High Level Expert Forum for Sustainable Finance

Co-creating the Future of Sustainable Finance.

13 & 14 December 2022

#HLEF2022

Panel 4 – Retail lending for energy efficiency of buildings

Mathilde Nonnon, Sustainable Finance Policy Assistant, WWF EPO

Anna Martin, Financial Services Officer, BEUC

Stanislas Jourdan, Executive Director, Positive Money Europe

Pierluca Merola, Policy Officer, EC DG ENER.B.2

Moderated by Joost Mulder, Director, Better Europe

14 December, 15h10-16h40

Introduction by Seán Kelly, Member of the European Parliament

GA n°894345

levelEEI

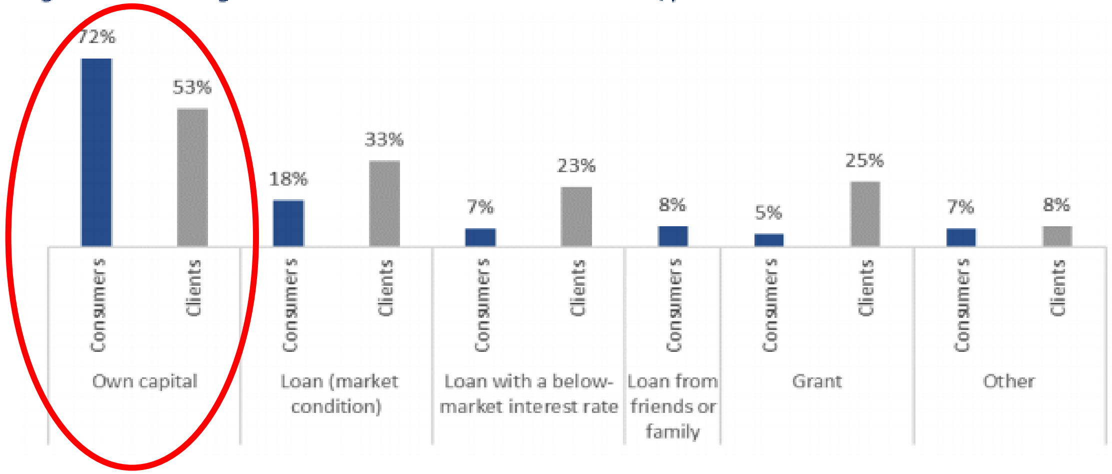
Unlocking renovation loans across the EU

Stanislas Jourdan
Executive Director
Positive Money Europe

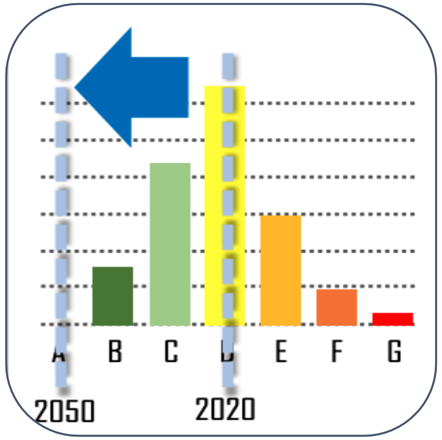
Financing obstacles to deep renovations

- **High upfront** costs remain too high and subsidies are often too much delayed.
- **Horizon mismatch:** net returns from energy efficiency gains are too far in the future in comparison to cost of loans on short term.
- Some homeowners cannot take on new loans on top of current mortgage due to **regulatory constraints.**
- Commercial banks do not offer adequate products (long maturities loans with low interest rates)

Figure 53: Funding sources of consumers and commercial/public clients of architects



What needs to happen to get banks onboard?



Mortgage Portfolio Standard

The EPBD directive should oblige banks to develop strategies to increase the energy performance indicators in their mortgages portfolios.

