BEIS consultation on improving home energy performance through lenders

BSA Response

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Building Societies Association

Introduction

The BSA welcomes the opportunity to respond to the BEIS consultation on improving home energy performance through lenders. Building societies are supportive of the Government's commitment to reaching Net Zero by 2050. The BSA has established its own Green Finance Taskforce to explore ways in which building societies can leverage their relationship with customers to improve knowledge about energy efficiency and encourage uptake of improvements. To date, five building societies have launched green mortgage products and we understand a number of others are close to bringing products to market.

The BSA is also a member of the Green Finance Institute's (GFI) Coalition for the Energy Efficiency of Buildings which is looking at practical ways of incentivising energy efficiency improvements in the UK.

Improving the energy efficiency of homes is an important issue for lenders and our members are committed to playing their role to support it, both as an industry and as individual firms, with a number embedding commitments to sustainability and carbon reduction within their strategic plans. The BSA would support a more extensive review of ways in which regulators and Government could support lenders' initiatives in this area through incentives and a review of the regulatory framework.

There are concerns, however, that unless a wider and more extensive package of support for homeowners is put in place, measures to penalise lenders and make them responsible for the energy efficiency of the underlying housing stock on their mortgage books could have negative consequences for the housing and mortgage market.

With respect to the main areas of the consultation we would make the following high-level points:

- Regulatory engagement - We understand that BEIS made a commitment to consulting on these proposals in the Green Finance Strategy. However, since the Strategy was launched there has been a significant step forward in terms of both the FCA and PRA's thinking on climate change. With the PRA's Supervisory Statement SS3/19 there is already an existing regulatory mechanism for reporting on climate risks and we would urge Government to think about how its objectives with these proposals might be better achieved through existing regulatory frameworks.
- Affordability - It is important that Government acknowledges the different customer groups within the mortgage market, including first-time buyers, retired borrowers, those in affordable housing, and many other groups who may find it difficult to fund improvements to their home. A flat affordability metric may not be appropriate for the many different value housing markets in England and Wales. More work to establish a responsive affordability framework for energy efficiency improvements should be encouraged.
- EPC data coverage - Historically EPC data has not been routinely collected in the mortgage process. Though increasingly lenders are engaging third parties to carry out one-off analysis of their mortgage books, this can be expensive and time-consuming in addition to all their other regulatory responsibilities. Smaller

lenders do not have the in-house expertise or resource to use the EPC database API, so we would support a proportionate approach to reporting for smaller lenders.

- Building the supply chain - We support the Government's decision to require retrofit companies to be registered under the Trustmark scheme in order to deliver the Green Homes Grant. However, we note that only around 1,000 businesses registered themselves to provide services under the scheme. Our members are supportive of quality assurance in retrofit works, as poor work could undermine public trust and also introduce property risks into the mortgage book. Government needs to expedite Trustmark registrations so that the quality assurance framework is in place ahead of mandatory targets which lenders will be unable to meet if a trusted supply chain is not in place.

Question 1. Do you agree with the principle of all lenders publicly disclosing information on the energy performance of their portfolios?

There are mixed views among our members. While building societies are supportive of initiatives to tackle climate change and improve home energy efficiency, there are concerns about the side effects of public disclosure. It is likely that a requirement to disclose energy performance information could lead to a two-tier market where lenders focus on more energy efficient housing stock in order to improve their disclosures, and properties in the lower EPC bands could become stranded assets. This risk could be increased for regionally-focussed building societies with a high concentration of lending in certain parts of the country.

While EPC data is more straight-forward to collect and analyse than other measures such as Scope 3 emissions, there are concerns that it may not show the true picture due to the fact that EPCs remain valid for 10 years and are not routinely updated following retrofit works. The BSA is supportive of moving to a system more akin to 'building renovation passports' which is one of the workstreams we are involved in with the GFI. These passports could more accurately capture the fabric and energy sources of the property as well as potential for improvement, and could be held digitally so that it is more routinely updated.

