Financing Residential Energy Efficiency in Ireland

The Challenges and Opportunities
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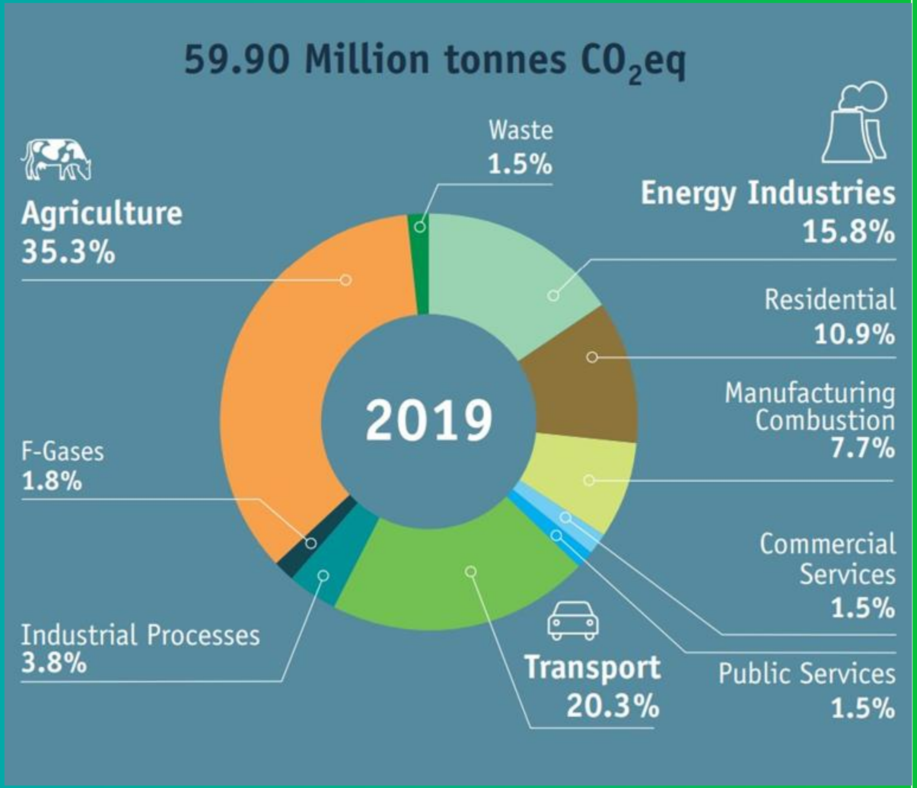
Overview

- National residential retrofit targets
- Finance as a barrier for homeowners
- What has worked well elsewhere
- SEAI national research on retrofit finance
- Innovative finance mechanisms
- Retrofit finance products on the Irish market
- Anticipating challenges for commercial finance providers
- The business case for finance providers
- The SuperHomes ask and the opportunity

National residential retrofit targets

- The retrofit of existing homes has a large role to play in meeting national climate targets, as the residential sector currently contributes 10.9% of
- Ireland's annual greenhouse gas emissions.
- Under the national Climate Action Plan, relevant targets to be delivered by 2030 are to:
- complete 500,000 building retrofits to achieve a B2 BER rating (or cost optimal level)
- install 400,000 heat pumps in existing homes
- There is a clear recognition at both national and EU policy level that, due to national budgetary constraints and the quantum of support required, public funds alone simply cannot deliver these targets.
- As a result, policymakers are increasingly focused on mobilising private capital for retrofits, and where necessary, using public funds to ensure that risks are allocated appropriately between the public and private sector.
- To reach national targets, hundreds of thousands of citizens will have to make individual decisions to retrofit their homes and to decide whether to do so using savings, loans or other more innovative financial solutions.



Source: EPA, Ireland's Provisional Greenhouse Gas Emissions 1990 – 2019

Finance as a barrier for homeowners

Retrofit projects deliver:

- warmer more comfortable homes
- improved air quality
- lower energy bills
- an increase in the value of the property
- reduced GHG emissions

In addition, Irish research has shown that:

- investments in energy efficiency measures pay for themselves over time and result in additional savings overall,
- although the payback period for deep retrofits may be long and is dependent on access to low-cost finance.