Guarantee funds

National and EU-level guarantee funds to lower the risk weights on banks' balance sheets and widen the eligibility to renovation loans to low-income households

EU Renovation loans

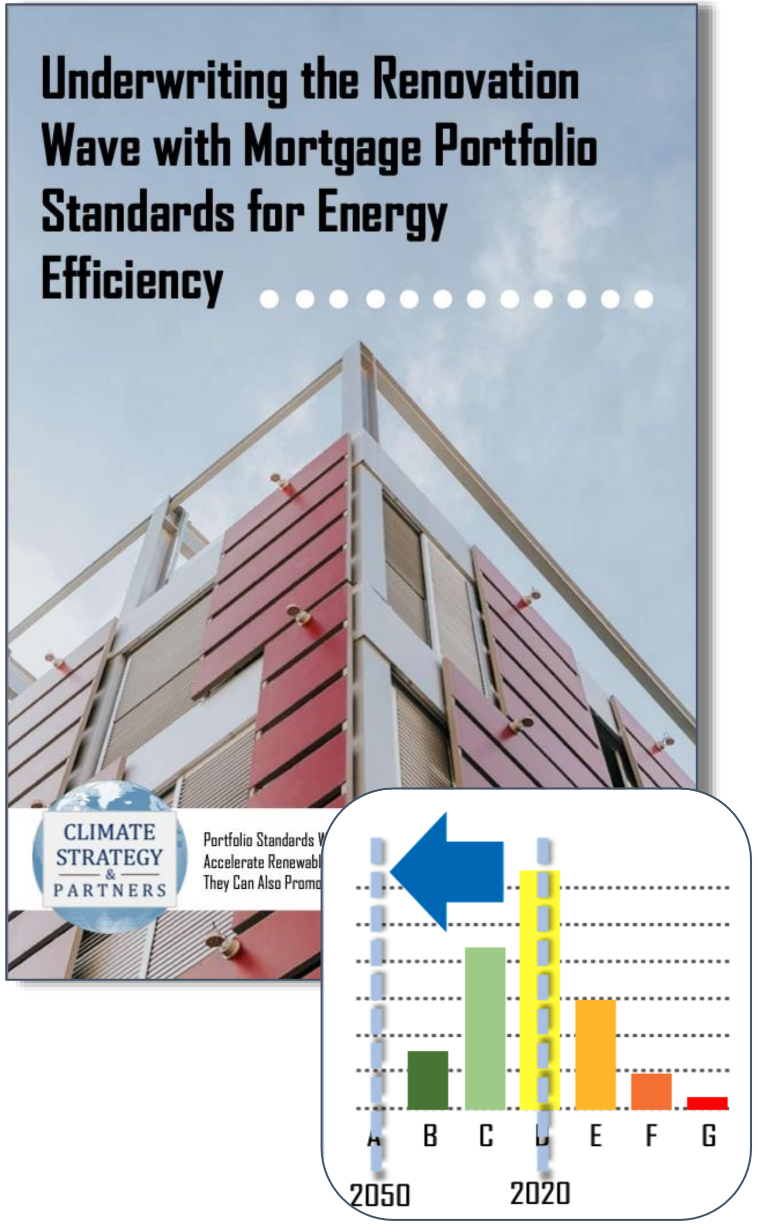
Low rates banks loans distributed by commercial banks, with public guarantees and zero-coupon structure.

Green discount rate from ECB

The ECB could offer lower rates under refinancing operations (eg. TLTROs) when banks issue taxonomy-aligned renovations loans, to ensure low and stable cost of funding.

Mortgage Portfolio Standards (MPS)

- **Definition**: *"A mechanism requiring any mortgage lenders to define a path to increase the median energy performance of the portfolio of buildings covered by their mortgages"*
- **Objective**: to hardwire energy efficiency into banks' business lending strategies. Banks will have to analyse their portfolio, develop financing solutions, and raise awareness to their consumers.
- Should be mandatory for all banks under EPBD and methodologies and targets should be harmonized by a delegated act put forward by the EU Commission.