There are also concerns about the accuracy of EPCs. While we welcome the Government's EPC Action Plan, it contains a startling statistic that only 5% of respondents found EPCs to be an accurate data source. The BSA would question whether it is wise to base a regulatory system, potentially with penalties for not reaching targets, on data which the Government agrees needs improvement. In our view, the commitments in the Government's EPC Action Plan should be substantially progressed ahead of these proposals being implemented. Similarly, there is a recognition in the Action Plan that a better quality assurance and customer redress mechanism is needed to ensure that EPC assessors provide consistently accurate ratings. It is an unfortunate fact that these proposals could provide incentives to EPC assessors to provide inaccurate ratings, if it means their customer may be able to obtain a mortgage on better terms or a higher sale value for their home.

Disclosing the number of properties in each EPC band also does not provide a true picture of a lender's scope 3 emissions due to the loan-to-value ratio for each loan. Providing the number of properties gives the impression that the lender's mortgage asset is for the full value of the property, rather than, for example, 40%.

Question 2. Do you agree with the proposed EPC information lenders will be required to collect? If you disagree, please explain why.

It is possible to collect the EPC data proposed, though this is likely to have a disproportionate cost for smaller lenders in order to report annually. As the consultation document notes, 90%

of mortgage assets are held by 19 lenders so there will be a disproportionate unit cost for smaller lenders, with a relatively small benefit to the Government's understanding of the whole picture.

It should also be noted that due to the ten year validity of EPCs many will be out of date, so may distort the true picture of a lender's portfolio.

Question 3. Do you agree with the proposed disclosure information? If you think there is other information that would be useful to disclose that is not included in this proposal, or you do not agree with the proposal, please explain why.

Collecting data on items 1-3 is technically feasible though we would reaffirm the points around cost-to-benefit for smaller lenders. On item 2 we would need to explore further whether members routinely split out the EER and EIR categories as the data the BSA has seen to date only covers the overall EPC score.

The BSA would appreciate further clarity on the Government's definition of item 4 and whether this will also apply to product transfers, re-mortgaging and additional borrowing. Compared to home purchase, these sales are fairly 'light-touch' and a requirement to capture EPC data could introduce further time and complexity into the mortgage process.

The most concern is around disclosing item 5. While five building societies currently have green mortgage products, the majority of lenders do not currently have specific products for this purpose.

It is also important to note that there is currently no agreed framework for what constitutes a green mortgage product so this is likely to lead to inconsistent reporting. For example, some lenders do not require the borrower to provide evidence of the energy efficiency improvement due to mortgage processing complexity. Therefore clarity is needed around whether BEIS intends this measure to cover all lending provided with the intent of an improvement, or whether more detailed evidence of the improvement is required. Other lenders classify a green mortgage as a mortgage on a property that is already rated EPC A or B, so improvement is not a feature of the product.

We also note the Chancellor's ambition to create a UK green taxonomy and would encourage BEIS to set their definition of green lending in line with the taxonomy. We have had initial discussions with the FCA about improving green frameworks and taxonomy, so would ask the Government to align with the financial regulators when setting any definitions.

Question 4. Do you agree that the option to provide additional commentary alongside disclosures would be useful? If not, please explain why, including any alternative proposals.

Yes. It is important that lenders are able to put their headline data into wider context. This is particularly the case for regional building societies whose lending may be more concentrated in particular regions with older housing stock, or where lending is relatively more concentrated in certain market segments such as first-time buyers or affordable housing. This is important to mitigate some of the potential side-effects of disclosure.

Question 5. Do you agree with the proposal that all lenders, irrespective of market share, be required to publish energy performance data on their websites as well as on GOV.UK aligned to annual reporting deadlines? If not, please explain why.

Lenders are highly-regulated and have a wide range of reporting requirements. We would encourage BEIS to consider how its objectives could be better achieved through existing mechanisms such as financial reporting requirements, including the Annual Report and Accounts. This would ensure that climate risk is considered within a lender's wider strategy. As far as possible, the Government should also seek to align with the TCFD framework as this is what firms are increasingly being expected to report to.

For smaller lenders, we would be supportive of a proportionate approach to disclosure. This is a principle which the PRA recognises in its SS3/19 supervisory on climate financial risks. As the BEIS consultation paper notes, 90% of mortgage assets are held by 19 lenders so there is little benefit in requiring small lenders to disclose on an annual basis. If the Government's objective is to gain an understanding of the energy efficiency of mortgaged homes in the UK then collecting data from large lenders provides most of the picture.

