



2024

MORTGAGE PORTFOLIO STANDARDS

**The EPBD Delegated Act process can
synchronise regulatory developments,
climate initiatives, and EU technologies
to offer a window into the future**

CLIMATE & STRATEGY
P A R T N E R S

AUGUST 2024

Peter Sweatman, CEO Climate Strategy & Strategy

33 YEARS BLUE-CHIP FINANCE AND CLIMATE STRATEGY

33 years in finance and climate:

- JPMorgan
- Climate Change Capital
- Climate Strategy
- Energy Efficiency Capital Advisors

Published 25 white papers on low carbon finance and innovation

Long-term relationships with:

- Bloomberg NEF
- S&P Trucost (prev.)
- ECF

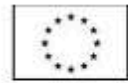
Clients:



**CS Group
launched EE
advisor in 2016:**



The EPBD April 2024 recast mentions the voluntary Mortgage Portfolio Standards (MPS)



EUROPEAN UNION

THE EUROPEAN PARLIAMENT

THE COUNCIL

Brussels, 3 April 2024
(OR. en)

2021/0426(COD)

PE-CONS 102/23

ENER 719
ENV 1550
TRANS 629
ECOFIN 1437
RECH 574
CODEC 2603

LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject: DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
on the energy performance of buildings (recast)

PE-CONS 102/23

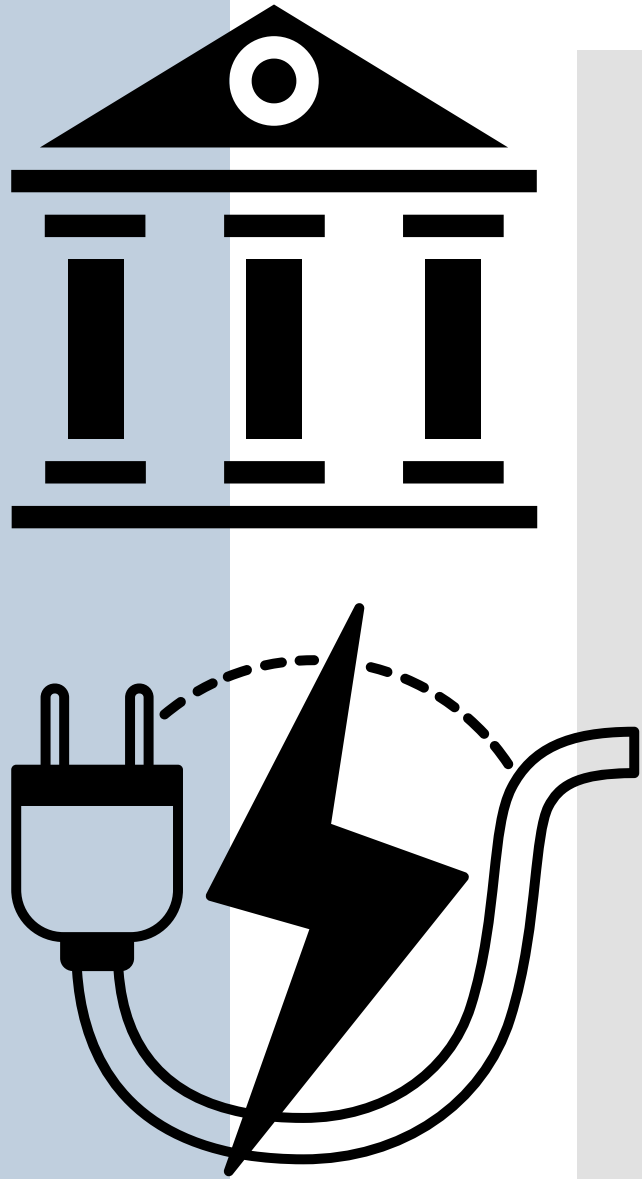
TREE.2

GP/NT/cc,di

EN

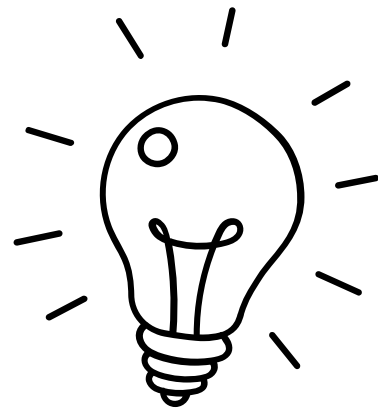
“Mechanisms incentivising mortgage lenders to establish a path to increase the median energy performance of the portfolio of buildings covered by their mortgages towards 2030 and 2050, and to encourage potential clients to improve the energy performance of their property in line with the Union’s decarbonisation ambition and relevant energy targets in the area of energy consumption in buildings, relying on the criteria for determining environmentally sustainable economic activities set out in Article 3 of Regulation (EU) 2020/852”

The recast EPBD tasks the EC with the adoption of a Delegated Act over the course of 12 months to establish voluntary MPS



“comprehensive portfolio framework for voluntary use by financial institutions that supports lenders in targeting and increasing lending volumes provided in accordance with the Union’s decarbonisation ambition and relevant energy targets, in order to effectively encourage financial institutions to increase lending volumes provided for energy performance renovations. The actions set out in the comprehensive portfolio framework shall cover increasing lending volumes for energy renovations and shall include suggested safeguards to protect vulnerable households through blended funding solutions. The framework shall describe best practices to encourage lenders to identify and act upon the worst-performing buildings within their portfolios.”

Delegated Acts build on expert groups for Guidance



**Delegated acts
supplement or amend
existing legislation**

Relies on outside expertise to draft sound policies following the findings of “Expert Groups”

“formal”

those set up by
Commission

“informal”

those set up by a
Commission
director general

the Commission ensures that members hail from different backgrounds to ensure a balanced composition

The European Energy Efficiency Financing Coalition (EEEEFC) will build on the work of EEEFIG

EEEEFC was launched in April 2024 to promote collaboration between:

- Financial institutions
- Member States
- European Commission

Aligned with:

- EED
- EPBD

will build on the work of



- During 2013 - 2023 identified and documented key issues

Driving

Preventing

Energy efficiency investments

EEFIG examined with precision the potential of FIs in enabling energy efficiency financing

Discussed MPS at length and its related elements

- Data gaps in energy performance standards (EPCs) ✓
- Minimum Energy Performance Standards (MEPS) ✓
- Stimulating consumers' demand for energy efficiency investments ✓
- the De-risking Energy Efficiency Platform (DEEP) database ✓
- The EU Taxonomy ✓
- National EEFIG processes ✓

The European Banking Authority (EBA) references MPS under the definition for 'green loans'

eba

**recognises MPS
as a framework**

sees necessary
levering

**EU sustainable
finance framework**

- To address the challenges of financial sector stakeholders in their uptake of the EU Taxonomy
- Encompasses present green finance and decarbonisation standards
- Assists in minimising environmental harm