The EU Renovation loan proposal

- Loans for renovation purpose, **aligned with taxonomy criteria**
- **Zero-coupon structure:** clients do not have to make repayments until the property is sold or transferred, or at last after 30 years
- No **extra-regulatory cap** on the borrowing amount (to ensure deep renovation can be covered)
- **Guaranteed** by junior collateral on existing mortgage (or real estate property) + state or EU guarantee
- **Interest rate level** must be closely aligned with EU-bonds rates (2% today)
- Supported by **central bank liquidity** to guarantee a secondary market for this assets

Differentiated rates on ECB refinancing operations

- Interest rate hikes will make **all investments more expensive**.
- The ECB can provide **cheap and stable funding for Taxonomy-aligned loans** by applying differentiated rates on its refinancing operations (as done with TLTROs).
- **Affordable green loans** to people and businesses.
- Most of this year's inflation was due to our dependence on fossil fuels.
- **Investing in the green transition** will help relieve inflationary pressures and achieve climate neutrality.

Banks face climate risks due to low energy performance

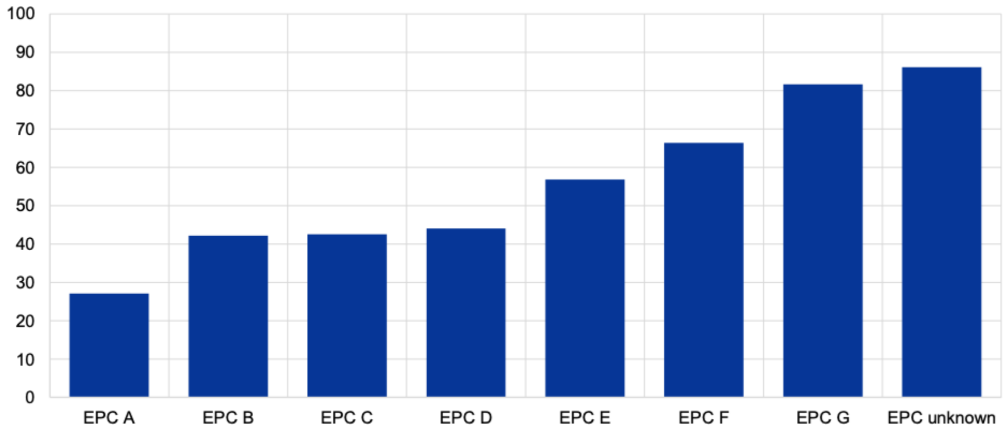
- There exists a **correlation between credit risks and the energy performance** of real estate (see chart, ECB 2022).
- Credit risks of an EPC G property are **three times higher** than of an EPC A building.
- Energy price spikes reduce people's disposable income and can lead households to **mortgage arrears**. The most affected are **vulnerable households** who leave in the worse-performing buildings.
- A wave of Non-Performing Loans could **threaten financial stability** if unchecked.
- Helping people renovate their homes would protect mortgage portfolios from climate risks.

Chart 15

Impairment losses for each EPC rating class higher in the short-term disorderly scenario than in the baseline

Cumulative loan losses in the short-term disorderly vs baseline scenario by 2024

(basis points of the REA of exposures in scope)



Source: Bank submissions and ECB calculations.
Note: REA stands for risk exposure amount.

Data is coming

- Under ESG disclosure requirement of Pillar 3 (CRD/CRR) banks will start disclosing **energy performance levels** of their mortgage loan book in 2024 (for data of end-2023)

- Under taxonomy, banks will report the volume of “renovation loans” in 2023

- When banks do not hold EPCs data, they can rely on specialised data providers or use estimates based on proxies.

Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	Counterparty sector	Total gross carrying amount amount (in MEUR)															
			Level of energy efficiency (EP score in kWh/m^2 of collateral)						Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
			0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m^2 of collateral) estimated
1	**Total EU area**																
2	Of which Loans collateralised by commercial immovable property																
3	Of which Loans collateralised by residential immovable property																
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties																
5	Of which Level of energy efficiency (EP score in kWh/m^2 of collateral) estimated																
6	**Total non-EU area**																
7	Of which Loans collateralised by commercial immovable property																
8	Of which Loans collateralised by residential immovable property																
9	Of which Collateral obtained by taking possession: residential and commercial immovable properties																
10	Of which Level of energy efficiency (EP score in kWh/m^2 of collateral) estimated																

Thank you!