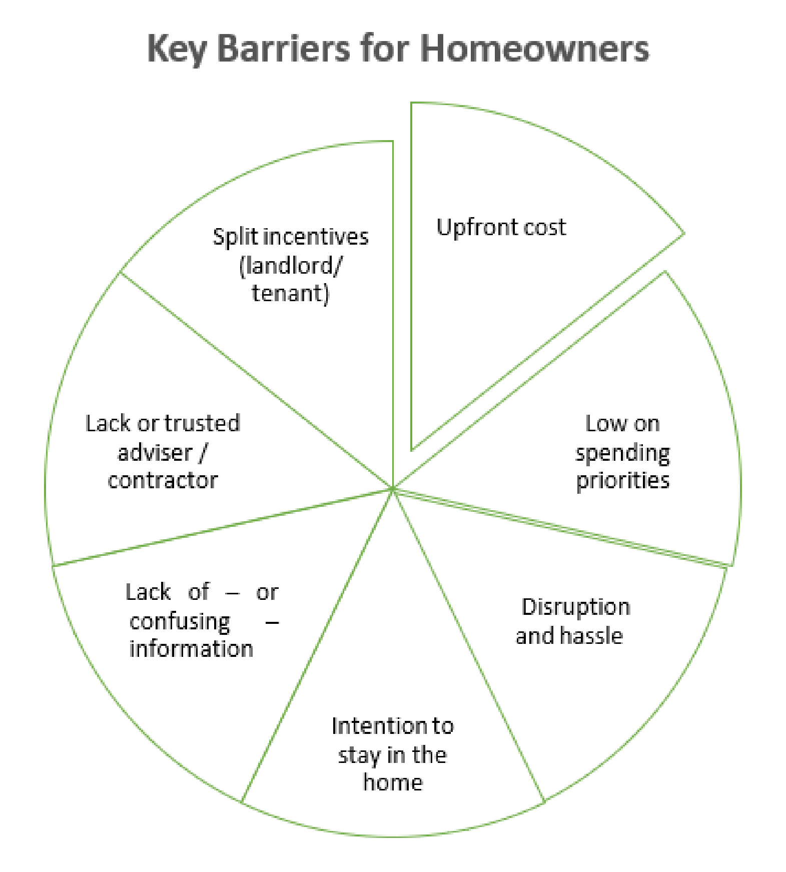
Despite these positives, the uptake of home retrofit measures is not sufficient to deliver on national climate targets, which can be attributed to a broad range of barriers for homeowners.

Finance for the upfront cost of a retrofit project is only one barrier – but it is a key one.

SEAI research: Over 70% of homeowners who had investigated energy

efficiency but not yet acted, cited a lack of funds

Solving the residential retrofit finance puzzle is key to unlocking and scaling home retrofit activity.



What has worked elsewhere?

A recent report[1] identified national policies that appear to be particularly effective in raising home retrofit rates and unlocking private investment.

Using case studies from France, Germany, the Netherlands and Scotland, the report notes that each of these countries is achieving higher renovation rates through a combination of:

- clear, actionable plans and goals for renovation
- policy mechanisms explicitly designed to encourage private investment. Plus, attractive, specialized finance deals that can be combined with widely available capital subsidies
- high energy performance standards that, if achieved, unlock higher levels of support while also requiring higher investment from homeowners
- national communication campaigns combined with locally relevant renovation advice.

Focusing in on the finance aspects of the above, what is needed is:

- attractive, specialized finance deals
- that can be combined with grants

Further to a review of research literature – the common features of successful residential retrofit finance solutions are shown opposite

National research on retrofit finance

Lower cost & longer-term debt than available on market

- national research suggests that unsecured personal loans for a 10year+ term at rates lower than 5% APR. Discounted mortgage rates should also be available

Mortgage and personal loan options

- to ensure optionality and flexibility for homeowners in terms of both ease of application and flexibility on repayment

Integrated retrofit service and finance offer

- where finance providers partner with One Stop Shop retrofit service providers to provide an integrated solution with a view to simplifying and easing the customer journey

Underpinned by grants

- national research has shown that grants continue to be important to maximise uptake rate even if low interest loans are introduced.
- For the same reason, energy supplier contributions under the Energy Efficiency Obligations Scheme are important to consider (EEOS)

On-tax and On-bill mechanisms have worked in some countries

- certainly On-tax and On-bill schemes are of potential interest to homeowners.
- however, neither type of scheme has yet been shown to be effective in a European context.
- furthermore, either mechanism would require national legislation to be implemented.

Note 1: E3G, Silver Buckshots, 2018

SEAI national research on retrofit finance

National research on appropriate solutions – lines up with

international experience

Central role of mortgages and personal loans in any solution Commercial finance providers have a key role to play

However, doing the right thing must bring a positive return – a new product or service must be commercially viable

Providing finance at below market rates is not economically sustainable

New approaches to credit product solutions need to be

considered

This is where innovative and blended finance solutions come into play

These could involve public/private sector structured products using public credit enhancements and also wider adaptation and use of green mortgages

Innovative finance mechanisms in the residential retrofit space also include On-tax and On-bill schemes

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Innovative finance mechanisms

How can commercial finance providers offer below market rates?