A reporting period of 2-5 years, to fit with the majority of fixed mortgage terms may be more sensible for smaller lenders, as the composition of a small lender's book may not change markedly from year to year unlike larger lenders.

In terms of materiality there have been discussions around where the correct level is to set a reporting threshold would lie. Other regulatory initiatives set the threshold at £250 million of assets, though members have stated that £1 billion of assets may be more proportionate in this instance. In any case, the BSA is fully supportive of any member seeking to voluntarily opt in to disclosure should they be below any threshold set but wish to disclose regardless.

Question 6. Do you agree with the proposal that government use the disclosure information to publish 'league tables' of lenders? If not, please explain why.

We believe that league tables could have negative side-effects for the housing market. Lenders will be incentivised to improve their position on the league table and may seek to prioritise lending on more energy-efficient properties, leaving segments of the market under-served. In an extreme scenario, there may be a new class of 'mortgage prisoners' created who find it difficult to remortgage at an affordable rate.

A league table may also be misleading to the public. Lenders are ultimately not in direct control of whether a customer chooses to carry out energy efficiency improvements and some may have more focus on customer segments such as first-time buyers or retired borrowers where affordability is likely to be more stretched. For this reason, if BEIS does create league tables they should link directly to the lender's commentary around the figures, as is the case with gender pay gap reporting.

The initial average EPC of the mortgage book is also a point in time calculation that is beyond the lender's control so a league table will be more reflective of pre-existing conditions, rather than any effort the lender has put into educating and working with customers to improve energy efficiency. Members have suggested that a better option would be to align with Science Based Targets that provide a baseline for individual lenders to improve on.

As a final point, a league table based on home energy efficiency may give a distortive picture of the lender's overall Scope 3 carbon emissions. Building societies are predominantly mortgage lenders with exposure to the housing market, whereas full-service banks may have more carbon-intensive exposures to polluting industries. Therefore a narrowly-focused league table may have an unfair reputational impact on how the lender is perceived by the public.

Question 7. Do you agree that properties financed by a Buy-to-Let mortgage should be included in the scope of the policies proposed in this consultation? If not, please explain why, including any alternative suggestions.

Yes we agree, though it may be beneficial for Buy-to-let to be disclosed separately to residential lending, given the different market dynamics and products available to each customer group.

Question 8. Do you agree with the proposed trajectory to mandatory disclosure? If not, please outline the reasons why.

We agree that disclosure should commence on a voluntary basis and feel that BEIS should review whether mandatory disclosure is necessary once there is experience of how the market has responded. Members also feel that any mandatory disclosures should be aligned to the TCFD framework.

Question 9. Do you agree with the proposal that disclosure information be subject to spot check audits proportional to the size of the lending portfolio? If not, please explain why, including any alternative proposals.

It is unclear whether BEIS intends to create additional external audits. The BSA's preference would be for the proposals to form part of the wider audit framework, though for most lenders internal controls should be enough.

Question 10. If applicable, is your organisation likely to sign up to a system of voluntary targets? If not, please outline the reasons why?

It will be for individual BSA members to decide whether to sign up to voluntary targets. However, we would stress that it is not entirely within lenders' gift whether the target is met. Much depends on customer behaviour, as well as the ability to fund improvements. Ultimately there needs to be greater visibility of the Government's overall retrofit strategy for meeting the EPC Band C target by 2030. Lenders are happy to play their part in this, by providing education, products and communications with customers that stress the benefits of energy efficiency. However, a target for lenders cannot exist in a vacuum from wider Government initiatives.

Question 11. Do you agree with our estimate that up to 80% of mortgaged stock would fall within scope during the target period? Please provide evidence where available.

An EPC is not currently required on re-mortgage or product transfer so realistically only mortgages for house purchase and those with a pre-existing EPC would fall within scope. Data from a sample of our members suggests that around 40% of homes do not currently have an EPC. There are risks if the Government specifies that re-mortgages and product transfers should be included.

Question 12. Do you agree the voluntary target should be set at a portfolio average of EPC Band C by 2030? If not, please outline the reasons why.