1. EU TAXONOMY

2. DISCLOSURES

3. TOOLS

EPBD's data provisions underpin Mortgage Portfolio Standards

MEPS for residential buildings

- Are subject to Member States' national building renovation plans (NBRPs)
- These update and renew the national long-term renovation strategies (LTRS)

TRAJECTORY FOR THE PROGRESSIVE RENOVATION OF THE RESIDENTIAL STOCK

AT LEAST -16% (2020-2030) AND -20/22% (2020-2035)

Minimum 55% savings from the renovation of
SPECIFIC RESIDENTIAL BUILDINGS

Maximum 45% savings
from the renovation of
OTHER RESIDENTIAL BUILDINGS

43%
WORST PERFORMING
RESIDENTIAL BUILDINGS

RESIDENTIAL BUILDINGS
AFFECTED BY NATURAL
DISASTERS

ALSO ELIGIBLE BUILDINGS =
57% BEST PERFORMING
RESIDENTIAL BUILDINGS

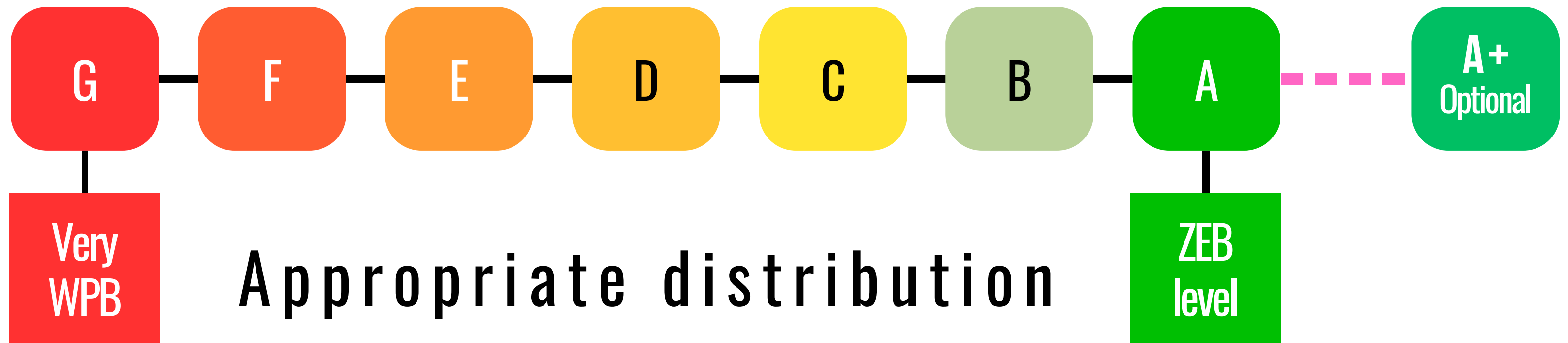
“Worst-performing buildings”, defined as the 43% of buildings with the lowest energy performance

**Common
A-G energy
EPC scale**

EPCs will disclose energy performance for primary and final energy use in

kWh/m²/year and reference values

MEPS, NZEB, and ZEB



Technology takes on a larger role under the EPBD recast

Issuance of EPCs

MS methodologies must express the energy performance of buildings

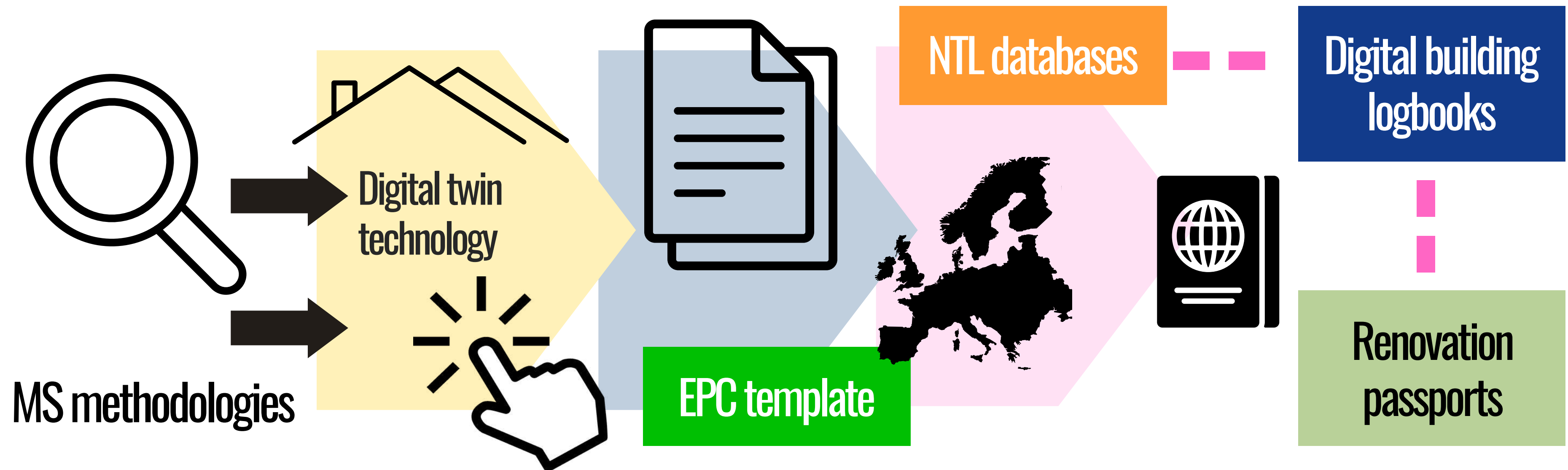
In primary energy use per unit of reference floor area per year, in kWh/(m².y)

yet they are open to innovation



- To be conducted by a third party expert on-site
- The recast authorises a “virtual” approach in line with a common template with a set of indicators
- Allows MS to use ‘**digital twins**’ to facilitate the upgrade of EPCs

The enabling role of technology to meet EPBD targets through Mortgage Portfolio Standards



How to define the scale of the energy classes?

EPBD defines class 'A' as ZEB

reorganisation can be based on ZEB as a reference point

then allocate the different classes through 'primary energy factors'

