



## Improving home energy performance through lenders

### Response by the Intermediary Mortgage Lenders Association

February 2021

#### IMLA

IMLA is the representative trade body for mortgage lenders who lend wholly or predominantly through intermediaries. Our 43 members (17 banks, 15 building societies and 11 specialist lenders), include 18 of the top 20 UK mortgage lenders responsible for approximately 93% of gross mortgage lending.

IMLA provides a unique, democratic forum where intermediary lenders can work together with industry, regulators and government on initiatives to support a stable and inclusive mortgage market. We welcome this opportunity to comment on BEIS' consultation on setting requirements for lenders to help householders improve the energy performance of their homes.

#### Summary

- *Lenders are fully aware of the risks posed by climate change. Many have already taken steps to consider the most immediate risks to their business models – whether these be physical risks such as flood or other impacts of extreme weather, or “transition” risks which may arise as requirements are imposed – for example, the requirement for landlords to bring rental property up to a minimum standard of energy efficiency.*
- *Property owners are responsible for maintaining their properties in fit and safe condition. This should include ensuring a satisfactory level of energy efficiency – a requirement which should apply to all domestic properties, whether owned outright, mortgaged, or privately or publicly rented. Lenders*

*are not responsible for the energy efficiency of the properties mortgaged to them, nor should they be made so.*

- It makes no sense to create different sets of rules and schemes for different types of tenure. Owners will need to be incentivised – and assisted – to improve the energy efficiency of their properties if the Government is to meet its target to reduce domestic emissions by 2035. This may be achieved via a combination of loans and grants. Lenders may similarly be incentivised to help owners make improvements.*
- The proposals will create a time-wasting paper-chase and may lead lenders to spend disproportionate time and effort to ensuring that their “average” ratings are at an acceptable level – rather than focusing on developing products which will help borrowers increase the energy efficiency of their homes. Lending decisions may be based on a property’s energy efficiency, rather than on the customer’s borrowing needs. This is alien to many lenders – and unhelpful to borrowers.*
- If lenders feel obliged to decline loan applications in order to “improve” their “average” rating, borrowers living in poorly-rated properties may find it difficult to re-mortgage. This risks creating a new cohort of mortgage “prisoners” who could become unattractive to lenders because of the potentially detrimental effect their properties might have on lenders’ average EPCs. This must be avoided.*
- The compilation of league tables will create artificial competition amongst lenders. Penalties for failing to meet arbitrary targets are a complete distraction from what should be the main focus – which should be to find ways of helping homeowners make their properties more energy-efficient.*
- EPCs need to be thoroughly reviewed and revised so that they are fully fit-for-purpose. All owners of domestic properties should then be required to obtain an EPC. Inspections should only be carried out by appropriately qualified and authorised assessors, and all results held in a central database, accessible to homeowners, prospective purchasers or renters and lenders. This would provide an accurate overview of the number and location of poorly-rated properties and guide the necessary policies to target and improve these.*
- It is absolutely essential that all energy performance improvements are carried out to a high standard by competent, reputable companies. Anything less creates a cowboys’ charter and risks wasting huge sums of money as well as causing great inconvenience - and potential danger - to consumers. TrustMark registered businesses must be able to rely on regulations and guidance issued by competent public authorities. It would be shameful if money – both public and private - were to be spent on “improvement” work which proved to have been carried out incompetently, or to a standard which was subsequently judged to have been unacceptable. The shadow of Grenfell looms large.*
- The consultation is silent on whether the FCA and PRA have been fully consulted about the proposals, and how they may have responded. Much work has already been done by the joint PRA/FCA Climate Risk Financial Forum (which published a [guide](#) in June 2020) – but the current BEIS*

*consultation makes no direct reference to this. Much tighter joined-up thinking is needed in order to avoid policies being proposed and developed in one part of Government which may cause firms to be in breach of requirements imposed elsewhere.*

## **Responses to consultation questions**

### **Chapter 1: Disclosure of portfolio energy performance data**

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

*We do not support a mandatory requirement for lenders to collate and disclose such information. This would create a large and bureaucratic burden for lenders which would serve little practical purpose unless very clearly linked to a significant volume of remedial/renovation work to improve energy efficiency. It is by no means clear that such volumes of work would or could be undertaken – rendering the disclosure exercise largely irrelevant.*