BSA members are concerned that EPC Band C by 2030 will be a stretching target given the few tools that lenders have available to incentivise customers to improve their homes. While cheaper mortgage rates are one option, the amount saved is unlikely to incentivise a customer to spend thousands of pounds if they were otherwise not planning to carry out the work. There is a very real possibility that the target would drive adverse behaviours such as lenders seeking to lend on better rated properties and avoiding less energy efficient ones, or increasing mortgage rates if they do lend.

Question 13. Do you think a revised EPC should be required to demonstrate improvements in energy performance? If not, what alternatives should be explored?

The BSA would be supportive of exploring other options such as how the Trustmark data warehouse can be used to evidence improvement. While a revised EPC would improve data quality, the cost is likely to fall on consumers and may dis-incentivise them from carrying out the work in the first place.

Though some lenders offer a rate incentive which is triggered by lodging an EPC, this model is by no means universal. Some larger lenders would struggle to keep track of customers to ensure that a renewed EPC has been lodged.

Members have suggested that BEIS could include vouchers for a revised EPC in the Green Homes Grant. This would mean that a large number of properties would have their data updated, and increase confidence in the dataset.

Question 14. Do you agree that an assumed maximum spend for improvement works should be set at £10,000? If you do not agree, please specify what you believe would be the most appropriate level to set the threshold, providing evidence to support your views where possible.

We believe there should be further customer research carried out by BEIS in order to set out a proportionate affordability framework for all parts of the country. There are significant differences in various customer groups' ability to pay, for example first-time buyers who are generally more stretched and less able to take on additional borrowing, as well as retired borrowers who are living on a fixed income. Treating both able to pay customers and those less able to pay equally within the data could give a misleading picture.

Unlike in the Minimum Energy Efficiency Standards, where buy-to-let landlords have the option of selling any properties where they cannot afford to meet the minimum standard, this is unlikely to be the case for homeowners as they may not be able to afford a higher quality home. It is also important to recognise that the UK has many different value housing markets and while £10,000 may be affordable for someone in London and the South East who can borrow against their equity, for others it can be a significant proportion of the value of their home.

Question 15. Should spend from April 2021 onwards count towards the £10,000 assumed maximum spend on improvements? If you believe an alternative date would be more effective, please set out the reasons why.

The BSA does not have any further comments on this question.

Question 16. What actions could the government take to incentivise the lenders to sign up to a voluntary target? Please provide evidence to support your answer where possible.

Members had a range of responses to this question:

- More active management by Government of energy efficiency projects, similar to the role played by Homes England Agents in the Help to Buy scheme. This could be run through Trustmark and provide a one-stop shop for assessing customers' eligibility for grant support, assessment of exemptions and ability to pay.
- A longer-term Green Homes Grant scheme with more wrap-around branding and literature for lenders to be able to include in their communications with customers to improve awareness of the scheme.
- A 'Help to Green' equity loan attached to the property's value which could be blended with traditional mortgage finance to bring down the up-front cost of energy efficiency improvements.
- A Government-sponsored campaign targeting owners of energy inefficient homes, providing them with guidance on grants and support available, as well as encouraging homeowners to talk to their mortgage provider or local lenders to help with the costs.
- A system of incentives for purchase of the lowest rated properties, to encourage people to purchase and renovate these homes. Building societies have a strong presence in the self-build market and could publicise incentives to customers.
- Capital incentives for lenders lending for energy efficiency. Currently lenders are funding rate incentives for customers, but with a Term Funding Scheme this would reduce capital costs and incentivise more lenders to offer these attractive headline rates.

Question 17. Do you agree government should consider the option of setting a mandatory improvement target, should insufficient progress be made under a voluntary scheme?

Question 18. Do you agree with our proposed approach to the penalty regime? If not, please explain why, including any alternative proposals.

Generally our members do not agree that a mandatory approach with penalties attached should be required. Lenders are already in the process of setting out their strategies for Net Zero and have voluntarily carried out significant work on understanding the carbon emissions in their mortgage book. For the largest lenders, the Bank of England's climate stress tests already provide sufficient incentive to capture energy efficiency data.