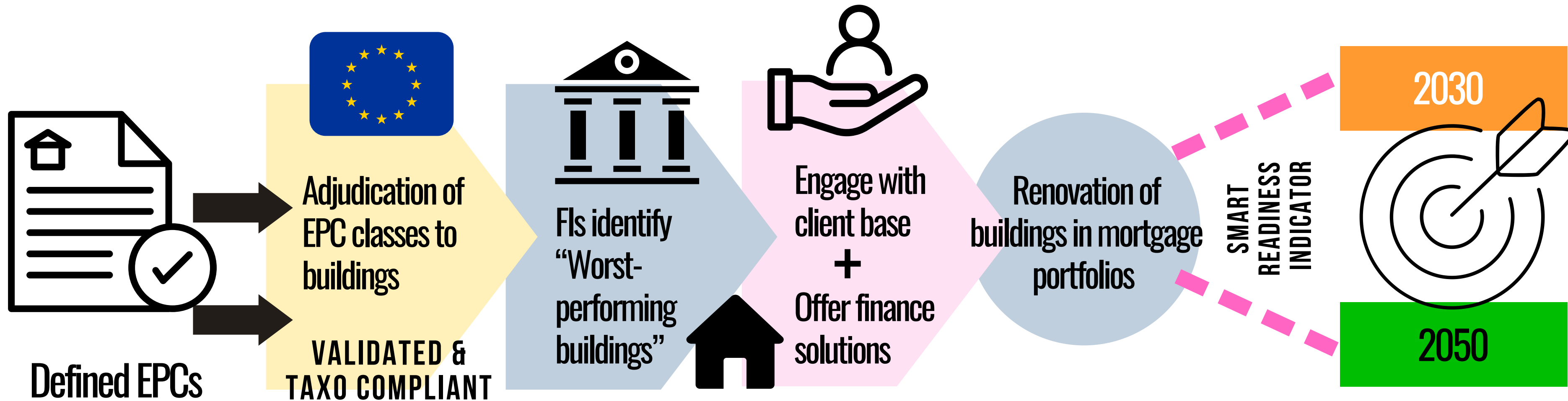
- Requires MS to reorganise their EPC classes using 'A' to 'G' labels
- Ensuring the pertinent distribution of 'B' to 'F' classes will avoid small clusters of buildings

mentioned in the EPC template

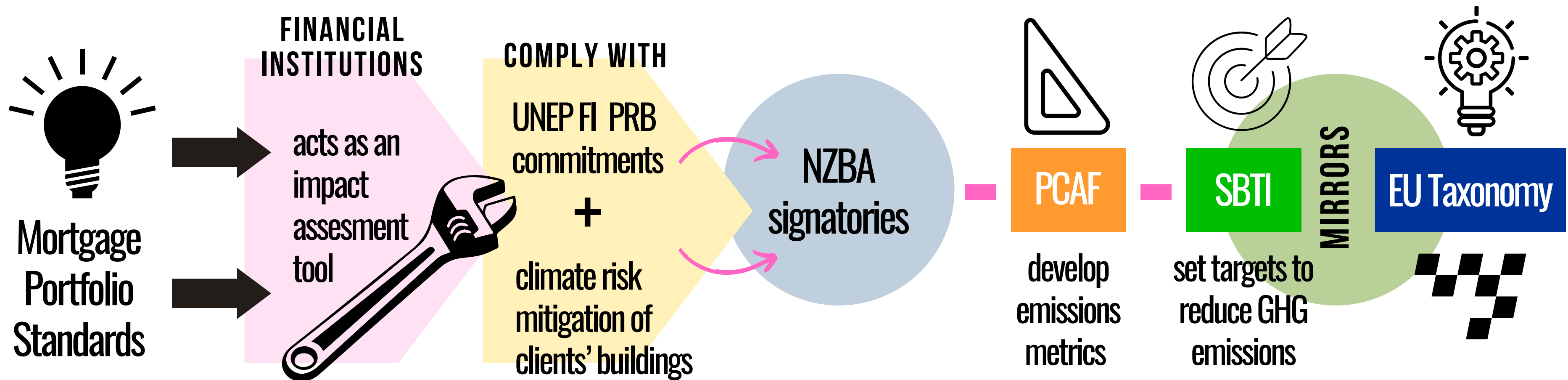
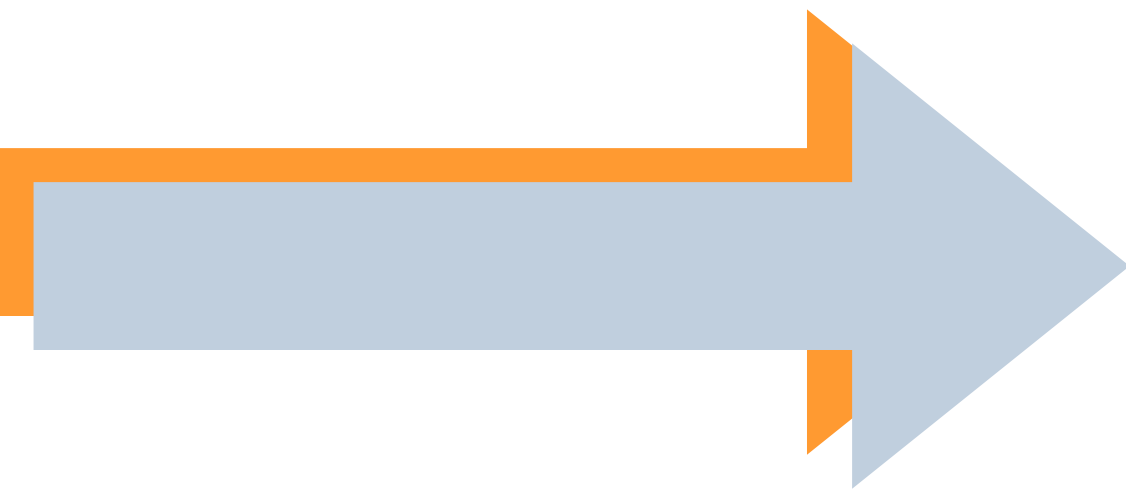
based on

- EN 17423 or
- Union primary energy factor for electricity that is established in the EED

Relevance of defining the scale of energy classes / Present and near future scenarios

