58%	66%	45%	75%	66%	58%
Discount on property purchase tax available for energy efficient homes	59%	58%	54%	59%	65%	45%	74%	60%	58%
Lower down payment or deposit on the property when taking out the Green Mortgage	n/a	54%	42%	59%	59%		75%	56%	48%
No property tax charged for the amount invested in energy efficient improvements	n/a					50%			

Base: All respondents Italy (n = 503); Sweden (n = 505); Spain (n = 514); Portugal (n = 504); Netherlands (n = 507); Romania (n = 508); Hungary (n = 506); Germany (n = 500)

Source: EEMI Consumer Research (Energy Efficiency Mortgage Initiative)

- "Because energy efficiency is important to me, and I would like to improve my house in this respect."
- "I think the idea is great. This is how you can save and help the environment."

In terms of product pricing, the tested discount rates of 10 percent feel appropriate to consumers, yet higher discount rates of 15 percent are likely to increase appeal by up to 20 percent – this varies widely by market.

A partnership between a financial institution and an energy supplier is bound to increase appeal even further as it brings together expertise and credibility from two different spheres of business. Energy companies play a key role in this proposition since they offer products such as heating solutions, solar panels, home batteries and insulation together with installation and aftercare.

Barriers are largely financial

The main barriers mentioned towards the product were largely financial, consumers stating that they don't want to or can't afford to take out an additional loan for home energy improvements. Additionally, the customer journey can seem complicated and long and can deter some consumers.

Which additional product features can drive appeal even further to overcome

stated barriers? Appeal for the green mortgage proposition is driven by tangible economic benefits, key drivers being a reduction in energy bills, a more comfortable home, lower borrowing interest rates and flexible repayment terms.

Consumers are also aware of wider environmental implications of this product as well, with desire to reduce household carbon footprint amongst the top 5 drivers in Germany (see figure 2). We recommend including these benefits in the communication of green mortgage propositions with special emphasis on reduction in energy bills.

Our company also had a long list of additional product features we showed to our consumers. We wanted to see which additional features, if added to the proposition, would increase appeal. The top 3 across markets were: using the energy bill savings to finance all/part of the improvements, no mortgages fees and ability to use the funds for other improvements in the home.

For Germany in particular the order differs slightly, the number one benefit is the ability to repay the loan early with no penalties. Second most important benefit for German consumers is receiving a guarantee that the amount quoted for energy efficiency improvements will remain

Government/EU financial incentives would also help to drive take-up even further

and especially reduce the amount of the loan needed and making it more affordable. For government initiatives there is no clear stand-out initiative, with VAT reductions, subsidies and lower borrowing rates all holding similar appeal (see figure 3).

Government benefits: no clear stand-out initiative

Creating and ensuring full understanding of these initiatives can supplement the benefits of a Green Mortgage for prospective mortgage buyers.

All in all, consumers are looking for green financing options and we hope to see more of these products offered by banks across European markets in cooperation with energy companies, as affordable financing is a key hurdle in making energy efficiency improvements.

The full research report can be downloaded here:

<https://energyefficientmortgages.eu/wp-content/uploads/2022/04/EeM-MIP-2022-Complete-Report-Consumer-Insights-Green-Mortgage-Propositions-Feb-2022.pdf>