



Project Lead: Home Infrastructure Technology

Funding:

£367,507



The problem: How can heat pumps be financed?

The capital cost of heat pumps is prohibitively high or unattractive for the majority of the UK population, and competitive financial products will be required to achieve their mass deployment. However, appropriate loans do not exist in the UK today.

The solution

A long-term and low-interest financial offering that provides a monthly payment similar to the monthly payment to purchase a gas boiler would help spread the upfront cost of a heat pump and can be delivered at the point-of-sale by a certified green vendor.

The Green Homeowner Loans project will develop a fintech platform specifically designed to fund heat pumps and other green measures. The simple loan product will be offered to consumers at the point-of-sale by reputable green vendors who have undergone a vetting process.

Aiming to be financially attainable and instil trust, the product is well placed to gain consumer buy-in and help increase the sale of heat pumps.

“ We believe that suitable finance, designed for domestic green retrofit, can have a transformational effect on the pace of home decarbonisation. We’re grateful for support from the Heat Pump Ready programme and are looking forward to trialling our products in the near future. ”

Matthew Boyes

Director, Home Infrastructure Technology



Developing a suitable financial offering for heat pumps

What are we going to do?

Research and development is required to deliver a functioning and attractive financial offering for heat pumps and energy efficiency home improvements. We will:

- Develop a fully functioning fintech platform capable of offering Green Homeowner Loans at the point of sale via green vendors.
- Research what capital providers the Green Homeowner Loan is attractive to and, if so, on what terms (e.g., risk profile, loan term, interest rate).
- Perform a real-world trial to understand consumer demand for the product.

Why is this an improvement on current solutions?

Current point of sale loans have high interest rates (12% or above) and low maximum terms (between 7 and 10 years), making them unaffordable for many homeowners. Whilst green mortgages offer more attractive interest rates, they are not available to everyone (half of homeowners don't have a mortgage) and can be time consuming.

The Green Homeowner Loan platform aims to combine the features of point-of-sale consumer lending and mortgage style pricing in a simple and affordable product. Vetting of green vendors also introduces consumer safeguards relating to heat pump installation and performance standards.

What would success look like?

Development of a fintech platform that allows reputable green vendors to offer attractive and scalable loans to consumers at the point-of-sale for heat pumps.



How will this project help towards the target of installing 600,000 heat pumps per year by 2028?

Mass deployment of heat pumps will require attractive financial products that can be offered at-scale.

The Green Homeowner Loans project aims to increase the number of households that can afford a heat pump, increase the attractiveness of a heat pump purchase by removing up-front payments, and increase consumer confidence through green vendor vetting.

The Optimised solutions development stream of the Heat Pump Ready programme supports the development of innovative tools, technologies and processes to overcome specific barriers to heat pump deployment in the UK. This stream supports solutions aiming to reduce the life time cost and increase the performance of domestic heat pumps, minimise home disruption whilst providing high quality installations, develop and trial financial models to support heat pump deployment, improve the heat pump consumer journey and provide a smart and flexible home energy system.

Heat Pump Ready is funded by the Department for Energy Security and Net Zero through the NZIP programme. The Collaboration & Learning stream is managed by the Carbon Trust with support from Ipsos and Technopolis. We give no warranty and make no representation as to the accuracy of this document, and accept no liability for any errors or omissions.

Contact information

Name: Matthew Boyes

Email:
Matthew.Boyes@addtomymortgage.com

www.heatpumpready.org.uk

Funded by:



Supported by:



technopolis
group

Key Findings

- Consumers are financially motivated, however the “pay as you save” model seen with other low-carbon technologies (e.g., solar PV) does not apply to heat pumps as energy savings are not guaranteed. Instead, a heat pump financing offer is viewed as competitive when the consumer pays no more than they would for a boiler.
- A large proportion of boiler service call outs are made for old boilers (>10 yrs) that are not beyond economic repair but will shortly need replacing. Heat pump deployment can be increased by identifying these consumers and starting them on a ‘non-urgent’ journey towards upgrading to a heat pump to prevent a distress purchase.
- During consumer research, over 90% of those surveyed responded positively (yes/maybe) to an ‘all-inclusive’ package including heat pump maintenance and support.

Green Homeowner Loans Project Progress (Autumn 2023)

What progress have we made so far?

The project is expected to be able to offer a consumer credit loan at an interest rate of 6.9%, which compares favourably with gas boiler point-of-sale loans at 13% representative. The acquisition of Home Infrastructure and Technology Ltd by Hometree during the project increases the potential reach of the finance offer.

The Loan Management System and consumer journey are complete and ready for market testing pending approval from the Financial Conduct Authority (FCA).

What barriers have we identified and how has this changed our approach to delivering our project?

- The cost of borrowing has significantly increased since the project began, and the product interest rate is greater than original envisaged (~5%). However, it is still a competitive offer in relation to point-of-sales loan.
- Anticipated heat pump sales in the coming years are not of sufficient scale to interest large-scale lenders (min. origination of £100mil). To achieve the scale desirable by lenders and therefore a competitive interest rate, the project has combined heat pump sales with other low-carbon technologies (e.g., solar PV).
- The FCA is resource constrained and the approvals required to take the product to market have experienced significant delays. Market testing with an alternative product that does not require FCA approval is being explored.

What are our next steps?

Initiate market testing of the Loan Management System with Hometree’s installer network, pending FCA approval. Subsequently iterate and launch the product to the market.