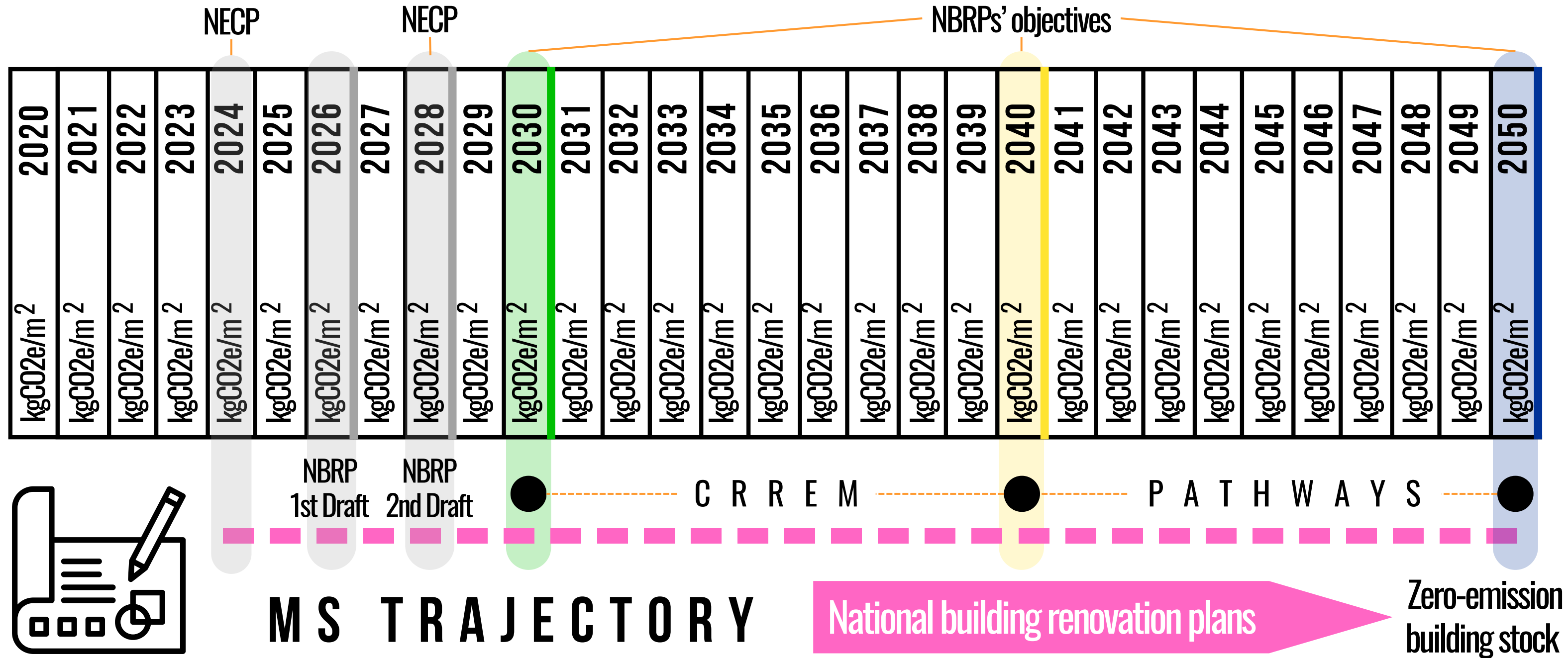


EU Taxonomy, disclosures, and tools



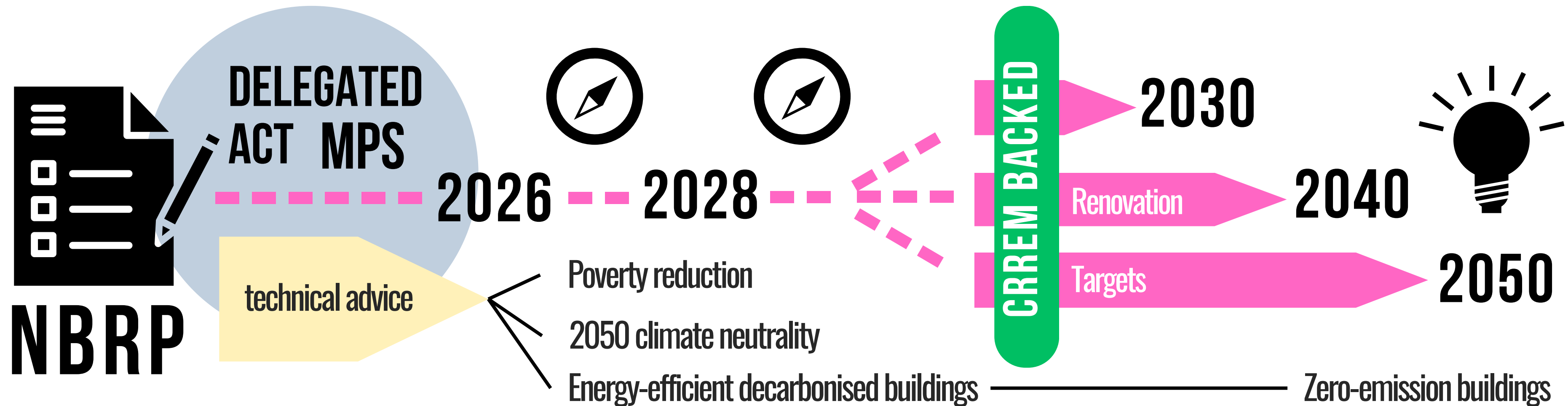
Decarbonisation Pathways and National Renovation Targets

Graph by CS based on CRREM User-defined decarbonisation settings, 2024

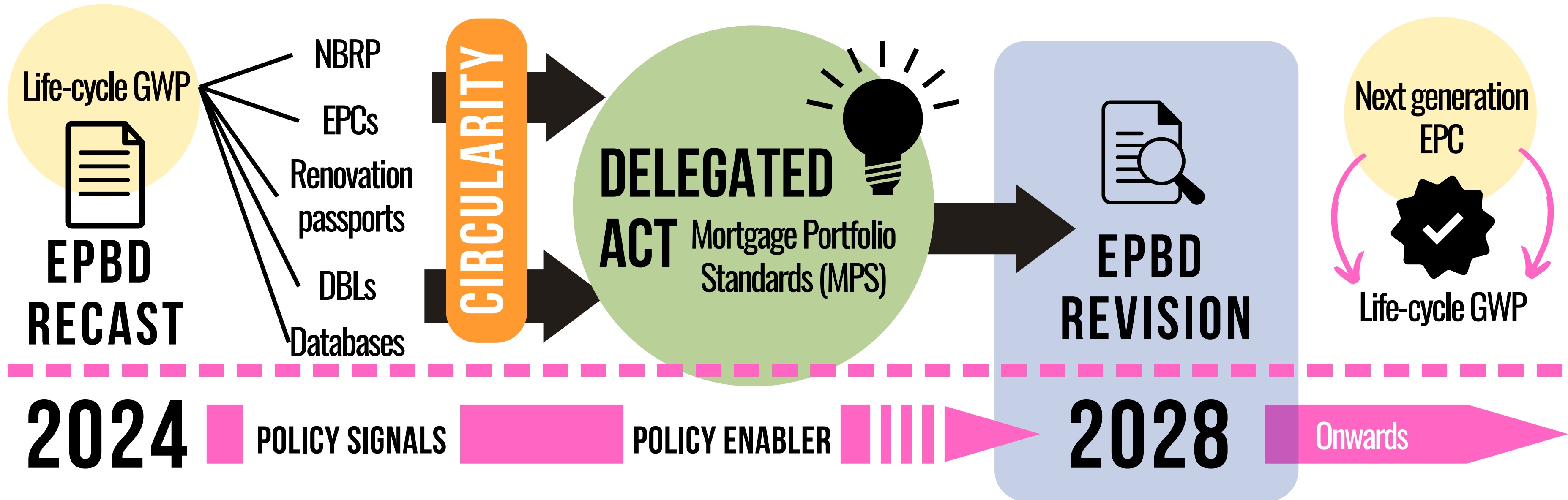


Users of the SBTi aligned CRREM Risk Assessment Tool can evaluate reduction targets against Paris aligned pathways (2°C / 1.5°C) with specific default values for each MS.