*We do not agree with the proposed source data: whilst EPCs have been required since August 2007 (October 2008 for rented property), there will currently still be many properties which have not changed ownership during that period and for which there will be no EPC. Further, the quality of inspection and production of EPCs is very likely to have developed significantly since 2007, and many properties will also have been improved/renovated – with the result that many existing EPCs will be out of date (they are only valid for 10 years) and/or highly inaccurate. It would therefore be a huge waste of lenders' resources to attempt to collect EPC information relating to all properties currently mortgaged to them.*

*We see no point in publishing “league tables” of lenders – which could be very misleading, and could show some lenders in an unfairly unfavourable light – or in a way which does not truly reflect the genuine efforts that they might be making to help borrowers to improve the energy efficiency of their homes. Surely there are more effective ways of encouraging lenders to develop imaginative and practical products which will achieve real improvements to real properties – rather than wasting time and resource on a massive paper-chase which will not of itself change the EPC of a single property?*

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

*We do not agree. The consultation assumes that capturing the required information relating to the existence and content of an EPC would be straightforward: it would not. The IT changes required to add and analyse the data could be significant, particularly for larger lenders which may have numerous product brands and channels operating across various mortgage platforms.*

**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.

*We do not agree. Disclosure of the information is likely to be misleading because the source data is likely to be inaccurate. And disclosure – like measurement – will not of itself improve the energy efficiency of one single property.*

**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.

*We do not agree. The assumption underlying this question appears to be that lenders are or should be responsible for the energy efficiency of the properties mortgaged to them. This is already a significant step up from requiring them to be aware of the energy efficiency of the properties mortgaged to them and we reject it.*

**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.

*We do not agree. This adds to the administrative burden on lenders – and, as we have already explained, we do not support the proposal to require lenders to collate and disclose energy performance data. We think the emphasis on this exercise is mis-placed and mis-guided.*

**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 do not agree. The likely inaccuracies in existing EPC ratings and lack of consistency across all those currently available, combined with likely confusion and challenges surrounding which properties or homeowners could be excluded from the calculation of a lender's "average", make it extremely unlikely that league tables could fairly reflect a true position for any lender. It seems more likely that lenders would feel obliged to spend disproportionate amounts of time and effort "improving" their position in such tables – rather than concentrating their efforts on helping borrowers to make their homes more energy- efficient.*

**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.

*As stated above, we do not agree with the basic proposal that lenders should collate and disclose information about the energy ratings of the properties mortgaged to them. If the proposal is made a requirement, however, there would seem to be no logical reason why a buy-to-let property should be treated differently from an owner-occupied one. The more important question then becomes – who is responsible for taking action to improve the energy efficiency of a property if its rating is considered to be too low? In our view, the responsibility should lie with the owner of the property.*

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

*We do not agree. As stated above, we do not think that any practical purpose is served by requiring lenders to collate and disclose information about the energy ratings of the properties mortgaged to them. We also have concerns about the source data which lenders are to use in order to disclose this information. If the requirement is imposed, that source data will need to be much more accurate and reliable. The necessary changes are unlikely to be capable of being made and tested within a two-year period. Any system of disclosure must be tested and analysed before full roll-out – so it would be completely premature to make it mandatory as early as 2023.*

**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.

*We do not agree. The final paragraph of this section completely undermines the argument for collation and disclosure of data: it acknowledges that: “a significant proportion of the mandatory disclosure information is reliant on the accurate recording and distribution of EPC information. This underlying data ... will not be within the scope of the lender’s internal controls and therefore the spot checks ... will ensure accurate translation of this information, not the accuracy of the underlying data itself.” So - spot-checks are proposed, which will ensure that lenders have accurately recorded information which may in itself be wholly inaccurate and misleading – but which may be used to produce league tables which purport to show the average EPC rating of a lender’s portfolio of loans? What possible value can such spot checks be thought to have? Surely the focus should be on ensuring that the underlying data is “relevant and reliable” rather than “ensuring” that lenders have correctly re-produced data which may be complete nonsense?*