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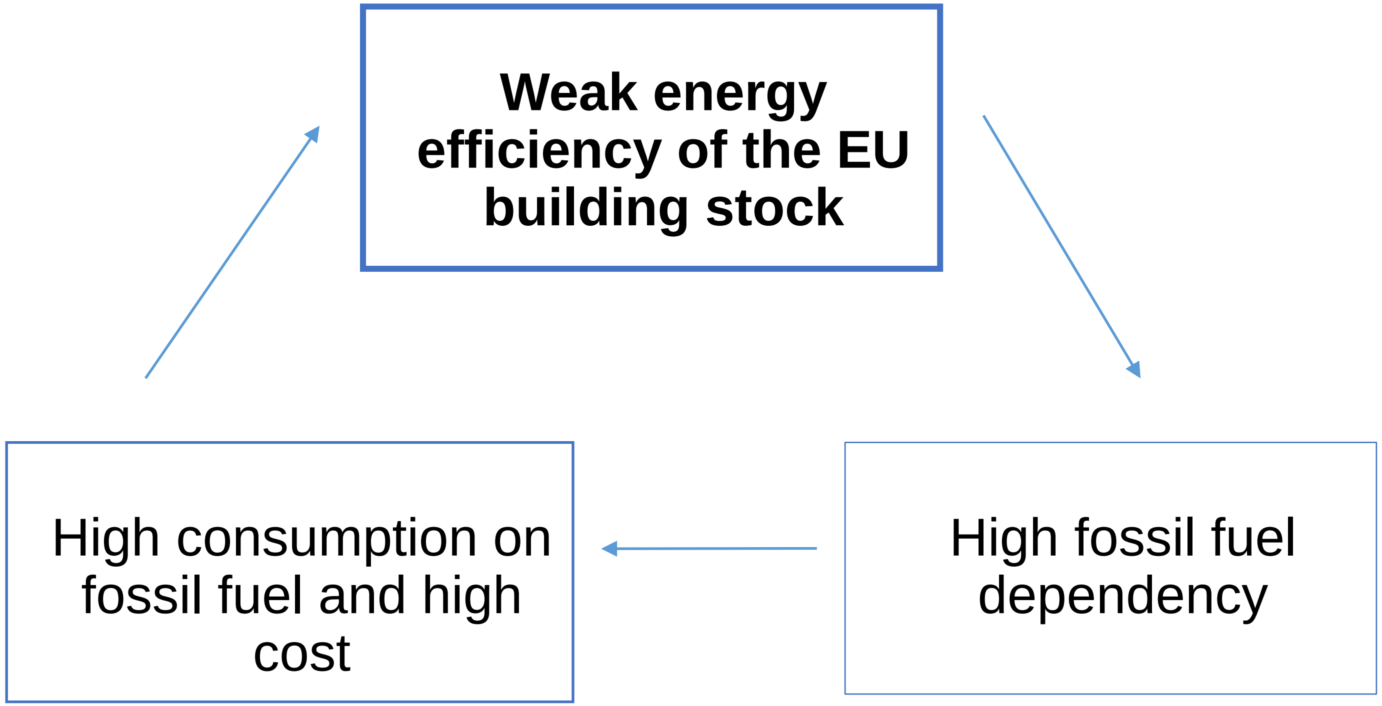
FINANCING EU Building Renovations

Mortgage Portfolio Standards and Targetted Financial Incentives

Mathilde Nonnon
WWF European Policy Office
December 2022

Address the root of the problem



Mortgage Portfolio Standards (MPS)

MPS will allow the **mobilisation of banks** and create **new incentives** for them to work with their clients to renovate.

BUT to be truly impactful:

- Banks must set **mandatory targets**.

→ ABN AMRO is a good example but voluntary approaches are neither fast nor ambitious enough.

- Aim of MPS should be to increase the median energy performance of the portfolio of mortgaged buildings **prioritizing clients with E, F, G properties.**

- Commission should adopt a **delegated act to guide banks through the setting of targets** and to put **adequate safeguards in place.**

MPS will not be sufficient, they need to be coupled with:

1) Public funding that:

- is well-designed and targeted towards **worst performing buildings** (class E, F, G).
- **incentivizes deep renovations in 1 or 2 steps**
- is **allocated according to revenues-based parameters** to ensure that vulnerable and low-income households are prioritised.