We would welcome working with Government once a voluntary scheme is in place, to assess whether voluntary takeup is sufficient to meet BEIS' objectives and provide any help to increase the number of lenders involved. We do not believe a mandatory approach, particularly with penalties attached, would be the correct option. The existence of penalties will disincentivise lending on energy inefficient properties and likely lead to a two-tier market, as well as penalise lenders with a business model that focuses on underserved segments of the market.

Ultimately it is outside of the control of lenders whether customers decide to carry out energy efficiency work. Meeting the UK's Net Zero commitments requires a whole framework and Government strategy to be in place, with appropriate grants and support, a developed retrofit supply chain, customer awareness and decarbonisation of the grid. To penalise lenders for something outside of their control and make them responsible for something that requires action from a range of stakeholders would appear unjust.

While lenders are part of the solution, they rely heavily on the wider retrofit framework being in place and working properly. It is clear that currently there is a need for further intensive work to build the retrofit supply chain. It is disappointing that there appears to have been minimal uptake of the Green Homes Grant, and that the Government felt it necessary to relax the requirement for Green Homes Grant installers to be Trustmark registered, but this demonstrates that unless the wider retrofit framework is in place ahead of these proposals being implemented, there is a risk that lenders will be blamed and potentially penalised for matters that are beyond their control.

Question 19. What public tools could be used to calculate foregone emissions savings so that lenders can assess their own liabilities?

The comparison between lenders and car manufacturers used in the consultation paper is inaccurate and we do not believe that foregone emissions savings between the two industries are comparable. The car industry is responsible for and has direct control over the manufacturing of their product, and has the research capability to drive the innovation that needs to happen to meet emissions reduction targets. Whereas lenders have an arms-length relationship with their customers and are not in a position to mandate what a customer does with their home once the mortgage has already been written.

If a lender were to mandate that a customer carry out retrofit works, this could introduce liability if the work is done poorly. The best that lenders can do is to raise awareness among customers, provide education and products to enable customers to fund any work. Therefore we do not believe that applying foregone emissions savings to the mortgage market is a fair comparison.

Question 20. Do you agree that the money collected from penalties be used to fund energy performance improvements? Please provide evidence to support your answer.

The BSA does not agree with the principle of penalties.

Question 21. Do you think that only those lenders that are on trajectory to meet their target should benefit from these funds?

The BSA does not agree with the principles of penalties but if they were to be imposed they should be used to directly fund home improvements.

Question 22. Do you agree that lenders below a certain value or size threshold should benefit from certain derogations from a mandatory target? If so, what form should these take and how can we avoid creating any policy loopholes?

Yes we agree. The size threshold should be the same as is applied to any threshold for reporting. Size thresholds operate in other areas of the regulatory framework where proportionality is taken into account. These are based on total mortgage assets, as this figure does not change drastically from year to year so a lender will not be able to use the threshold as a loophole.

Question 23: Do you agree with the proposed alternative option of a mandatory target of a portfolio average EPC Band C by 2030 from the start of the policy? If you disagree, please explain why, highlighting any alternative target you think would be appropriate.

We disagree with the proposal for a mandatory target as the Government needs to first set out a national retrofit strategy to get as many homes as possible to EPC Band C by 2030. Lenders are happy to play a role in this but cannot be expected to carry the full burden. Given the competitive mortgage market and tight margins due to low interest rates, there are limited tools available for lenders to incentivise improvements.

Ultimately the value equation needs to work for consumers and initiating the policy with a mandatory target, ahead of the costs of green technologies coming down, is likely to lead to unintended consequences. There should be a greater focus on the value equation for consumers and better tools to assess the payback periods of different improvements. Lenders may instead choose to pull away from lending on inefficient homes, perhaps through price differentials or in extreme circumstances choosing not to lend. This could lead to mortgage prisoners unable to sell energy inefficient homes.

Question 24. These policy proposals rely on the information provided by the EPC. Are there any impacts of data collection using EPCs that we have not considered? If so, how could these be managed effectively by lenders?

Analysis of a sample of BSA members shows that around 40% of properties lent on either did not have an EPC or could not be matched to the database. Some lenders have needed to rely on data modelling to fill the gaps.