## **Chapter 2: Improving the energy performance of lenders’ portfolios: target-based approach**

*The energy performance of lenders’ portfolios will only be improved if the energy efficiency of significant numbers of individual properties is improved. Collating and disclosing information, and tinkering about with targets, will in itself achieve nothing. The energy efficiency of an individual property will be improved if specific action is taken by the owner of that property, either because they have been required by some external agency to take such action or because they regard it as a sensible thing to do. It is possible that the Government might, in the foreseeable future, make it a legal requirement for all domestic properties to be brought up to a minimum standard of energy efficiency. The immediate question is then – how is such a requirement to be funded and delivered? A more realistic approach would seem to be to incentivise homeowners to improve the energy efficiency of their properties – and to help and incentivise lenders to enable homeowners to achieve such improvements. A combination of loans and grants may be appropriate, together with*

*a proportionate approach to regulatory and prudential constraints on lenders, to ensure that they are not penalised for trying to take positive action.*

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

*No: we do not consider arbitrary targets of the type described to be helpful. If targets are to be set, they should relate to numbers of homeowners enabled to improve the energy efficiency of their properties and the numbers of properties actually improved.*

**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.

*Based on the assumptions (average fixed-rate product 5 years; 1.4m properties re-financed each year) an estimate of 80% of properties coming within scope during the target period does not seem unreasonable.*

**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.

*EPC Band C is a reasonable target for individual homeowners to aim for by 2030: as previously stated, we do not agree with the “lender portfolio average” approach.*

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

*Yes: the EPC needs to be revised and made more accurate and reliable. It would be sensible to add information about what improvements to energy performance could be achieved – provided this was consistent and based on proven fact and evidence.*

*The section on “Replacement EPCs” likewise implies a responsibility on lenders to undertake EPCs/replacement EPCs – where this responsibility should legally lie with the homeowner. Where homeowners cannot afford to carry out work which may be desirable or required – lenders will of course have an interest in ensuring that such work is carried out – and will no doubt assist where possible and appropriate with additional lending. But the principle here should be clearly stated – homeowners are responsible for maintaining their properties in fit and safe condition – and if that means improving the energy efficiency of the property – that is still the homeowner’s responsibility.*

**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.

*It is reasonable to set a maximum beyond which homeowners will not be expected to pay for energy improvements: this will need to be communicated clearly, however – we have already seen press comment that homeowners will be required to pay the maximum £10,000 in order to make their homes compliant.*

**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.

*It is reasonable that where a homeowner has recently paid for energy improvements, the cost of these may be taken into account when determining how much more could be invested in the property – but it may be complex/challenging for some homeowners to produce proof of the costs incurred. Some may have used contractors who are competent but were not TrustMark registered at the time – which could add to the administrative complexity of identifying which costs could be taken into account.*

**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.

*We do not believe that setting targets in the way proposed in the consultation will be effective in bringing about improvements to the energy efficiency of domestic properties. There may be considerable scope for incentivising lenders to take action to encourage borrowers to take steps to improve the energy efficiency of their properties. But other approaches need to be developed.*

**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?

*We do not agree. If a voluntary target is set, it will take much more than one year for this to bed in and allow for inconsistencies and inaccuracies within the system to be ironed out. A review after one year may be advisable, but the Government should not consider moving towards a mandatory improvement target until the impact of the voluntary scheme is much better understood.*

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

*We do not agree. A penalty regime is an inevitable bi-product of a mandatory regime – and a complete distraction from what should be the main focus – finding ways of helping homeowners make their properties more energy-efficient. Creating a huge paper-chase and unproductive flurry of activity aimed at proving that prescribed “averages” have been achieved risks wasting time, energy and resource which could be much more effectively directed in other ways.*

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

*This is completely mis-directed: any such “calculation” would have to be made on assumptions which could be completely inaccurate. This whole proposal is based on the assumption – which we reject – that it is lenders, not homeowners, who should be responsible for the energy efficiency of the properties mortgaged to them.*