Figure C : Écarts de consommation sur la moyenne du parc construit avant 1982 entre les différents parcours de rénovation selon le nombre d'étapes, et écart à l'objectif BBC rénovation ou équivalent.

Légende : RCP = Rénovation Complète et Performante ;

: parcours ne permettant pas d'atteindre les objectifs de consommation BBC rénovation ni le confort pour les occupants, leur santé, la préservation du bâti et pouvant générer des impasses de rénovation ;

⚠⚠ : parcours comportant des risques pour le confort, la santé et/ou la préservation du bâti mais pouvant parfois atteindre les objectifs de consommation BBC rénovation sous conditions fortes ;

⚠ : parcours pouvant atteindre le niveau BBC rénovation sous conditions et préservant santé et confort pour les occupants et préservation du bâti ;

: parcours permettant d'atteindre les objectifs de consommation, de confort et santé pour les occupant et la préservation du bâti.

Study from the French environmental agency ADEME

- Partial renovations are neither cost-effective nor energy efficiency-effective.
- Possible to achieve a “low-energy building renovation” in 1 or 2 steps but the **levels of energy consumption rise dramatically if it is achieved in more steps.**

2) **Public funding should not be used to finance fossil fuel boilers:**

- soaring gas prices and need to phase out Russian gas as soon as possible.
- high risk of locking households in costly gas-fired boilers and stranded assets.
- Financial incentives should be channeled to directly support smart electrification and efficient heat pumps.

Thank you for your attention!

Financing the renovation wave – a consumer perspective

Anna Martin

60 YEARS YOUNG YEARS STRONG
BEUC The European Consumer Organisation
The Consumer Voice in Europe

CONSUMERS ARE READY TO RENOVATE BUT KEY CONDITIONS ARE NOT MET

- The sustainable option should become the most affordable one
- Different solutions for different consumer groups – low income need subsidies
- Consumers need to be protected against over-indebtedness and unfair contract conditions
- Applications for financial support must be easy and be available when the payment is due

WHAT COULD HELP?

- Targeted support:
  - Green loans with attractive interest rates
  - Subsidies for lower income groups
- Funds to mitigate risks and add flexibility:
  - Guarantee funds to cover potential defaults
  - Revolving funds to bridge time gaps until subsidies arrive
- Sound consumer protection
  - Creditworthiness checks, cost caps etc.

YEARS YOUNG
YEARS STRONG

BEUC The European Consumer Organisation

The Consumer Voice in Europe

Thank you for your attention

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14 December 2022

Energy policy update

Financing for Energy Efficiency / Building Renovation

Pierluca Merola, Policy Officer, Financing for Energy Efficiency, Energy Efficiency Unit - ENER.B2

Objectives of the EPBD revision as part of the Fit for 55 package

- **Climate Target Plan:** by 2030 the EU should reduce buildings' GHG emissions by 60%, their final energy consumption by 14% and energy consumption for heating and cooling by 18%.
- **Renovation Wave** aims at doubling renovations by 2030 and foster deep renovations

Twofold objective:

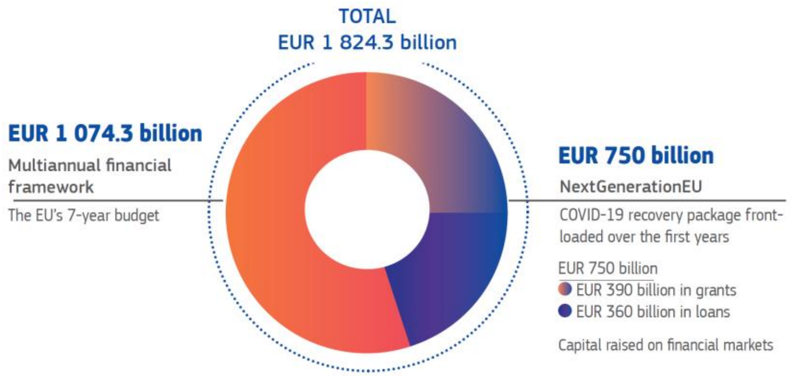
→ Contribute to **reducing buildings' GHG emissions and final energy consumption by 2030**