This is where innovative finance mechanisms come into play

A number of distinct innovative finance mechanisms have been identified in research literature2, with four relevant in context of Ireland's single home retrofit finance challenge

Publicly supported lower cost loan mechanisms

- typically involve lower cost loans provided by public funding through government agencies.
- may also include a range of credit enhancements – blended with private capital to provide enhanced loan terms and lower interest rates to the homeowner
- case studies: Germany, France, Netherlands, Estonia – interest rates from 0-4% and long tenures available
- targeted EU financial supports available: SFSB guarantee facility, PF4EE & ELENA technical assistance support

Green mortgages

- linked to energy efficiency performance of home
- offer consumers a range of benefits including reduced interest rates, an increase in the loan amount or other benefits –
- provided by the financial institution themselves without public finance support

On-bill schemes

- a method of financing energy renovation investments in buildings that use energy bills as the repayment vehicle
- there are two different types of On-bill schemes, namely On-bill financing and On-bill repayment programs
- successful examples in US and Canada. UK Green Deal was dismal failure

On-tax or Property Assessed Clean Energy (PACE) schemes

- allow the funding of energy efficiency improvements on private property through voluntary property tax assessments.
- pay the costs back over time through a voluntary assessment.
- unique characteristic of On-tax or PACE assessments is that the assessment is attached to the property rather than to an individual
- successful examples in US

Innovative finance mechanisms

Our Analysis on the suitability of these mechanisms in an Irish context

Publicly supported lower cost loans

- appear to be the most common and successful approach in an EU Member State context
- targeted EU financial supports are available to support national/individual finance provider efforts – SFSB guarantee facility, PF4EE financial instrument, ELENA
- key role for the Strategic Banking Corporation of Ireland – if gets a mandate to lend to individuals as well as SMEs
- commercial finance provider could apply to Climate Action Fund for national funding to support a pilot?

Discounted green mortgages

- certainly tick the boxes on lower cost and longer tenure terms
- perceived legal and process barriers for accessing top-up mortgages can prove prohibitive
- that said, there is certainly a role for discounted green mortgage products, particularly for deeper retrofits carried out as part of a larger renovation project.

On-bill mechanisms

- are generally not within the control of single finance providers as national legislation to secure consumer protection around energy switching would be needed.
- have not been proven in a European context
- should keep a watching brief on EU Horizon2020-funded RenOnBill research project

On-tax or PACE mechanisms

- are also not within the control of a single finance providers as national legislation would be needed to allow repayment of finance on property tax bills
- given the political headwinds in relation to local property tax, it is likely that this would be challenging in an Irish context
- have not been proven to work in a European context
- should keep a watching brief on EU Horizon2020-funded EuroPACE research project

Residential retrofit finance products on the Irish market

GREEN MORTGAGES

Subject to T&Cs, best rates:

- fixed rate of 2.25% APR for five years available for homes with

a BER rating of B3 or above

- fixed rate from 2.40% APR for four years for homes with a BER rating of B2 or above
- discount of 0.2% APR off any fixed rate options from one to ten years for homes with a BER rating of A3 or above

But

- If only available for BER rate of A3 or above – unlikely to be accessible for retrofits (as B2 is generally cost optimal)
- Sales & marketing efforts do not specifically seem to target retrofits/renovations – so effectively seen as an offer for new builds?
- No links between finance providers and retrofit One Stop Shops

GREEN LOANS

Subject to T&Cs, best rates:

- for loans over €20,000, a fixed rate of 4.9% APR for a term of up to ten years.

This compares to “non-green” ten-year personal loan terms ranging from 8.2% APR to 8.95% APR (variable)

• 5.5% APR fixed rate for a period of up to five years (not available nationwide).

This compares with “non-green” rates which range from 5.9% APR fixed to 10.5% APR variable for the same term

• 6.5% APR variable rate for a period of up to seven years (available nationwide).

This compares with “non-green” rates which range from 5.9% APR fixed to 8.95% APR variable for the same term

And

- The 4.9% APR 10 year term loan offer is a major advance towards where we need to get to and is driving competition and interest from other finance providers. A One Stop Shop collaboration is also involved

• There are increasing numbers of collaborations between retrofit One Stop Shops and finance providers

• Opportunity is mainly being seen by an Post/Credit Unions to date – need to see the regulated banking sector getting involved

Anticipating challenges for finance providers?