The voluntary uptake of MPS can instrumentalise setting climate accurate ntl renovation targets

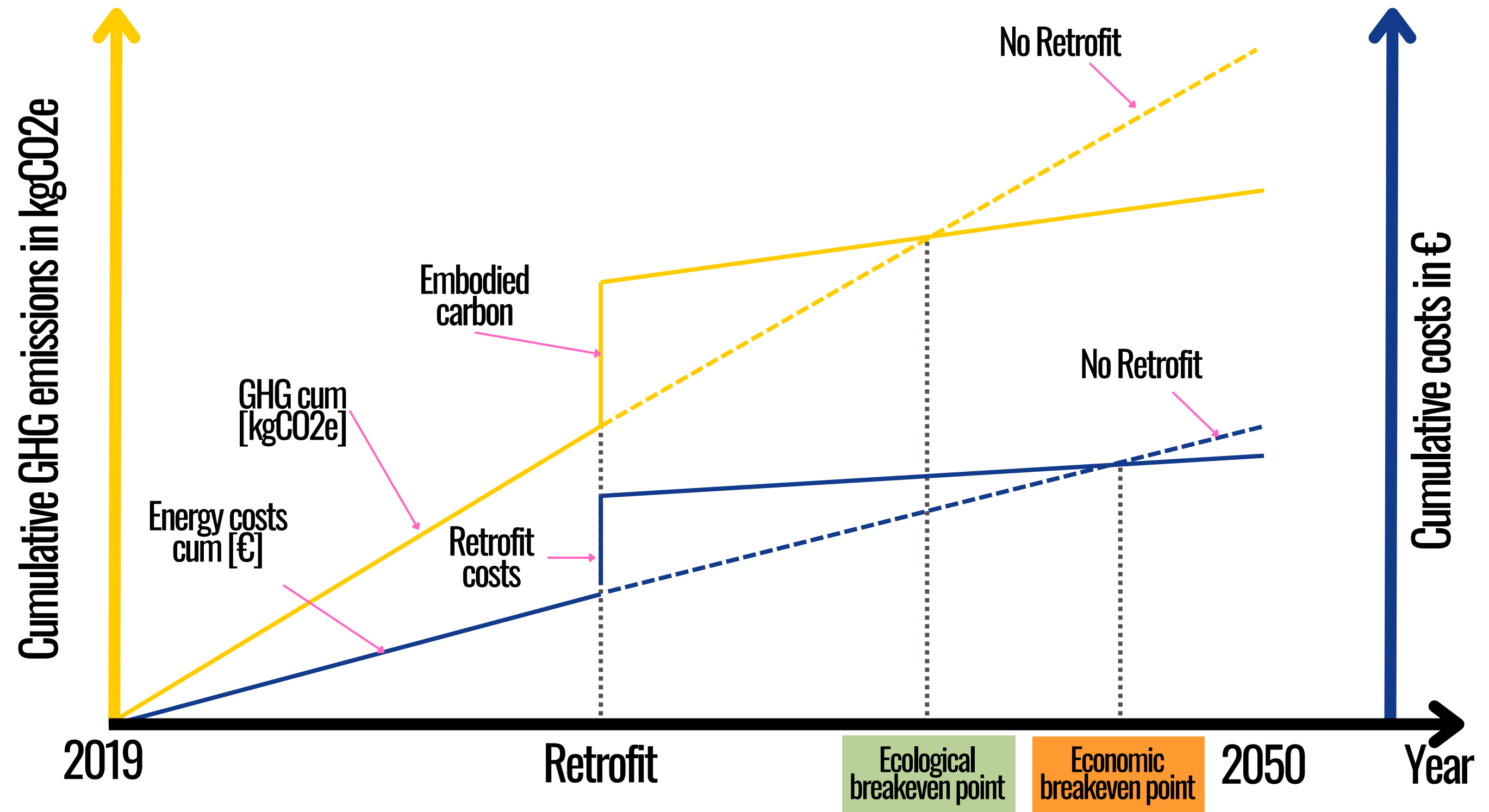


Importance of quantifying the 'life-cycle global warming potential' of buildings

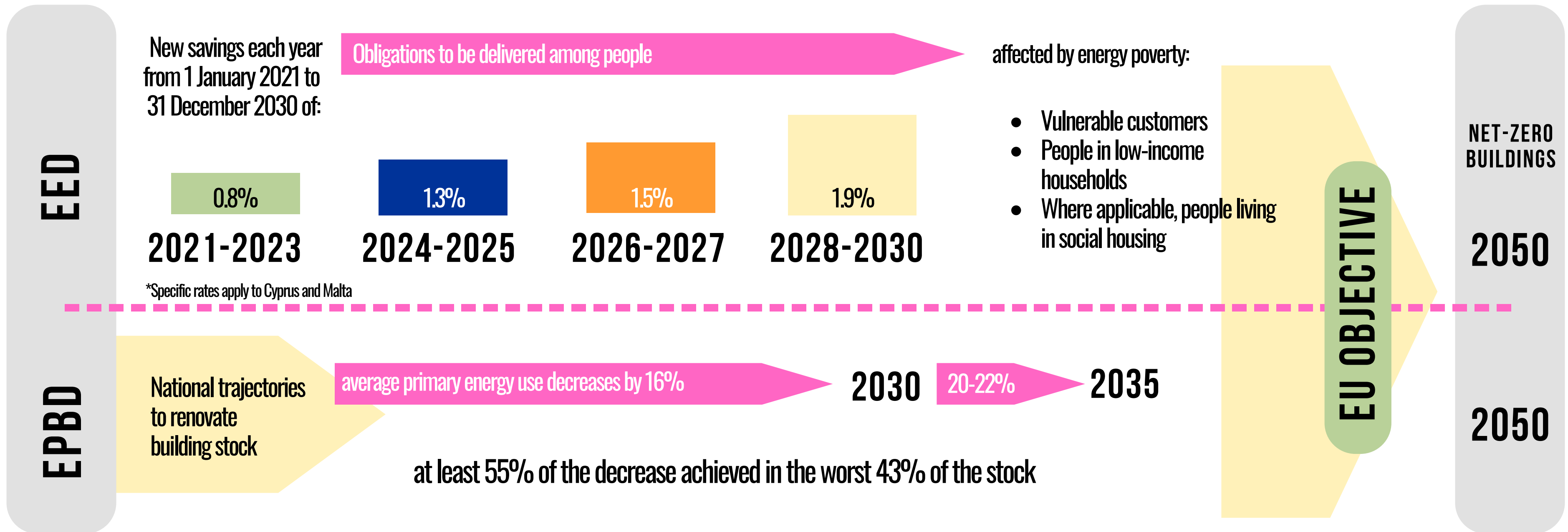


The DA process can convene PCAF, SBTi, and CRREM who acknowledge embodied carbon with different degrees

CRREM mentions the need to focus on 'Ecological Break Even Point', which is the trade-off between embodied carbon and operational savings



The opportunity to synchronise the EPBD and the EED



Comparison between Directives - Energy Poverty

EPBD	EED
<p>Article 3, requiring national building renovation plans to include definition of energy poverty, its measurement and related indicators, quantified reduction of energy poverty as result of measures.</p> <p>Article 9, renovation focused on the worst performing homes.</p> <p>Article 17, requires MS to target financial incentives, as a priority, on those affected by energy poverty, in accordance with Article 24 of the EED.</p>	<p>Article 24, facilitating access to affordable bank loans or dedicated credit lines.</p> <p>Calling on MS to establish an expert network to develop strategies to support local and national decision makers in implementing energy efficiency improvement measures, technical assistance and financial tools to alleviate energy poverty.</p>

Comparison between Directives - End-use energy savings

EPBD

Item 38 discusses end-use energy savings in the context of the 'energy efficiency first' principle and its relevance to when improving the energy performance of buildings under the Renovation Wave and 2030 and 2050 renovation targets.

