

# ‘I don’t know what a green mortgage is.’ Green mortgages in Ireland



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Over the past year, a number of ‘green’ mortgage products have been offered to the market here, these facilitate discounted interest rates for those who have purchased energy efficient properties or are upgrading an existing property to a higher standard. Ireland’s Climate Action Plan (CAP) 2023 laid out an ambitious programme to transition the country to being climate neutral by 2050. In the shorter term, the target is to halve greenhouse gas emissions by 2030.

Ireland’s stock of property; residential and commercial, accounted for 11.1% of greenhouse gas emissions in 2021. Residential properties alone accounted for 9% of all emissions. It is clear then, that the success of the CAP depends on Ireland’s housing stock being radically overhauled in the next twenty-five years. The CAP calls for all buildings to transition to using heat pumps or other renewable sources, such as district heating systems, by 2050.

Building Energy Ratings (BER) are the measure of how energy efficient properties are. BERs are assessed on a scale from A1 (extremely efficient) to G (not at all efficient). The CAP proposes that a minimum of 500,000 existing properties be upgraded to a BER B2 by 2030, both by installing sustainable power supplies in those residences and upgrading their insulation.

Recent statistics from the Sustainable Energy Authority of Ireland (SEAI) indicate that 50,716 properties have been so upgraded since 2015, with 12,035 properties upgraded in 2024 as of the end of July. Take up has been slower than what is needed to hit the targets, primarily because the existing grants on offer to homeowners fall far short of the actual retrofitting costs. Increases in the cost of raw materials in recent years have not helped. Most homeowners would need to borrow or cover the difference from their own funds, which can often run

into the tens of thousands of euros, sums that most will not have readily available. Savings in energy bills accumulate over time and it can take years to ‘earn back’ the upfront outlay.

The financial services industry has a role to play here; Home Energy Upgrade loans are currently offered by AIB, Bank of Ireland and PTSB, with other lenders due to commence offering these soon. Rates are subsidised and are therefore under market rates, however information about this option has been slow to trickle out both from government and the lenders themselves.

Aside from retrofitting existing stock, new builds are another area where gains can be made. New builds are significantly more likely to already be on the higher end of the BER scale, with energy saving technology such as solar panels and modern insulation now included as standard. Approximately one third of new mortgage lending in 2022 would be considered ‘green’ lending: i.e. on a property with a BER rating of B3 or better. Lending of this type, funding construction of B3 or better or financing retrofitting of existing properties to that standard is crucial.

As of the start of 2024, AIB, Bank of Ireland and PTSB hold 88.8% of the new mortgage lending market. All three of these lenders have ‘green’ mortgage offerings on the market, providing lower than standard fixed rates to borrowers whose properties meet certain BER criteria.

The Bank of Ireland Eco Saver product launched in April 2024 and provides a discount based on the property’s BER rating. The better the rating, the lower the interest rate. 5-year fixed rates range from 4.4% for an A rated property to 4.7% for a G rating.



AIB's offer for green 5-year fixed rates apply to BER ratings of A1 to B3 with the best rate being 3.55% where the Loan to Value is between 50% and 80%.

PTSB's offer of a 5-year green new business rate also offers better interest rates to superior BER ratings, with a spread of between 4.25% and 4.5% depending on where a property falls on the BER scale from A1 to B3.

The challenge will be for the mortgage lending industry to further encourage house buyers to purchase energy efficient properties or upgrade their existing property to B2 or better. If Ireland is to meet its climate goals, further support is paramount. Approximately one third of Ireland's occupied housing stock is subject to a mortgage. By lenders making energy efficiency a priority through offering lower rates or discounted new lending to partially offset (alongside existing government grants) the cost of retrofitting could be a game changer in addressing our climate challenges in the long term. As noted above; these options exist, but the marketing and consumer knowledge of the products has not followed.

The benefits to the consumer of green mortgage products are obvious: discounted interest rates make the mortgage cheaper and offset to an extent the fact that better rated properties tend to be more expensive to purchase or upgrade.

For the lender, it has become evident that both rental yields and property values for energy efficient properties are better than for those that are not. The lender therefore has better security for its loan book with resultant lower provisions required for bad debts.

Realistically, as of this writing, we are not where we need to be. We may be at the point where, to hit climate targets in 2030, and especially in 2050, which are well within the time periods over which new mortgages are issued, the financial services industry will need to contribute some new ideas to help get us there and that discussion needs to begin in earnest now. At a minimum, a consumer awareness campaign about the existence of these options, both for new builds and to upgrade existing housing stock needs to be rolled out as a priority.

#### REFERENCES AND SOURCES

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