As EPCs are valid for ten years they cannot be seen as an accurate data source for energy efficiency improvements that have been carried out since the EPC was done. We would urge the Government to develop proposals around retrofit providers updating the Trustmark data warehouse as this will provide a more up-to-date picture.

There are concerns around the proposals to require lenders to update their own EPC information. This would duplicate the EPC database and introduce friction and cost into the remortgaging or product switching process. Customers may rightly challenge lenders that they are not required to have an EPC unless they sell or let the home, so why should lenders be requesting the data. If some of the unintended consequences we have envisioned from these proposals come to fruition, more customers could be unwilling to provide their EPC rating to the lender and could refuse to take part in open data. This could have the side-effect of reducing the quality of EPC data overall.

Question 25. What are your views on the likely impacts of requiring an increase in the EPC coverage of portfolios on: a) lenders; b) consumers; and c) EPC assessors?

For lenders, requiring EPC data to be collected on remortgaging or product transfers would introduce cost into what is an automated process. As stated above, lenders have minimal tools to require borrowers to provide EPC information, other than in Buy-to-Let where regulations mean they should refuse to lend.

For consumers, there would be an additional cost if they were to be required to commission an EPC in order to remortgage or switch products. This may lock some customers into paying more expensive mortgage rates, if the marginal cost of switching is affected by the extra fee. There may be further impacts on the wider mortgage market and less remortgage choice for consumers due to less active switching.

For EPC assessors, there would be a significant increase in workload if consumers were to commission a new EPC after each 2 to 5 year standard fixed rate period, compared to the longer time between house sales. Government would need to work with the EPC assessor supply chain to ensure they will be able to meet this demand.

Question 26. What are your views on the likely impacts of requiring an increase in the EPC coverage of portfolios on: a) lenders; b) consumers; and c) EPC assessors?

Our understanding is that Government is proposing annual disclosures, so a 'live' picture of the book is not needed. Lenders can access the EPC database or commission third parties to do so on their behalf.

Question 27. Are there any additional ways in which government or lenders could raise consumer awareness of their EPC data and how to improve the energy performance of their homes?

While EPC data is disclosed as part of the sales or lettings process, it is unclear to what extent customers engage with this information, or to what extent agents highlight this information above other features of the property such as location, transport or bills. Government could consider whether regulation of estate and letting agents could more strongly require them to advise customers on the impact of energy efficiency.

Government could seek to raise awareness of energy efficiency through a public information campaign, as well as setting out more clearly to consumers the strategy for reaching EPC Band C by 2030. This could initially be focussed on homeowners in the least efficient properties. Lenders are acutely aware that any homes they lend on today that are below EPC Band C are likely to require improvement over the course of the mortgage term, but lack sufficient independent information to point customers towards in order to make them aware of this.

We also feel that Government could provide clearer metrics on payback periods for homeowners, which lenders would be happy to support with calculators on their own websites. A better understanding of the payback would then also translate to better resale values on properties that have already had improvement work applied.

The BSA is currently working with the Green Finance Institute on a green home retrofit handbook and some BSA members are actively exploring how energy efficiency measures could be better integrated into the mortgage affordability process to make it more responsive to actual spend on energy and heating bills. This may move the EPC measure higher up the priority list in deciding which home to buy.

Question 28. Are there any ways in which lenders could help to encourage the installation of smart meters in the homes of those to whom they lend?

Lenders have limited regular contact with their customers which is usually limited to the Annual Mortgage Statement. The ongoing work to increase smart meter rollout should be for energy companies.

Question 29. Should works carried out to comply with these policies require that mortgagors choose a TrustMark approved provider or installer?

Yes the BSA supports a system of strong standards and customer redress in the energy efficiency sector. A lack of regulation and enforcement could undermine consumer confidence in retrofit work, at a time when a real increase in confidence is needed. It is unfortunate that the Government felt it necessary to relax the rules around Trustmark registration under the Green Homes Grant scheme but we feel this shows how important it is to have an established retrofit framework ahead of further large-scale interventions.

Question 30. We understand that there are mortgagors who will not be able to self-fund or borrow. Do you have any evidence that indicates what proportion of the mortgage market these mortgagors represent? Please provide as much detail as you can.