Energy efficiency loans rarely "fly off the shelves" – finance providers need get innovative and to collaborate across the retrofit value chain

Other major challenge is that finance providers need scale in order to develop a new product – particularly if involves accessing EU funding

Will require resources and commitment over the long term as the market scales up

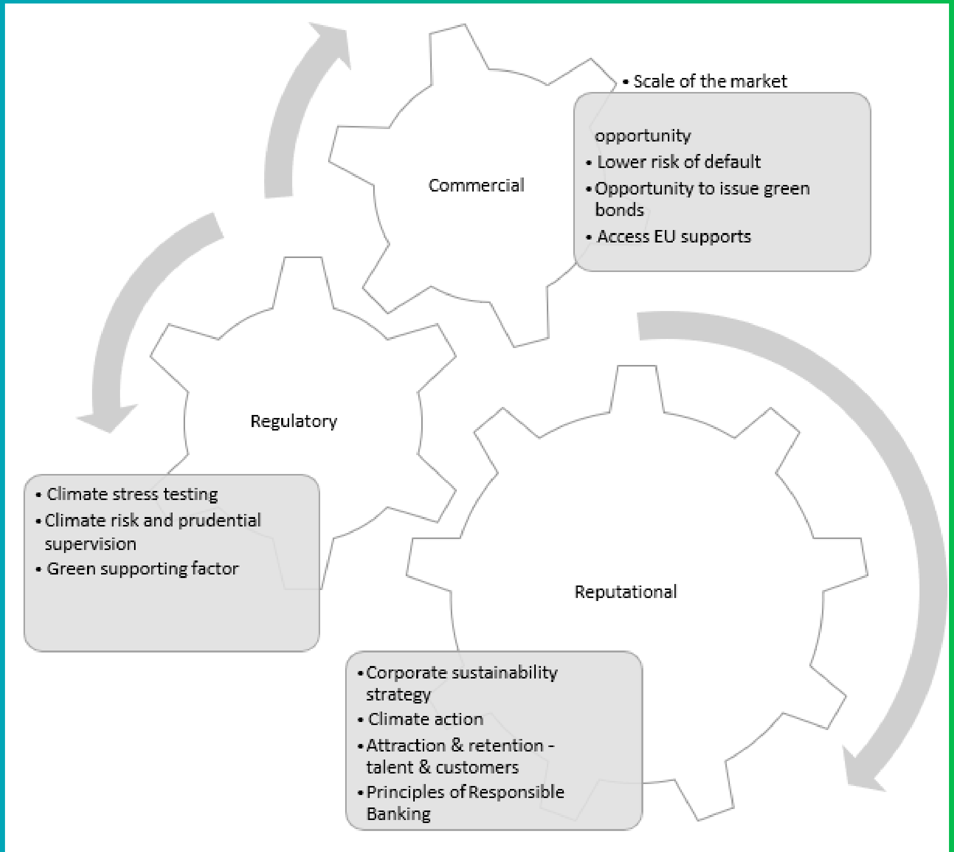
Need a strong business case to support any finance provider committing those resources

Helpfully the business case is strengthening - across commercial,

regulatory and reputational factors

But it is a whole new market segment and lots for finance providers to learn about the policy ambition, the homeowner perspective on finance, the retrofit marketplace and about innovative finance mechanisms

Retrofit One Stop Shops can support finance providers to gather knowledge and build capability on residential retrofit as a market segment



SuperHomes discussion with Finance Partners

The Ask

The basics:
• A loan offer on terms tailored for SuperHomes customers
• Competitive lower cost and terms (compared with 4.9% 10 year tenure unsecured personal loan currently available)
• Ease of application for finance
• Ease/flexibility of repayment
• Finance product options across maturities and with financing structures to meet customer needs for respective retrofit projects – i.e. mortgage and personal term loan options
• Alignment of processes with the SuperHomes 2030 OSS combining technical, grant drawdown and offer for finance for the non-grant element

The nice to haves:
• Commitment to exploring EU financial supports available, including SFSB, PF4EE and ELENA
• Commitment to investigating further making an application to the Climate Action Fund for national funding for a blended finance solution
• Commitment to exploring how large energy supplier contributions under the national Energy Efficiency Obligation Scheme could be integrated into any solution
• Commitment to investigating further On-bill and On-tax schemes
• Commitment to some marketing budget
• Consider allowing SH to connect/market through branch network in due course

The Opportunity

- To be the preferred financial partner for a truly independent quality OSS for deep retrofits with proven delivery experience
- Collaboration with a technical partner that is focussed on delivering truly carbon free homes
- An opportunity to gain a deeper understanding of the Irish residential retrofit market across homeowner motivations, policy levers, technical measures, evolving business models and market actors enhancing corporate competitive position
- An opportunity to develop a deeper understanding of innovative finance mechanisms that have been trialled nationally and internationally and to influence wider green initiative solutions
- An opportunity to gain first mover advantage and illustrate policy alignment in a scaling market

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Q&A

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