



## **EFBS proposal for criteria for green mortgages and green loans**

With the publication of the renewed sustainable finance strategy in July 2021 the European Commission announced its ambition to develop criteria for green mortgages and loans. To this end, the Commission tasked the EBA on 22 November 2022 with developing an opinion on the definition and possible supporting tools for green retail loans and green mortgage (Call for advice).

In this context the members of European Federation of Building Societies have thoroughly discussed a possible definition for green mortgages and green loans. EFBS members are specialised credit institutions promoting the financing of private homeownership. In compliance with the strict legal provisions, Building Saving Institutions ("Bausparkassen" in German language) offer long term contractual savings schemes to their customers with the aim to grant private mortgage financing. Due to the experience in the mortgage and lending business the EFBS wants to propose some criteria for the development of green mortgages and loans.

### Criteria for green mortgages and green loans

The EU Taxonomy provides screening criteria defining sustainable economic activities in various sectors, also the building sector. We support an alignment with the EU Taxonomy while developing standards for green mortgages and green loans for better comparability and see the urgent need to make the EU building stock more energy efficient. We, however, believe that the current set of criteria stemming from the first delegated act on climate mitigation and adaptation provides for *best-in-class* investment products. Applying these to retail banks like Bausparkassen and retail financial products focusing on mortgages and housing financing for lower- and middle-income households is not fit for purpose. Green mortgages and loans should not be niche products but accessible for the wider population. Green retail financial products need clear and easily applicable criteria to determine their contribution to climate mitigation and adaptation that also suit the needs of consumers.

We thus propose that criteria for green mortgages and green loans are aligned with the EU Taxonomy but e.g., do not exclude renovations that do not meet the 30% threshold. A definition for a green mortgage should not be too strict, especially with looking at a potential green supporting factor so that lower- and middle-income households are not excluded. A green supporting factor would be a meaningful incentive to e.g., renovate existing homes, especially for households that do not have easy access to financing energy efficient renovations otherwise.

### Suggestions by the European Bausparkassen

- Rather than only considering the acquisition of an existing building with Energy Performance Certificates (EPC) level A, a sustainable economic activity thus eligible for a green mortgage/loan, the threshold should be lowered to EPC level B. Also allowing the acquisition of building with an EPC level B to qualify for a green mortgage/loan could increase the uptake of green

mortgages and also make them more accessible for low-and-middle-income households. Acquiring buildings that do not yet meet the criteria but will be renovated accordingly should also be able to qualify for green mortgages if the acquired building after renovation meets an EPC level B or then belongs to the top 15% of the national building stock.

- Instead of only considering the construction of new buildings with a Primary Energy Demand (PED) which is at least 10 % lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures implementing Directive 2010/31/EU, new buildings that meet the national measures should be considered for green mortgages as well. National legislation is in line with achieving the set climate goals by the European Commission and thus should be considered as well.
- Next to individual renovation measures consisting of installation, maintenance, or repair of energy efficiency equipment that follow the list provided for in Annex I and II of the Taxonomy Regulation under point 7.3 individual measures that are not climate-damaging should be eligible for green loans if they mostly comply with the criteria from the before mentioned list. Furthermore, individual measures that are eligible for funding according to national regulations (such as Directive for Federal Funding for Efficient Buildings - Individual Measure in Germany) should also qualify for a green mortgage or a green loan as these are in line with the climate ambitions at EU level.

#### Energy Performance Certificates (EPCs)

To verify that agreed criteria are applied while granting the green mortgage or green loan, we advocate for using EPCs and other available data. We welcome the prominent role of EPCs in the process of monitoring the transition to a climate neutral building stock. It should, nevertheless, be paid attention to the fact that the ratings of EPCs differ within the EU and thus distort comparability. We suggest, also from the consumer's point of view, that the different types of data (demand vs. consumption) are recognised and that the costs for EPCs will be considered as well. High costs for the consumers could lower the incentives to request an EPC, if not mandatory. Member states should push for higher proportions of EPCs, e.g., making them mandatory in more circumstances, as suggested by the recast of the Energy Performance of Buildings Directive.

New requirements for buildings and data collection proposed by the European Commission should correspond with national legislation and should be implemented within a reasonable transitional period. A swift implementation could be achieved by accepting similar standards. We propose for mortgages and housing finance in general, to allow a range and hierarchy of available data sources following national building regulation giving the highest priority to EPCs, followed by the year of construction. The latter provides a clear link to national building regulation prescribing criteria for energy efficient new buildings and can be centrally validated. To fill existing data gaps, we advocate using estimated values regarding the energy efficiency of buildings or renovations.