EED

Article 4, Member States shall collectively ensure a reduction of energy consumption of at least 11,7 % in 2030 compared to the projections of the 2020 EU Reference Scenario so that the Union's final energy consumption amounts to no more than 763 Mtoe.

Article 8, Energy savings obligation (*targets described in the graph above).

MS shall encourage obligated parties to carry out renovation of buildings, including social housing, replacement of appliances, financial support and incentives for energy efficiency improvement measures in accordance with national financing and support schemes, or energy audits.

Similarities between green mortgages, loans, and guarantees

Green mortgages / green loans

ITEM 62

Green mortgages and green loans can significantly contribute to transforming the economy and reducing carbon emissions.

ART. 17

MS shall adopt measures that promote energy efficiency lending products, such as green mortgages and green loans, secured and unsecured

E
P
B
D

ART. 17

The enabling funding and financial tools may include renovation loans or guarantee funds for energy performance renovations, including in combination with relevant Union programmes, where applicable

ART. 24

foster technical assistance and the roll-out of enabling funding and financial tools, such as on-bill schemes, local loan loss reserve, guarantee funds

ITEM 138

make use of innovative financing mechanisms, including loan guarantees for private capital, loan guarantees

ART. 30

The Commission shall evaluate whether an energy efficiency mechanism at Union level, with the objective of providing a Union guarantee

Member States shall encourage the setting up of loan guarantee facilities for energy efficiency investment.

ART. 30

MS shall adopt measures that promote energy efficiency lending products, such as green mortgages and green loans, secured and unsecured, and ensure that they are offered widely and in a non-discriminatory manner by financial institutions and are visible and accessible to consumers.

E
E
D

GUARANTEES

Recommendations for green mortgages, loans, and guarantees

Recommendation for ART. 30

*Summary of text

- Energy efficient lending products are typically delivered through credit lines and dedicated funds.
- MS should support FIs, in particular commercial banks and national orgs promoting capital investments, to scale-up financing for energy efficiency. MS and market participants are recommended to make appropriate use of the tools of the EU sustainable finance framework and CMU, taking in particular into account the EU Taxonomy.
- The offer of energy efficiency lending products should comply with the CCD and the MCD, and the 2020 EBA Guidelines on loan origination and monitoring for in scope FIs.
- Energy efficiency lending products should also be made available to low income households.
- The designing of such products could be accompanied by support from public de-risking facilities.
- Provide regulatory and financial incentives to FIs, via technical assistance to support the development of new energy efficiency lending products and their uptake.
- Develop dedicated support schemes to promote energy efficiency lending products for the young and the ageing population. Specific guarantees should be provided to allow youth and ageing population to access energy efficiency lending products.
- Unlock private sector financing for energy efficiency improvements.

E
E
D

R
E
C
O
M
E
N
D
A
T
I
O
N

Recommendation for ART. 30

*Summary of text

- Establish loan guarantee facilities in existing or new institutions.
- Utilise the Member State compartment of the InvestEU programme.
- Utilise the EU shared management financial instruments under Cohesion policy framework 2021-2027.
- Utilise efficiently the available shared management funds to set up a scheme combining grants and financial instruments.
- Define the scope of loan guarantees.
- Determine the type of loan guarantee products to be offered.

MPS definition and its progression

EPBD MPS definition

Mechanisms incentivising mortgage lenders to establish a path to increase the median energy performance of the portfolio of buildings covered by their mortgages towards 2030 and 2050, and to encourage potential clients to improve the energy performance of their property in line with the Union's decarbonisation ambition and relevant energy targets in the area of energy consumption in buildings, relying on the criteria for determining environmentally sustainable economic activities set out in **Article 3 of Regulation (EU) 2020/852**

EED Article 30

National energy efficiency fund, financing and technical support

The Commission shall assess the effectiveness and efficiency of energy efficiency public funding support at Union and national level and the Member States' capacity to increase the uptake of private investments in energy efficiency, while also taking into account public financing needs expressed in the national energy and climate plans. The Commission shall evaluate whether an **energy efficiency mechanism at Union level, with the objective of providing a Union guarantee, technical assistance and associated grants** to enable the implementation of financial instruments, and financing and support schemes at national level, could support in a cost-effective way the achievement of the Union energy efficiency and climate targets, and, if appropriate, propose the establishment of such a mechanism.

To that end, the Commission shall submit by 30 March 2024 a report to the European Parliament and to the Council, accompanied, where appropriate, by legislative proposals.

The EED recommendation resembles MPS

EED Recommendation for

Article 30, paragraph 3 - first sentence / 2.2.1. Scope and objectives of the requirement

Member States should support financial institutions, in particular commercial banks and national organisations promoting capital investments, to **scale-up financing for energy efficiency**. In particular, credit institutions play a fundamental role in increasing the volume of energy efficiency lending. **Several commercial banks in Europe are offering green consumer credit and green mortgages and have strategies and targets to green selected lending portfolios. The retail banking system can also leverage on a well-developed and widespread organisational structure** to provide advisory and auxiliary services to support the requirements and opportunities associated with green loans, based on direct and robust relationships with building owners and enterprises.

Segmentation of Energy Poverty

Energy poor homes

Represent around
16 million households

Require up to €480 billion
in social investments

- 8% of the EU's 200 million households cannot adequately heat their homes. ✓
- If each energy poor home received a €30k upgrade investment as a 100% public grant, the total grant funding needed for this segment would be €480 billion. ✓
- Over 10 years, with 1.6 million renovations per year, the cost would be €48 billion per annum, or just over 1% of the €4 trillion annual social expenditure of the EU. ✓

The EU Renovation Loan (ERL) can fairly unlock home equity

COMPONENTS

A	A Zero-coupon structure (paying compound interest at maturity)
B	An EU Green Guarantee
C	A fair interest rate for all Europeans equal to the EU borrowing costs
D	A 30 year final maturity
E	Linked to an ECB liquidity facility (Targeted Long-Term Refinancing Operations - TLTRO) for retail issuers
F	Designed to benefit low income Europeans, with a focus on the elderly and young couples