**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.

*We do not accept that penalties are appropriate.*

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

*We do not accept that penalties are appropriate, so it follows that the question of who should benefit is irrelevant.*

**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?

*We do not accept that targets are appropriate: if they are imposed, there may be some merit in applying certain derogations.*

**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.

*Given all that we have said about the inappropriateness of imposing targets, postponing the introduction of any mandatory element to 2030 would be preferable to introducing it hastily and without sufficient preparation.*

## **Wider considerations**

**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?

*The proposals rely very heavily on the information provided by the EPC – but we are not confident that the currency and accuracy of this information can be relied on. As a first – and urgent – step, EPCs need to be reviewed and revised so that they can be made fully fit for purpose. This is not lenders' responsibility. Once an acceptable format and standard has been agreed, the results of compliant EPCs should be held in a central database which is accessible to homeowners, prospective purchasers, renters and lenders.*

**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?

*Surely it would make more sense to require all domestic properties to have an EPC and for the responsibility for obtaining one to rest with the owner – whether an owner-occupier or landlord. Government assistance could be given to those whose financial circumstances meant they could not afford to obtain the required EPC for their property. The inspections should only be carried out by appropriately qualified*

*and authorised assessors, and all results held centrally. This would provide a much clearer overview of the number and location of poorly-rated properties and guide the necessary policies to target and improve these.*

**Question 26.** How can we ensure the effective transition of data between lenders when consumers change mortgage providers?

*This would be completely superfluous if there were to be a central database of accurate and recent EPCs. Such a database could be made available to authorised parties similar to the way central records of MOTs and road tax data held for motor vehicles are made available to insurance companies. Requiring lenders to transfer information about EPCs merely creates another process, adding cost and introducing scope for inefficiency, error and delay.*

**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?

*Requiring all properties to have an EPC would concentrate minds. The cost of obtaining one need not be excessive – and consumers would be able to start considering what improvements they could make – and how to fund these.*

**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?

*The consultation offers no evidence that consumers use smart meters to reduce their energy usage. Many will have agreed to the installation of such meters because it makes the process of billing easier - no physical meter readings are required. Some may have been persuaded that more accurate readings might lead to lower bills. Private energy consumption is largely a matter of lifestyle choice: it is difficult to see how consumers who have smart meters can be forced to use less energy – they will be perfectly aware what their monthly energy costs are – and if this is a matter of concern to them, they will presumably act accordingly. Household energy consumption will vary considerably according to the numbers of occupants, their ages and state of health, the amount of time spent at home (including home working/studying) and types of leisure activity (computer use/cooking/exercise equipment and use of power tools for gardening and DIY etc).*

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

*It is absolutely essential that all energy performance improvements are carried out to a high standard by competent, reputable companies. Anything less creates a cowboys' charter and risks wasting huge sums of money as well as causing great inconvenience and potential danger to consumers. But this needs to go further: TrustMark registered businesses will need to refer to – and be able to rely on – regulations and guidance which is issued by competent public authorities – in relation, for example, to buildings regulations and safety standards. These must be absolutely reliable and transparent – the shadow of Grenfell looms large over weak regulations which are poorly enforced. This all suggests that a great deal more*

*preparation needs to be done before the Green Homes Grant is significantly expanded: it would be shameful if money – both public and private - were to be spent on “improvement” work which proved to have been carried out incompetently, or to a standard which was subsequently judged to have been unacceptable and had to be re-done.*

**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 no exact data on this but would expect numbers of borrowers unable to borrow more to be high: first-time buyers and those who have recently moved (“second-steppers”) are very likely to have borrowed the maximum available in order to get on the housing ladder or move up to the next rung. Regulatory rules on assessing borrowers’ ability to afford loans are tightly prescribed and lenders are required to ensure that they lend responsibly so that borrowers do not over-extend themselves.*

