Green Finance Institute

UNSECURED GREEN HOME LOANS: Demystifying the Market

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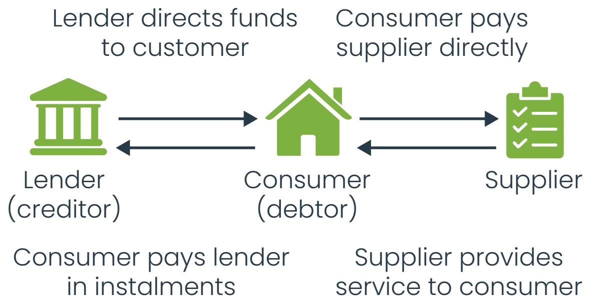
From personal loans to point-of-sale finance and the Consumer Credit Act; what's on the runway to take-off for the UK's unsecured green home finance market?

Homeowners interested in investing in the energy efficiency of their property face meaningful barriers, including availability of finance. Broadening the range of attractive financial solutions and increasing a homeowner's financial choice is a critical step along the UK's route to energy efficient homes and the journey to NetZero.

Popular ways for homeowners to fund improvements to their property include mortgage or unsecured financing (such as **personal loans** or **point-of-sale finance**). Mortgage or unsecured finance looking to fund green home improvements may align with the Green Home Finance Principles (GHFPs), a voluntary framework to promote integrity withing the green home finance market.

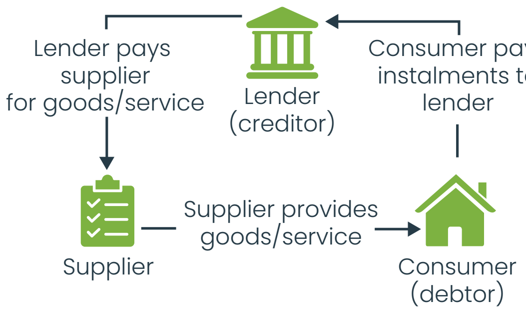
Many lenders now offer green mortgage financing solutions to help homeowners finance green home improvements, but the unsecured green home finance market carries different challenges. Unsecured finance is typically designed for borrowing smaller amounts over shorter periods of time than mortgage financing.

Funds sent from a lender direct to a borrower to use at their discretion ('borrower-lender' loans) may be referred to as a **personal loan.**



Personal loans are used to fund a range of products. While lenders may ask borrowers what their intended use of the loan is for, borrowers are ultimately free to use the funds as they want. To advertise as a green personal loan, a lender must be able to certify that funds have been used for green or energy efficiency home improvements; this is both costly and complex to integrate into existing lender processes.

Point-of-sale finance is structured as a 'borrower-lender-supplier' agreement, where there are 'pre-existing arrangements' between the lender and the supplier. Point-of-sale finance must include detail of what the loan is financing, and the price of the goods or services being financed. It is commonly used to fund home improvements like kitchens.



Innovation in point-of-sale finance can have additional benefits for consumers. Demand Aggregated Finance is an innovative internationally used form of point-of-sale finance where groups of consumers benefit from bulk purchase and installation discounts through a platform that also connects consumers to unsecured financial solutions.

Unsecured finance provided to individual borrowers in the UK is regulated by the **Consumer Credit Act 1974 (CCA)**. Particular sections of the CCA have significant implications for the unsecured green home finance market:

The Consumer Credit Act (1974)	
Section 56: Antecedent Negotiations	**Section 75**
Applies to: Communications or representations made by a supplier or credit broker to a borrower about a financed purchase; these communications or representations can be about either the financing or the product being financed. **S56 means that:** The broker / supplier is considered to be an agent of the lender, so representations made by them also bind the lender. This is a risk for lenders because they may have limited control and oversight of what brokers and suppliers are saying about the products being financed, and the finance itself. Lenders also do not get the benefit of a statutory indemnity. **Example:** If a heat pump, purchased on credit under a borrower-lender-supplier agreement, has been misrepresented by the supplier (for example, incorrectly purported to have savings greater than the finance cost), then (under Section 56) the lender is also considered to have made this same claim. Under this circumstance, the borrower is entitled to cancel the credit agreement and may be able to recover damages from the lender.	**Applies when:** a lender provides finance to a borrower specifically for a purchase (where the cash price of the purchase is between £100 and £30,000) from a supplier (under a borrower-lender-supplier agreement), where the lender is not also the supplier. **S75 means that:** The lender is automatically jointly and severally liable with the supplier for any claim against the supplier by the borrower for misrepresentation or breach of contract. It is not a requirement for the borrower to pursue the supplier first, so the lender takes on significant potential risk. **Example:** If solar panels, bought on credit, have been misrepresented as having savings greater than a finance cost then (under Section 75) a borrower may raise a claim. **S75 also means that:** It is also not a requirement for the entire purchase to be made on credit, provided that what is being funded has a cash price between £100 and £30,000. **Example:** a heat pump system may be purchased with a small deposit being paid using credit (commonly a credit card), but the balance paid in cash. Provided that the total cash value of the heat pump system is between £100 and £30,000, this purchase is covered by Section 75. **S75 also means that:** Lender liability isn't limited to the amount of credit extended or bound by the time period of the credit agreement; a lender may also face a claim for consequential losses under Section 75 after the credit agreement has ended. **Example:** If a set of solar panels, originally purchased on credit, damage a roof through a breach of contract, then the consumer may raise a claim against the lender for the cost of repairing the roof under Section 75, even after the credit agreement has ended.

Energy efficient and green home technology may be unfamiliar to some homeowners, so can be less well understood than traditional technologies. Lower consumer understanding is associated with a higher risk of mis-selling, whether inadvertent or deliberate. The CCA doesn't distinguish between inadvertent or deliberate mis-selling, so robust standards and processes are essential for a lender to have appropriate assurance and visibility over mis-selling risk.

During the early 2010s unsecured loans for purchasing solar panels were widely available. However, mis-selling and installation challenges led to significant liabilities and contingent (potential) liabilities for lenders under the CCA's Section 56 and Section 75. One lender made provisions for a £38.5 million loss on their renewables book, highlighting the increased perceived risk of unsecured finance for green home technologies. Consequentially, many available financial products were removed from the market. The perceived risk of unsecured green home finance in the UK creates additional complexity for developing innovative unsecured financial solutions that can support homeowners access green home technologies.

Current unsecured green point-of-sale finance providers may use a range of methods to mitigate and become comfortable with an acceptable level of risk:

Managing legislative risk

Governance-baked assurance schemes

Provided by government-baked bodies and can include:

- Quality assurance desktop and on-site audits
- Remediation and corrective action for non-compliance

Private organisation assurance schemes

Provided by private organisations and can include:

- Validated consumer and installer contracts
- Assurance audits
- Customer satisfaction analysis

Partnership (e.g. with scaled installers or energy companies)

Partnership may contractually include:

- Tightly controlled processes to prevent negative outcomes
- Agreement of risk ownership and responsibility

Insurance models

Corporate insurance models may look to directly insure a lender against risk that a lender has low visibility or control over

Market-based interventions that effectively manage risk can lift barriers to the unsecured green home finance market whilst ensuring robust consumer protection, and a scaled unsecured green home finance market hinges on effective risk management. The effectiveness of risk management models can be bolstered by robust installation standards to boost confidence across the unsecured green home loan market.

Every participant in the delivery ecosystem, from lenders and brokers to energy companies, retrofit providers, and local and national government, plays an indispensable role in effectively managing risk to catalyse a scaled unsecured green home loan market that supports adoption of energy efficient and green home technologies. Collaboration across the delivery ecosystem is essential for homeowners to have access to a wide range of financial choices and the necessary support on their journey to a greener, more energy efficient home. The publication from the Green Finance Institute's Built Environment Programme, **"Unsecured Green Home Loans: Managing Market Risk"**, offers an in-depth perspective with case studies on risk management mechanisms aimed at catalysing the unsecured green home finance market.

About the Green Finance Institute:

The Green Finance Institute works independently to catalyse markets, and the Built Environment Programme is actively concentrating on fostering the development of a scaled unsecured green home finance market; if you represent a financial institution or stakeholder with an interest in scaling the UK's unsecured green home market, please contact TBD@gfi.green.