→ Provide a long-term vision for buildings and ensure an adequate contribution to achieving **climate neutrality in 2050**

Investment needs and Finance for energy efficiency

Investment needs

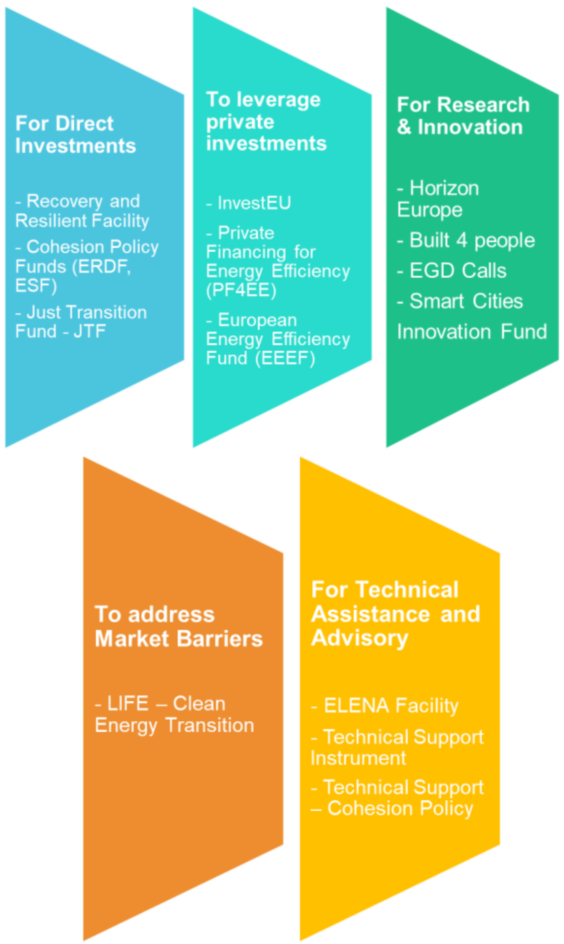
- **FF55 package** estimate **an additional annual investment** need to achieve 2030 energy efficiency targets at **around 165€bn**.
- **REPowerEU:** specifically **56€bn additional investments in energy efficiency and heat pumps**, plus solar rooftop initiative.



Financial resources

- Out of the total 1.800€bn (NGEU + MFF 2021-2027), 30% of these resources, **around 550 billion euro, earmarked to deliver the climate goals** of the European Green Deal.
- **Energy efficiency plays a key role** in clean energy transition.
- The **resources dedicated to climate action have more than doubled** compared with the period 2014-2020.
- While there is **no earmarking for energy efficiency**, EU-budget support for energy efficiency could be estimated **in the range of 120-150€ bn**.
- National **financial support vary significantly across Member States**, at EU-level we can expect around 100€bn from national budgets.

EU-funding landscape



Financing energy efficiency and building renovations

Leveraging private financing and investments **is conditional** to achieve the Union's climate and energy targets.

Drivers:

- Strengthen the cooperation with financial institutions (High-level Energy Efficiency Coalition)
- Public Funds as a catalyst for private investments (grants models are insufficient).
- Combination of grants, financial instruments and technical assistance
- Development of financing schemes at scale/innovative/performance based (On-tax and On-bills, energy performance contracting, pay-for-performance, pay-as-you-save, etc).
- Project development assistance (e.g. replicating ELENA model) and technical assistance (ELENA, LIFE PDA), support to One-Stop-Shops.
- Stimulate demand, including removing up-front costs, with measures that can be sustained over time.
- Development of energy efficiency lending products (EEM, Green Loans, etc).
- De-risking investments

Thank you

Carlos Sanchez Rivero, Team Leader Financing for Energy Efficiency, Energy efficiency unit, ENER.B2