*There are wider prudential considerations here: the MIPRU rules require lenders to maintain capital provisioning for secured loans – this is calculated at 35% for the first 80% of a secured loan, and 75% for the remaining 20% of the asset (property)’s value. Any remaining part of the exposure above 100% of the value of the property must be assigned a risk weight of 100%. High LTV lending – and in particular, lending above 100% of the property’s value - therefore carries a cost for lenders and is an area in which prudential regulators and supervisors take a close interest. The consultation is silent on whether the PRA has been fully consulted about the proposals, and how it may have responded. This is an example of why much tighter joined-up thinking is needed in order to avoid policies being proposed and developed in one part of Government which may cause firms to be in breach of requirements imposed elsewhere.*

**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?

*We do not agree. This appears to defeat the main object of the exercise – which is surely to improve the energy efficiency of the worst-performing properties – many of which are likely to be owned by people who are least likely to be able to afford to make improvements. Surely it would be preferable to identify the properties and their occupants – and then focus resource on helping those occupants to have the necessary improvements made – whether this is funded by Government grants or loans or a combination of the two. Simply “exempting them from inclusion in a lender’s improvement target” risks losing sight of a group which is in most need of assistance – and shifting the focus to lenders’ improvement targets – which will thereby become less challenging – and less effective?*

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

*Requiring lenders to factor in an additional proposed maximum assumed spend of £10,000 for energy improvements would likely scupper many applicants' prospects of being able to afford their first mortgage. It would be fairer to make an assessment of what might be needed to improve a property's energy efficiency, if a more accurate estimate could be included in the property details at point of sale. It has up to now been unclear what impact an EPC rating could or should have on a property's value: this should now be established so that it can be used effectively when purchase prices – and the mortgages required to buy properties – are agreed.*

**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.

*If the first priority is to identify the EPCs of all domestic properties, then there needs to be a clear requirement for all properties to be rated. Those owners who cannot afford to obtain a rating will need to apply for assistance – and, in doing so, will be identified as people who will also require financial help in making any necessary improvements to make the property more energy-efficient. They are therefore likely to be eligible for 100% funding under the Green Homes Grant scheme.*

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

*There might be some merit in lenders providing borrowers known to be in financial difficulty with information about how to get help with their energy bills. Presumably it is not suggested that lenders should contact energy suppliers directly with regard to individual borrowers, as such an intervention would require the borrower's explicit consent, in accordance with data protection regulations.*

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

*Some groups may need more assistance in obtaining EPCs and applying for assistance to undertake necessary improvement works.*

**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?

*As previously stated, we believe that property owners should be responsible for the energy efficiency of their properties. For leasehold properties such as flats, the individual leases should make clear how responsibility is divided between the individual flat owners and the head lessee/landlord. There are likely to be variations in how this works in practice, according to the age and nature of the buildings concerned. It is likely that individual flat owners would not be able to instal replacement windows, for example, since the lease would almost certainly require all windows to be of uniform appearance and quality. Issues such as these would need to be careful thought through and reflected in the EPCs. Leaseholders would also*

*need to be protected from disproportionate cost which could be incurred by landlords commissioning energy-saving works on properties and then seeking to recover the cost from the individual leaseholders.*

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

*As the consultation acknowledges, many first-time buyers buy second-hand properties which may not be in very good condition – precisely because they are affordable. If homeowners are to be encouraged – or even obliged – to carry out work which will improve their property’s energy efficiency, then the cost of this must surely be reflected in the sale price. The most obvious way to do this would be for all sellers to commission EPCs prior to sale, and for these to identify the most obvious works required to improve the rating. This will not – and cannot – protect first-time buyers from being “disproportionately” penalised – but it should help ensure that the market rate for the properties which first-time buyers buy properly reflects the cost of necessary energy efficiency improvements.*

**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?

*There is a risk that the proposals as currently presented will over-complicate and confuse the process. Brokers may find themselves having to explain why a lender cannot offer a mortgage on a property with a poor EPC rating because to do so would adversely affect the average rating of the lender’s portfolio. It would be much simpler to require all properties to be rated, and for those ratings to be reflected in property values.*

*There is also a risk, as noted on p41 of the consultation (under “Delays to mortgage processes”), that a requirement for checks to be carried out on whether an existing borrower is exempt from the scope of a lender’s target may delay product switches with the borrower’s current lender and re-mortgaging processes with alternative lenders.*

