**Opening Statement**

In 2023 UTS Institute for Sustainable Futures released our report Scaling Green Retrofit Housing Finance financed by the Lord Mayor’s Charitable Foundation.

The question we were focused on was, not what households need to retrofit, but how a sustainability retrofit can be financed.

The focus of our research was on low-income households servicing mortgages.

Specifically there are over 750,000 housing loans identified by the Reserve Bank of Australia as the lowest loan repayment quartile group.

From an economic efficiency perspective our argument is that the housing loan is the best way to finance sustainability retrofits.

Compared to other finance products such as credits cards and personal loans the housing loan has the advantage of having the lowest interest rate, and the longest time to pay the loan off.

When a sustainability retrofit is made it becomes part of a house. If you sell a house, the retrofit goes with the house. It is therefore consistent that finance for sustainability retrofits should be attached to housing finance.

One of the issues our research sought to understand is the way housing loans have evolved over time.

From the quite restrictive terms in the 1970’s and 80’s when the amount that a household could borrow was capped, today housing loans actually consist of three products that are integrated, the housing loan itself, offset savings accounts and mortgage insurance.

Our key conclusion is that evolving housing loans for the purposes of sustainability retrofits is consistent with the way housing loans have evolved over the last thirty years.

The regulation of housing loans should support a household to invest in sustainability retrofits over time.

We believe that there is value in Australia’s financial system regulators, specifically the RBA and APRA, issuing guidance to banks on offering households the ability to increase their loans by a small amount for the purposes of investing in a sustainability retrofit.

A practical example is that for eligible customers a housing loan could be increased by as little as $5,000 to allow a household to take gas out of their home.

A household would not have to apply to refinance their housing loan simply to make this investment.

The benefit of evolving housing loans is to reduce a household’s exposure to energy bills.

By demonstrating that the increase in finance reduces a household’s costs of living, bank credit risk is also improved.

Transition to net zero emissions would also be supported in an orderly manner.

Our proposal is that APRA identify a cohort from the lowest loan repayment quartile that have low loan to valuation ratios, high liquidity buffers and mortgage payments that are not in arrears that would be eligible for a pilot.

These three factors combine to identify low risk customers from a banking perspective.

Finally, without a regulatory nudge, households that seek a small amount of finance for the purposes of sustainably retrofitting their home will be driven into financial products with higher interest rates and shorter terms to make repayment. For low-income households this risks being exposed to what we are calling a net zero poverty premium.