



# GREEN MORTGAGES

Save money and help the planet



**TODAY, HOMEOWNERS** looking for a green mortgage have more options than ever before. The attraction is a green mortgage that offers lower interest rates or extra capital and puts energy efficiency at the forefront of both the lender's and buyer's thinking.

To date, many green mortgage lenders are offering homeowners discounted interest rates for buying properties that are already energy efficient, but this only accounts for a small number of properties.

Increasingly, lenders are offering green mortgages. But what is a green mortgage? It isn't a loan backed by environmentally friendly funds or where some of the profits are invested in sustainability or renewable energy. The green element of these mortgages ties into helping to improve a home's energy efficiency rating.

### **Three broad types of green mortgages:**

- Cheaper lending rates for homes with high energy efficiency ratings
- Capital release to pay for improvements to a home's energy efficiency through credit, discounted mortgage rates or cashback on an existing mortgage
- Additional borrowing made available for home energy efficiency improvements through re-mortgaging or moving to a new home that may benefit from energy efficiency work

### **REDUCING A HOME'S CARBON FOOTPRINT**

Each type of green mortgage aims to reduce a home's carbon footprint and to help homeowners recoup any investment by saving money on energy bills. A good energy performance certificate (EPC) rating could even help the property's value increase, as it can be an indicator of lower running costs.

The UK is one of many countries signed up to the Paris Agreement to limit global warming to 1.5°C, and is aiming to reach net zero emissions by 2050, with Scotland aiming for 2045. Decarbonising the country's housing by making it more energy efficient is a vital part of that journey.

### **HOUSEHOLD'S TOTAL EXPENDITURE**

Homes in the UK must have an up-to-date EPC when they are rented or sold. Assessed homes receive an energy efficiency rating of A to G, with 'A' being the most energy efficient and 'G' the least. New homes usually have high 'A' and 'B' ratings while older, historic properties may carry much lower ratings.

Household spending, which includes energy bills, is part of a lender's calculation when looking at mortgages. Most lenders factor a standard energy bill as 4.4%<sup>[1]</sup> of a household's total expenditure, which can sometimes lead to inaccurate outcomes.



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### SPEND MORE ON MORTGAGE REPAYMENTS

For example, a family of four living in a ‘G’ rated property would be assumed to be spending £200 a month on fuel bills. But that drops to £50 a month if they were living in an ‘A’ rated home.

Green mortgages take EPC ratings, and their impact on energy expenditure, into account. That means people buying ‘A’ or ‘B’ rated houses may be able to borrow more, because the less that people spend on energy, the more they can spend on mortgage repayments.

### BORROWING MONEY TO PAY FOR IMPROVEMENTS

Studies by the Energy Saving Trust suggest that improving a home by two EPC efficiency bands could add up to around £4,000 in additional mortgage finance, thanks to monthly savings on fuel bills.

Lenders want to encourage home energy efficiency by offering lower repayment rates, allowing people to borrow money to pay for improvements that bring energy bill savings. Some discounts apply once the work has been completed, while others insist that a certain percentage of released funds must be spent on energy efficiency measures. Some require that the completed work brings the house to a specific EPC rating.

### INSTALLING ENERGY EFFICIENCY MEASURES

Some of the following measures can improve most homes’ EPC ratings. However, like people, all houses are different, so it’s not just a case of putting in double glazing and hoping for the best.

Taking out a green mortgage doesn’t mean the bank will advise you on what work to carry out. It’s important to install energy efficiency measures appropriate to the building and in the proper order. Heat pumps are a good example – they work particularly well when fitted in well-insulated houses.

Improving a home’s EPC rating can bring a range of benefits, such as potential financial support to help pay for improvement works.

#### These include:

- Lower energy bills
- Reduced carbon footprint
- Possible lower mortgage rates through green mortgages
- Improving house resale price
- Increased mortgage borrowing levels

### HELPING THE UK REACH NET ZERO

Private sector landlords also have to improve their property’s energy efficiency ratings with the requirement to meet at least an ‘E’ band for properties to let.

The country’s housing requires substantial energy efficiency investment to help the UK reach net zero. Green mortgages to make your home more energy efficient could grow into one of its most substantial branches. ♦

#### >> COULD YOU SAVE MONEY BY TAKING OUT A ‘GREEN’ MORTGAGE? <<

It’s relatively early days for green mortgages in the UK housing market, but they’re set for exponential growth as people become more aware of their existence and benefits. To discuss your requirements speak to **Capital Mortgage UK Ltd** – telephone **0131 241 1601** – email **Info@capitalmortgageuk.co.uk**.

#### Source data:

[1] Energy Saving Trust, July 2021