Green Mortgages: First Consumer Insights

Preliminary results

May 25th, 2021
Agenda

1. Consumer insights on green attitudes
2. Consumer reactions to green financing products tested
3. Sneak peak on upcoming quantitative survey research
Wave 1: Consumer Research 2018

Wave 2: Consumer Research 2021

New countries added this year

- For newly added countries: Focus groups in Mar’21
- For all countries: Quantitative survey (500 resp.) during Jun’21
- Full research report to be published October 2021
About the research:

- All insights on upcoming pages are extracted from research conducted by BASIS - a research and insights consultancy - and mandated by E.ON and UCI (Spain and Portugal research are financed by UCI)
- Research results are preliminary, and they will be published in the final report in October 2021
- Focus groups conducted in HU, RO, NL, ES, PT

Methodology

- Exploratory research
- 2 Focus groups per market
- 5-6 participants per focus group
- 2 hours duration of each focus group

Criteria for participant selection:

<table>
<thead>
<tr>
<th>Less experienced homeowners</th>
<th>More experienced homeowners</th>
</tr>
</thead>
<tbody>
<tr>
<td>First time buyers, in process of buying / have taken 1st mortgage</td>
<td>Remodelers/Movers, in the process/ recently remortgaged/ moved</td>
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</table>
1. Consumer green attitudes
Across markets, consumers are more ready than ever for energy efficient conversations.

Green topics are becoming increasingly salient.

Climate change is becoming a mounting concern, there is a growing sense of urgency.

Energy efficiency is increasingly prominent in many spheres of life (politics, products, transport).

Benefits are becoming clear for most in terms of financial and environmental impact.
Yet, familiarity with home energy efficiency is patchy and remains remote / abstract

- Most have encountered an EPC or energy certificate since it is increasingly mandated for home purchases or rental agreements.

- Familiar format from appliances
  - In some markets the appliance energy rating is more well known.
  - More frequent purchase drives this?

- Majority do not know their own home’s EPC rating
  - A minor fact for most.
  - Not usually central to the home purchase decision, or experience.

- Tiers / certification not understood
  - What makes a home an ‘A’?
  - Poor understanding of what ‘A’ means.
Intent / desire to make energy efficiency changes is widespread, but will act and willingness to compromise remain low.

**High barriers**
- **Poor understanding:** hard to know how, or what it would look like
- **Real and perceived cost:** efficient homes and/or home improvements perceived as expensive
- **Practical limitations:** many homes are hard to improve

**Limited motivation**
- **What’s in it for me?** direct benefits (comfort, cost savings) are relatively minor
- **Long-term pay-off:** any benefits would take years to actually make a (financial) difference
- **No urgency:** why should I act now?

**Dream home**
- **Historic charm:** many people dream of living in a historic home with loads of character
- **No compromise:** improvements that conflict with a romantic ‘ideal home’ are unlikely to be made

Home energy efficiency is a low priority for most homeowners.
Different markets are at different levels of maturity in terms of understanding, prioritisation and acting on home energy efficiency.

**Least green-thinking**

- **Hungary**
  Green issues feel trendy and future-facing, but few are prioritizing making their home green.

- **Romania**
  Growing engagement with environmental issues – but motivated more by cost savings than environmental impact within the home.

- **Portugal**
  Reasonable understanding of green topics but many feel constrained and unable to make great changes - by their home or financial circumstance.

**Most green-thinking**

- **Spain**
  Core green behaviors, e.g. recycling, insulation, etc. are well established – and **broad awareness of EPC and home energy issues**.

- **Netherlands**
  Green topics and home energy efficiency taken seriously and given **high priority** by many – including taking concrete steps to improve their home’s efficiency.
2. Consumer reactions to green financing products tested
## Which products did we test?

<table>
<thead>
<tr>
<th>Green financing product</th>
<th>If the EPC of the house is:</th>
<th>Consumer gets an interest rate discount of (in pp):</th>
</tr>
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<tbody>
<tr>
<td>1a “Green Home Discount Mortgage”</td>
<td>Extra green</td>
<td>HU &amp; RO: 0.50% for A and 0.25% for B</td>
</tr>
<tr>
<td></td>
<td>loan</td>
<td>NL: 0.25% for A and 0.15% for B</td>
</tr>
<tr>
<td></td>
<td>loan</td>
<td>ES &amp; PT: 0.1% for A &amp; B plus 5% lower down payment</td>
</tr>
<tr>
<td>1b “Green Home Improvement Mortgage”</td>
<td>Extra green</td>
<td>→ Extra discounted loan to the same conditions as the mortgage (interest rate &amp; duration)</td>
</tr>
<tr>
<td></td>
<td>loan</td>
<td>→ Tested version with and without discount on mortgage after conversion to green home</td>
</tr>
<tr>
<td>2 Green Loan</td>
<td>Regardless of EPC rating</td>
<td>Extra green</td>
</tr>
</tbody>
</table>
The Green Home Discount Mortgage falls short of its potential due unimpressive discount and a sense that most could not access it.