We have not carried out any detailed analysis on this question but note that the Sustainable Energy Association has classed 58.5% of English households as 'able to pay'.

Question 31. Do you agree that those mortgagors unable to self-fund or borrow to make energy performance improvements should be exempt from inclusion in a lender's improvement target?

In theory yes, but it is not entirely clear how this would be calculated. Lenders carry out an affordability assessment at the point of sale and are not privy to a borrowers' financial information beyond this point. Therefore assessing who is able to self-fund would be impossible. In terms of further borrowing, again the lender will make a point in time assessment but would not be able to determine which borrowers would qualify for further borrowing on an ongoing basis, beyond calculating loan-to-value ratios which would only provide a rough proxy.

Question 32. How do you think exemptions on the basis of affordability should be assessed?

The need for an affordability framework has been discussed above. This should take account of certain distinct customer segments, as well as loan-to-value ratios, parts of the country and how far a particular property is away from achieving EPC Band C.

It would also be beneficial if the affordability framework were to recognise the potentially considerable differences in moving between bands. For example, moving from D to a C may require only a relatively small amount of insulation and the replacement of lighting – a very low outlay. Moving from an F to a D could require significantly greater outlay – a new boiler, Internal retrofit insulation, triple glazing and other expensive measures.

Question 33. What other methods of protecting fuel poor mortgagors should the government consider in designing its proposals? Please provide evidence to support your answer where possible.

Lenders do not monitor borrowers' finances on an ongoing basis so do not have a classification of which customers are fuel-poor. This should continue to be driven through Government policy.

Question 34. Do you support the idea of lenders recommending referrals to energy suppliers under a future ECO scheme?

There could be an opportunity for more generic information and guidance. However, mortgage lenders are highly regulated and would be cautious about providing recommendations or referrals to third parties that they have no commercial oversight or relationship with.

Question 35. Are there any impacts on the protected groups that we have not considered?

It is likely that homeowners with a disability would suffer a greater degree of inconvenience or upheaval from retrofit works. Some vulnerable customers may have their short-term wellbeing impacted. Lower income households or those with a fixed income such as retired borrowers are also likely to struggle to fund works and may be disadvantaged in the mortgage market by this if the proposals are implemented.

A few building societies offer mortgages for the Government's Home Ownership for People with Long-term Disabilities scheme. The structure of this scheme provides a mortgage on an interest-only basis, which could be affected by any change in value of the home as a result of these proposals. As these borrowers are supported by benefits they may be less able to self-fund.

Question 36. We wish to include leasehold properties in the scope of these proposals in order that their owners or tenants may benefit from energy improvement works. How do you think the government should act to ensure that leasehold properties with a mortgage are captured by these policies, while acknowledging the challenges that need to be overcome?

Lenders include leasehold properties in the energy efficiency analysis of their mortgage books so these would be included in disclosures. To include leasehold homes within targets would be more difficult as individual leaseholders, particularly in flats, are often unable to carry out improvement works under the terms of the lease. Similarly the freeholder is often only able to carry out repairs rather than charge existing leaseholders for improvement.

Question 37. How can we ensure that we protect groups such as first-time buyers from being disproportionately penalised?

The BSA would be supportive of a grant or equity loan scheme to support first-time buyers to improve their homes. This could be termed 'Help to Green' and could drive a high degree of retrofit activity as first-time buyers are more likely to buy entry level homes to fix up. Without Government support it is likely that first-time buyers will be disproportionately affected by the proposals as they tend to be highly leveraged so would have less ability to self-fund or borrow more.

Question 38. Are there other impacts these policies could have on mortgage processes that we have not considered? How do we ensure that intermediaries, such as brokers, have access to the information necessary to advise consumers?

Brokers and intermediaries receive the bulk of their information from mortgage sourcing systems and criteria hubs. The BSA would encourage Government to engage with these companies and discuss whether more could be done to pull information from the EPC database and into these systems. This would make energy performance a higher-profile attribute in the mortgage advice process, particularly if lenders were to adopt dual pricing as a response. We would also encourage engagement with the FCA as there may need to be changes to the Mortgage Conduct of Business Rules (MCOB) to reflect this.