ERL Components		EED recommendation for Article 30
A	Zero-coupon structure ↔	Various financing solutions are offered including a standalone loan offer, zero-interest 'eco-loans' ✓
B	EU Green Guarantee ↔	Unlock private sector financing for energy efficiency improvements: Member States can actively support private financial institutions to extend suitable lending products, e.g. through de-risking tools like loan guarantees ✓
C	A fair interest rate ↔	It is important that the interest rate of an energy efficiency financial product is not higher than a regular financial product in the same institution for a comparable type of investment. ✓
D	30 year final maturity ↔	Affordability can be improved through pre-financing of the work, longer loan maturities that consider the lifetime of the installations, ✓
E	ECB liquidity facility	*Without direct reference
F	Designed to benefit low income Europeans ↔	Specific guarantees should be provided to allow youth and the aging population to access energy efficiency lending products. ✓

Reasons for the ECB to implement a green TLTRO

**SUERF Policy Brief
“Central banks’
targeted refinancing
operations and the
climate transition”**

aligning monetary policy with the
EU low-carbon transition via:

**introduction of a
ECB green TLTRO**

- Banks would be incentivised to lend to sustainable companies, aligning the economy with global sustainability goals, and hence mitigating financial risks.
- The alignment of monetary strategies with EU targets allows the ECB to contribute to EU-wide synergetic policy making while amplifying the impact of climate-positive initiatives.
- TLTROs have a successful track record of reducing borrowing costs, and the costs of funding for banks.

The need for a European Green Guarantee (EGG)

**Developed by the
EC and the EIB**

the EGG would raise the financial
resources to provide guarantees to

**assist banks in
lending for green
activities**

- EFSI and the EIB would award the guarantee upon assessing project proposals from retail banks and or national banks.
- It is expected that EGGs will multiply resources by a factor of twelve, and this would translate into 25 and 30 billion in guarantees supporting 300-350 billion in investments

MPS related elements can help solve InvestEU's transparency issue

The EIB is establishing an "European Initiative for Building Renovation"

as part of its climate lending policy roadmap to support:

assist banks in lending for green activities

EIF
"Sustainability Guarantee"

eligibility criteria design took into account the EU Taxonomy

Leading to an improvement in the ntl EPC level by at least one class, in any case not below B class level

OR

Where savings in Primary Energy Demand are of at least 30% in comparison to the baseline performance before the renovation

European land and buildings store significant family wealth

As of 2023, EU27

Subtracting the EU's mortgage debt from the estimate of aggregate EU home value

suggests that the total stored equity in the EU is around Euro 13 trillion

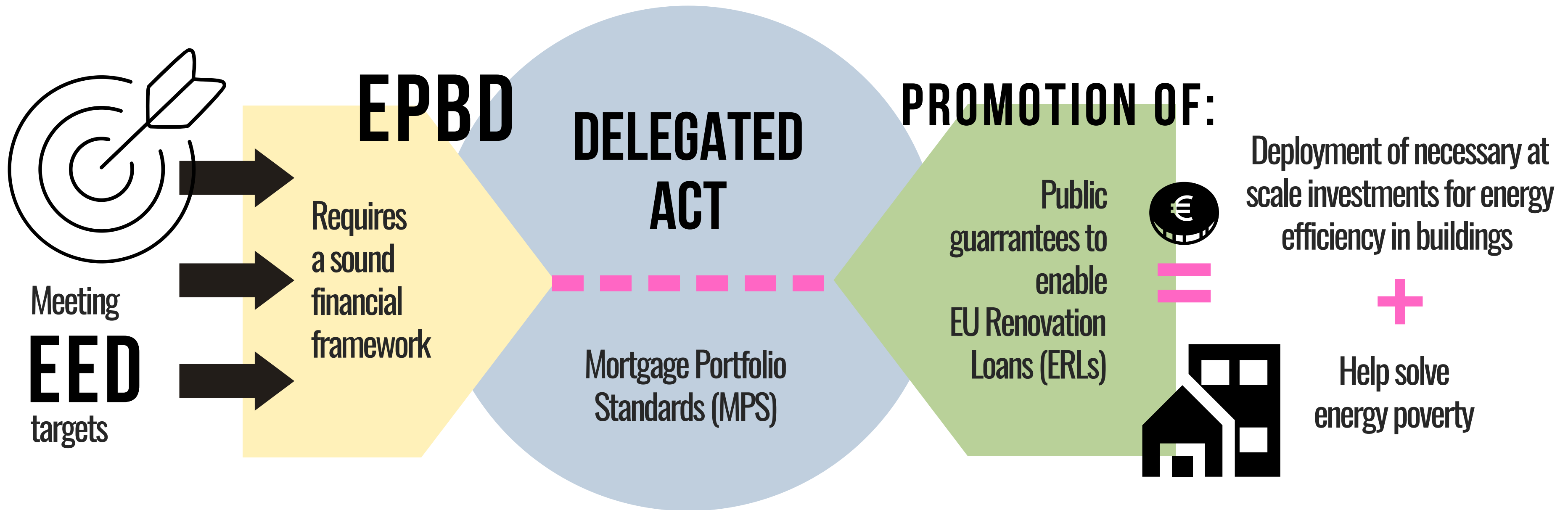
Residential buildings were worth around Euro 20 trillion

This is the amount of stored wealth against which up to 20% (or €2 trillion)

EU27 residential mortgages represented around Euro 7 trillion

needs to be borrowed by 2030 to renovate the most wasteful buildings to deliver energy savings

Meeting the ambition of the EED will require a sound framework reflecting the progression of the EPBD



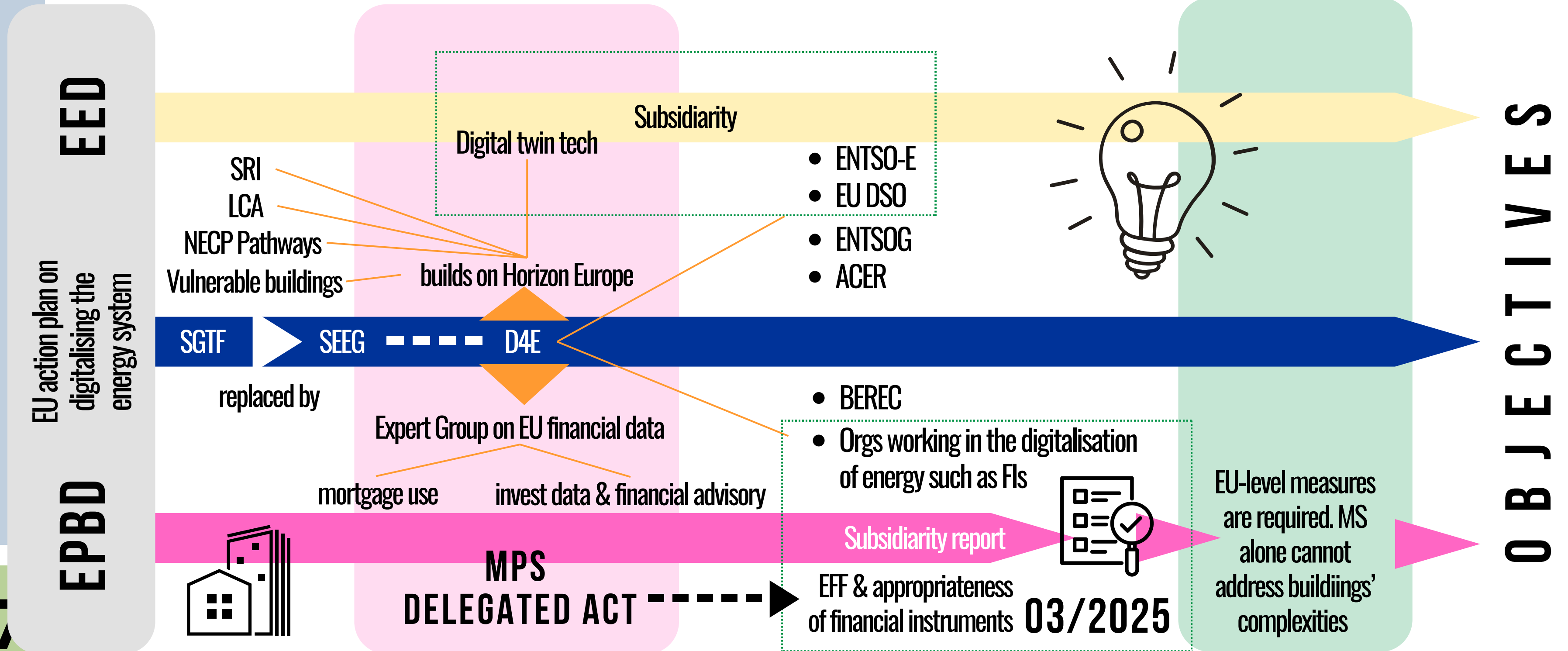
'Proportionality' the final EPBD and the EED and their impact assessments