Product details:
RO/HU/NL: A discounted interest rate on your mortgage when mortgaging an A or B rated home (0.15%-0.50%)
ES/PT: a lower minimum down-payment required when mortgaging an A or B rated home, and a discount on the mortgage interest rate (0.1%)

- A clear proposition rewarding green behaviors
- At a basic level: discount = good
- Offers a tangible, monetary incentive towards green homes – as this becomes established it will begin to have wider market effects
- In very low interest environments (NL), a small discount feels quite meaningful

- The discount itself is too low to be motivating in most cases
- EPC is almost never a major factor in choosing a home, regardless of a small discount on borrowing costs
- Many assume that top-rated homes are hard to get, and would be expensive – low relevance, and negates the benefit of the discount
- Feels unfair – a discount only for those who can afford it
Green Home Improvement Mortgage is most attractive where it’s a ‘win-win’ proposition, offering both short and long-term benefits

**Product details:**
Borrow money to make energy efficiency improvements to your home. This additional borrowing is added to your mortgage, and takes on the same conditions (interest rate, term) as your main mortgage. This makes the monthly repayments much cheaper than for an equivalent personal loan.

*Note: We also tested additional discount on the mortgage itself*

- **Greatly reduces monthly cost** of borrowing by spreading repayments over 25+ years
- Makes home energy improvements more **affordable/accessible** for many
- In markets with low mortgage costs (NL, ES) it offers **long-term savings** as well as short-term
- In markets where mortgages feel **safer** than loans (NL, ES, PT), it makes additional borrowing much more acceptable
- A **double benefit**: cheaper borrowing and an additional discount (when additional discount tested)

- In markets where mortgages are more expensive, this saves in the short term but **costs more in the long term**
- In markets where people are wary of long-term debt, this can feel like an **inflexible burden**
- The process of selecting installers and certifying the work can feel **complex & off-putting**
- The prospect of failing the accreditation and being penalized feels **frightening and risky**
The Improvement Mortgage can be improved by minimizing bureaucracy, increasing trust and offering greater flexibility.

<table>
<thead>
<tr>
<th>Bureaucracy</th>
<th>Trust</th>
<th>Little flexibility</th>
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<tbody>
<tr>
<td>• The process of selecting an approved provider; creating an improvement plan; and getting the work installed and certified could feel <strong>daunting</strong></td>
<td></td>
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<tr>
<td>• In “greener” markets the energy audit could feel valuable</td>
<td>Offering a list of approved providers had divided response:</td>
<td></td>
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<tr>
<td>• In other markets, this could feel <strong>meddling and controlling</strong></td>
<td>• In more trusting markets this is a <strong>fair, convenient &amp; straightforward</strong> way to find a provider</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• In other markets (RO, HU) this felt <strong>restrictive and raised doubts</strong> about cozy relationships between bank &amp; installer</td>
<td></td>
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<tr>
<td>Streamline the process by using digital tools</td>
<td>Allow more customer choice for less trusting markets</td>
<td>A range of options for borrowing, installing and repaying will broaden appeal</td>
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<td>1. Many value the ‘full-service’ option, while others will want to manage their own project</td>
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<td>2. ‘Do it now’ vs ‘do it later’ also depends on personal circumstance</td>
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<td></td>
<td></td>
<td>3. <strong>Early repayments</strong> will be very attractive</td>
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<tr>
<td></td>
<td></td>
<td>Offer flexibility in product and payment</td>
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The simplicity and clarity of the Green Home Improvement Loan is valuable – but the discount falls short of expectations

**Green Loan**

**Product details:**
A loan for home energy efficiency improvements, at a reduced interest rate (0.5% - 2% pp)

- A **very simple offer** that feels clear and straightforward
- **Shorter term** and separation from mortgage makes it feel more **flexible, simple and streamlined**
- **No long-term cost** – just a straight saving on the cost of the loan
- In markets wary of additional long-term borrowing, this feels **safer and simpler** (RO & HU)

- The value of the discount is **very underwhelming**
- For such a limited saving, the loan comes is seen as having lots of **conditions and restrictions** – this loss of flexibility outweighs the saving for many
- In markets that strongly favor mortgages, loans are often **viewed very negatively** (NL)
Consumers find insulation, solar and EV charging as the most promising improvements

Example of potential energy efficiency improvements that can be covered by the green mortgage/ green loan

<table>
<thead>
<tr>
<th>Insulation (walls, floor, roof)</th>
<th>Boiler replacement</th>
<th>Solar electricity panels and battery storage</th>
<th>Solar hot water</th>
</tr>
</thead>
<tbody>
<tr>
<td>Window / door replacement</td>
<td>Heat pumps</td>
<td>Smart heating control (thermostats)</td>
<td>Electric vehicle charging point</td>
</tr>
</tbody>
</table>
3. Sneak peak on upcoming quantitative survey research
Introducing the Green Home Mortgage Product, empowering you to invest in a green home. For a new mortgage or if you want to refinance your mortgage. Save money on your mortgage payments and your energy bills.

Your benefits at a glance:

- **Financial savings:** Attractive interest rates for your mortgage
  - Extra green borrowing
  - The discount is applicable on:
    - Your full loan amount, not just on the extra amount needed to make your home green
    - For the full duration of your mortgage (if you And/OR: Reduction in down-payment)

- **Home analysis & savings assessment:**
  - Do our online home analysis check and find out what potential improvements are suitable for your home
  - If you improve your home by 2 energy classes, you get the assessment for free

- **Optional: Green products and services from our network of partners:**
  - Choose among a network of certified partners for energy improvements
    - Solar panels & batteries
    - Insulation
    - Efficient heating
    - Smart heating controls
    - EV chargers
    - Window replacement
    - Etc.

- **Energy cost savings + increased home value:**
  - Energy efficient homes can save you between 20-50% on your energy bills!
  - Also the market value of your home could increase!

- **Improved CO₂ footprint:**
  - High energy efficient homes tend to save ~ 1 tonnes CO₂/year, equivalent to ~ 100 trees
Thank you!

Q&A