If EPCs were to become a more prominent part of the mortgage advice process it is important that Government update the database more regularly, perhaps even on a 'live' basis as advising on the basis of outdated information could lead to conduct concerns. There may also be a need to reduce the period of validity of an EPC from 10 years in order to capture any improvements and ensure borrowers are not disadvantaged on the basis of outdated information.

Question 39. How can we ensure that our policies do not disincentivise lending to poor performing properties?

Question 40. How might these policies impact on house prices and households' ability to borrow in the market? What could the government do to mitigate any unintended impacts on households?

Question 41. How might these policies negatively or positively impact on competition and lenders' ability to operate in the housing and wider market? What could the government do to mitigate any negative impacts?

Question 42. What costs would compliance with these policies likely generate for lenders? Please provide an estimate of these costs where possible, including evidence to support your answer.

BSA members are particularly concerned about this section of the consultation and the potential for negative unintended consequences. There have been suggestions that the proposals could lead to a 'two-tier market' particularly if mandatory targets are implemented with penalties attached. It appears highly likely that properties in EPC Band C and above will attract a premium in value, as lenders will compete heavily for this segment to improve their average score. If there were to be dual pricing from lenders, then inevitably consumers will place higher priority on more energy efficient properties and homes that are less efficient are likely to lose value. The value of the least efficient homes will also be affected due to the implied cost of needing to improve its EPC rating if a homeowner were to buy it.

It is difficult to give a benchmark in terms of the costs of compliance. Consultation with BSA members suggest that the annual cost of sourcing the EPC data would be in the thousands of pounds which can be a significant overhead for a small local building society. Local and regional lenders are also more likely to have their mortgages concentrated in smaller areas of the country, so could be penalised based on simply having older housing stock in their region. As discussed earlier in the consultation, we would support a proportionate approach to these proposals with a threshold for reporting.

Larger lenders have teams now working on their response to Net Zero and quantifying carbon emissions so may be able to absorb some of the disclosure requirements. However anything that departs from a more systems-based approach to lending, such as requiring data collection on remortgages or product switches, or requiring them to individually track each mortgage for improvements, will attract significant costs and slow down mortgage processing. Any system of penalties is also likely to weigh more heavily on larger lenders. On the part of our larger members, there is support for the TCFD approach and Science Based Targets which would set individual targets for lenders to meet based on their own benchmark, rather than one set centrally by the Government.

Question 43. Do you think a regulatory body should be responsible for the mandatory policies in this consultation? If so, what form do you think this body should take?

The BSA would not be supportive of a new regulatory body being created. Lenders are already heavily regulated by the FCA and PRA, the Financial Reporting Council, as well as the Financial Ombudsman. Our preference would be for existing regulatory relationships to absorb responsibility for managing climate financial risks, as is already beginning to be the case. BSA members are also engaging with existing structures such as the TCFD, ESG, Science Based Targets Initiative, Partnership for Carbon Accounting Financials and the Climate Financial Risks Forum.

Question 44. Do you think that the government should introduce a requirement on lenders to check that privately rented properties comply with the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015?

We do not believe the Government should introduce an extra requirement. Enforcement should be through local authorities as originally intended. In any case, we are not aware of any BSA members that do not already request proof, for their own compliance controls, that a buy-to-let property is an EPC E or above.

Question 45. Do you think it would be sensible for these proposals, for example annual disclosure of portfolio-wide EPC information, to be applied to smaller non-domestic buildings that require similar energy performance upgrades to homes?

Building societies lend predominantly on residential and rented homes so this is not relevant for our members.

Question 46. Should a fabric first approach be built into the preferred, voluntary, target option? If yes, how should such an approach best be implemented?

The BSA does not have the technical expertise to comment on this question and our members would not have the technical expertise to advise on the benefits of particular measures. Lenders' role is to provide funding, and the suitability of certain measures should be determined by organisations such as Trustmark.

Question 47. What are your views on how we could tighten standards to drive greater carbon savings? Do you have views on introducing a dual metric, an alternative carbon target, or any other suggestions?

Some BSA members are supportive of aligning to TCFD and the Science Based Targets Initiative from the inception of the disclosure period.

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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £435 billion, and account for 23% of the UK mortgage market and 17% of the UK savings market.