	EPBD	EED
Final text	<p>In accordance with the principle of proportionality as set out in that Article, this Directive does not go beyond what is necessary in order to achieve those objectives.</p>	<p>In accordance with the principle of proportionality as set out in that Article, this Directive does not go beyond what is necessary in order to achieve those objectives.</p>
Impact assessment	<p>On proportionality:</p> <p>The measures proposed do not go beyond what is necessary for the buildings sector to make its adequate contribution to the EU's climate ambition for 2030 and 2050. The concerns expressed by the Regulatory Scrutiny Board have been addressed by modifying the legislative proposal.</p>	<p>The proportionality principle is fully respected. The measures proposed are the minimum needed to achieve the goals that are crucial to achieving the EU's climate ambition for 2030.</p>

'Subsidiarity' the final EPBD and the EED and their impact assessments

	EPBD	EED
Final text	<p>On the basis of that analysis, the Commission shall submit a report to the European Parliament and to the Council on the effectiveness and appropriateness of financing instruments towards the improvement of the energy performance of buildings, in particular the worst-performing ones.</p> <p>Since the objectives of this Directive, namely improving the energy performance of buildings and reducing the greenhouse gas emissions from buildings, cannot be sufficiently achieved by the Member States, due to the complexity of the buildings sector and the inability of the national housing markets to adequately address the challenges of energy efficiency, but can rather, by reason of the scale and the effects of the action, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union.</p>	<p>Since the objectives of this Directive, namely to achieve the Union's energy efficiency target and to pave the way towards further energy efficiency improvements and towards climate neutrality, cannot be sufficiently achieved by the Member States but can rather, by reason of the scale and effects of the action, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union.</p>
Impact assessment	<p style="text-align: center;">What is the value added of action at the EU level (subsidiarity)?</p> <p>Strengthening the common framework will ensure that the buildings sector across the EU reduces its GHG emissions at the necessary scale. If one or several Member States were not to act, this would imply overall higher GHG abatement costs for the EU as a whole. Action at EU level also offers a leverage in mobilising the sector around a common ambition and leads to higher expected market outcomes. It will drive investment into renovation, create jobs, stimulate innovation and increase the benefits of the internal market for construction products and appliances.</p>	<p style="text-align: center;">What is the value added of action at the EU level (subsidiarity)?</p> <p>The Treaty on the Functioning of the EU identifies an aim of EU energy policy as promoting energy efficiency and energy saving. The underlying problems causing a shortfall in energy savings are the same across the EU. Action at the EU level can enable and enhance efforts by Member States and ensure a more coordinated and harmonised approach avoiding distortion of the single market. It will help to create greater markets for materials and products that help improve energy efficiency. Experience indicates that having a common EU framework reduces costs, increases benefits from the internal market and allows national policy-makers to learn from each other. The EU measures effectively complement and catalyse national measures.</p>

The anticipated March 2025 EC report has the potential to recommend a strong MPS common framework



The DA on the voluntary uptake of MPS can be 'future-oriented'

1

EU funded technology can enable the quick and accurate diagnosis of the energy performance of buildings in all EU MS.

2

The Mortgage Portfolio Standards Delegated Act expert group must convene in-house EU experts already familiar with MPS and its related elements.

3

The DA on MPS can arrange the set of elements and available technology needed for MS to meet their EPBD 2030, 2040, and 2050 renovation objectives.

4

Financial institutions are increasingly aware of embodied carbon in their mortgage financing operations.

5

The DA on MPS can help synchronise the EPBD and the EED. These recast Directives are intertwined and must maximise their ‘future oriented’ potential.

MORTGAGE PORTFOLIO STANDARDS



2024

The EPBD Delegated Act process can
synchronise regulatory developments,
climate initiatives, and EU technologies
to offer a window into the future

PREPARED BY



CLIMATE STRATEGY SL
Paseo de Recoletos, 5,
28004 Madrid SPAIN

EMAIL

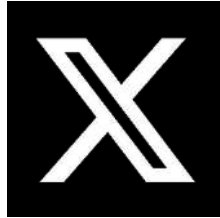
info@climatestrategy.es

PHONE NUMBER:

Tel local: +34 91 576 4837

Tel UK: +44 (0) 20 7193 4807

Fax: +34 91 435 5983

Thanks!  @CLIMATEST

THIS DOCUMENT HAS BEEN PREPARED FOR SPECIFIC USE AND SHOULD NOT BE PUBLISHED OR CIRCULATED OUTSIDE OF ITS INTENDED AUDIENCE. THE FACTS AND FIGURES ARE DERIVED FROM PUBLIC SOURCES AND HAVE NOT BEEN INDEPENDENTLY VERIFIED BY CLIMATE STRATEGY WHO PROVIDES NO GUARANTEES FOR ITS ACCURACY NOR COMPLETENESS NOR WILL ASSUME ANY LIABILITIES FOR SUCH ARISING FROM ANY THIRD PARTY USE OF THE CONTENTS. ANY OPINIONS IN THIS DOCUMENT CONSTITUTE THE PRESENT OPINION OF CLIMATE STRATEGY WHICH IS SUBJECT TO CHANGE WITHOUT NOTICE. THERE ARE NO FINANCIAL SERVICES MARKETED HERE NOR INTENDED AS PROMOTED HEREIN.

PLEASE REFER TO WEBSITE FOR FURTHER INFORMATION