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

*By removing the emphasis on penalties and sanctions for lenders who don’t achieve an arbitrary target: lenders should be incentivised to lend to poorer-performing properties, not penalised for doing so.*

*There is a risk that if a significant proportion of the properties in a lender’s portfolio are poor-performing in terms of energy efficiency, then that lender may avoid taking on additional properties which could affect its overall portfolio average. We have already argued that this could lead to lenders taking decisions based on the property’s energy efficiency, rather than on the borrowing needs of its customer. This is alien to many lenders – and unhelpful to borrowers. Lenders will of course seek to treat their customers fairly – but they cannot be expected to bear the cost of carrying out work which may be required to improve a property’s energy efficiency. If*

*the borrower cannot afford to pay for the work, or borrow sufficient funds to pay for it – what is the government’s expectation of lenders?*

*A further unintended consequence is that, if lenders feel obliged to decline loan applications in order to “improve” their “average” rating, borrowers living in poorly rated properties may find it difficult to re-mortgage with the same lender when they need to do so. This risks creating a new cohort of mortgage “prisoners” who are unattractive to lenders, and which may also include customers more prone to vulnerability at some point in their lives, because they would have a detrimental effect on the average EPC rating. This should be avoided.*

**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?

*House prices are dictated by how attractive an individual property is to potential buyers. This will be affected by many factors – of which energy efficiency is only one. Properties which are generally of poor quality/design, and which are also in unappealing locations, may also be perceived to be less desirable if they have low EPC ratings – and prospective purchasers may see less point in incurring cost to try to improve the rating if they think the property will remain essentially unattractive to future purchasers.*

*The policies may have a further unintended consequence whereby a homeowner seeking to re-mortgage (to a new lender) might be required to provide an EPC whereas someone opting for a product transfer (ie staying with the same lender) might not: this could have the effect of restricting borrower choice.*

**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?

*There is a risk that lenders will devote too much time and effort to ensuring that their “average” ratings are at an acceptable level – rather than focusing on how to develop products which will help borrowers increase the energy efficiency of their homes. The creation of league tables is likely to increase this risk, by creating artificial and somewhat sterile competition amongst lenders as they jostle to stay at the top of the league table and avoid incurring penalties for failing to meet arbitrary targets.*

**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.

*The potential costs are significant, ranging across too many activities to be able to give a meaningful estimate here, but here are just three examples of where additional cost would likely be incurred:*

- *If lenders are to source/update information on EPCs for all properties mortgaged to them, unless this information is readily available from a public database, they will have to rely on communications with individual borrowers. This might need to be repeated several times in order to obtain a response.*

- *As previously explained (see our response to Question 2) the consultation appears to assume that capturing the required information relating to the existence and content of an EPC would be straightforward: it would not. The IT changes required to add and analyse the data could be significant, particularly for larger lenders which may have numerous product brands and channels operating across various mortgage platforms.*
- *If lending products are developed to allow homeowners to carry out energy improvement works, such lending could take the borrower into higher-range LTV levels, possibly even exceeding the value of the property. Current capital provisioning rules would mean that such loans would be costly for lenders to provide – possibly disproportionately so.*

**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?

*No. If a policy becomes mandatory it becomes part of the overall body of legislative and regulatory requirements with which firms and individuals are bound to comply. If new requirements are imposed on lenders, internal compliance functions and audit should be tasked with ensuring that they are met. There is however great need for properly joined-up thinking and consistent policy making if huge sums of money are not to be wasted on this exercise. The full engagement of the PRA, FCA and all connected Government departments is essential to ensure that resources are used to best effect.*

**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?

*No: it should not be lenders' responsibility to ensure compliance with these Regulations – that is a matter for landlords. Compliance with these and all other Regulations and legislative requirements will generally be a contractual requirement of the mortgage contract – but the lender should not be required to ensure the borrower's compliance with any of those obligations.*

**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?

*If these proposals are introduced, the Government should first be confident that they are effective before seeking to extend them. Extension to smaller-non-domestic buildings before a coherent scheme has even been approved let alone started feels like attempting to run before walking.*

**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?

*We have no specific comments on this point.*

**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?

*We have no specific comments on this point.*