Introducing the EU Renovation Loan
CEO Climate Strategy & Strategy, 450 keynotes & climate addresses since 2004

30 YEARS BLUE-CHIP FINANCE AND CLIMATE STRATEGY

- 31 years in finance and climate:
  - JPMorgan
  - Climate Change Capital
  - Climate Strategy
  - Energy Efficiency Capital Advisors

- Published 22 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:
Setting the scene

What is the EU Renovation Loan?

Facilitation framework
Setting the scene
Energy Performance in Buildings

- Buildings have a very long useful life
- They use 40% of Europe’s energy
- Buildings' heat comes mainly from burning fossil fuel
- Nothing technically prevents efficient buildings

131 million buildings

9% Have some renovation each year
1% Of renovations impact energy performance
0.2% Optimise for energy efficiency (only)

75% buildings are inefficient
70% of Europeans live in a home they own

EU27 residential mortgages total €6-7 trillion

€10+ trillion of home equity is stored in EU homes

c.8% of EU27 homes (21.5 million) are publicly owned

15% of European households own a second home

Residential buildings:

Worth over €17 trillion

Institutional real estate investments in the EU27:

Euro 3 trillion
50 million opportunities to be unlocked for the EU Renovation Wave

100 million residential buildings

70 million owned by occupants

50 million are primary homes

Still standing in 2050

Could use an ERL for renovation
International Union of Property Owners survey revealed key consumer attitudes towards renovation:

- 44% Don’t renovate as they simply don’t think they need it
- 44% Don’t have the funds
- Below 10% Saw “lack of information” or “lack of qualified” services as significant barriers to their renovation
Deep renovation pays-out over 30 years...

Renovation Value for Money (Euro/m²) discounted at 3%:

Investing in renovation makes “long-term economic sense” for homeowners:

- Cuts bills in half ✓
- Delivers a 5% property value increase ✓

* does not include CO2 value nor other “non-energy” benefits
...but only at low (less 3%) discount rates

Renovation Value for Money (Euro/m²) discounted at 15%:

- If they deliver a 50% reduction in energy costs
- Don’t break even funded at 15% cost of capital
The EU Renovation Loan
The EU Renovation Loan ("ERL") is an EU-backed, privately contracted, collateralised loan that provides all homeowners fair and equal access to long-term financing for the deep renovation of their home. The funding is provided on a zero-coupon basis with repayment of principal and accrued interest at EU-borrowing costs upon the earlier of transfer, sale or its 30 year maturity.
Key Components of an EU Renovation Loan

- **Zero-coupon structure**: so clients do not have to make repayments until the property is sold or transferred, or until a 30 year maturity

- Borrowing amount **capped at home value** (to ensure deep renovation can be covered)

- **Collateralised by home** - lien is junior to existing mortgage

- **EU Guarantee** against eventual collateral insufficiency

- **Interest rate level** struck at EU-30 year borrowing cost (3.3% today)

- Supported by a **central bank liquidity facility**

- Loans for renovation purpose, **aligned with EU Taxonomy significant contribution criteria**
Consumer Perspective

ERL supports vulnerable communities

The ERL targets income constrained homeowners who can't access (more) low-cost mortgage finance

ERLs address affordability from a cash perspective by:

- Delivering all energy savings directly
- Rolling up interest payments until the end
Consumer Perspective: ERLs address Affordability, Value for Money and Inflation

ERLs

- Interest rate needs to be low
- Proposed cap at 4.5%
- Historical home price increase 5% per annum since 1839
- Beats inflation
EU Perspective: EU Guarantee offers High Budgetary Efficiency

- Allocated to the energy efficient renovation of the housing stock

€235 billion need

Just

€25 billion of recovery funds

Allocated to the energy efficient renovation of the housing stock
ECB Liquidity enables lenders to play a more active role

EU Guarantee against non-repayment by borrowers

Up to 100x more efficient than direct subsidy

Alternatives to:
- Cash grants
- Energy subsidies

TLTRO liquidity provision for ERLs

Activates drive from retail lenders to offer ERLs

- There are insufficient public funds to maintain cash grants and energy subsidies to combat the energy crisis
- Home equity can be mobilised to add resilience to EU homes
- ECB can “green” its activities adding ERLs to its funded programmes
Lenders’ Perspective
Portfolio greening, risk reduction and origination fees

the ERL provides lenders:
A product to “green” their existing property collateral against which their current mortgages are lent

Improving credit quality ✓
Energy performance ✓
of the whole portfolio

EU Renovation Market

3.5 million
transactions annually
= €100 billion

€1 billion
Distribution fees annually

Potential

3.5 million
EU transactions annually

€100 billion
Institutional relationships and funds flows that support thousands of branch offerings

**EU Guarantee**

Based upon InvestEU Portfolio Guarantee product for the individual qualifying ERL Portfolios in case of recovery loss for each Retail Lender

**ECB**

Provision of TLTRO liquidity at below portfolio yield rates for qualifying ERL portfolios above a minimum threshold size
The ERL Facilitation Network
Growing the market for ERLs to fund deep renovations requires Upskilling of the EU renovation workforce

New certified renovation advisors

High quality training programs

EPCs

Certification schemes
350,000 renovation project managers are needed in Europe (like DENA-KfW)

Germany's DENA

- Has a network of 13k Government accredited energy experts
- Work with retail banks + state bank KfW
- To prepare home renovation projects and finance them

Qualified renovation project manager could deliver

- 10 deeply renovated buildings per year
- The renovation wave of 35 million European building units
- World require 350,000 accredited project managers

“Independent renovation advisors”

- Prepare a technical project
- Can help arrange financing
- Are required to co-sign loans

138,000 bank branches in the EU
EU Parliament recast EPBD proposal calls for an EU Renovation Loan "at Union level"...

(46a) Member States should provide guarantees to financial institutions in order to promote targeted financial products, grants and subsidies, for enhanced energy performance of buildings for people in energy poverty, vulnerable and low-income households, as well as to owners in worst-performing multi-dwelling buildings and buildings in rural areas, and other groups having difficulty to access finances or get traditional mortgages. Member States should ensure that those groups benefit from cost neutral renovation schemes, for instance through fully subsidised renovation schemes, or blends between grants and energy performance contracting and on-bill schemes. At Union level, a special renovation instrument (the "EU Renovation Loan") should be established to provide homeowners with access to Union, long-term borrowing costs for deep renovation.
Compromise amendment 1: supported by EPP, S&D, Renew, Greens/EFA, The Left

Proposal for a
DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
on the energy performance of buildings (recast)

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 14(6) thereof,

Having regard to the proposal from the European Commission;

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee1,

Having regard to the opinion of the Committee of the Regions2,

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) Directive 2010/31/EU of the European Parliament and of the Council3 has been substantially amended several times. Since further amendments are to be made, that Directive should be recast in the interests of clarity.

(2) Under the Paris Agreement, adopted in December 2015 under the United Nations Framework Convention on Climate Change (UNFCCC), its Parties have agreed to hold the increase in the global average temperature below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. The parties to the Glasgow Climate Pact in November 2021 reaffirmed that keeping the increase in the global average temperature to 1.5°C above pre-industrial levels would significantly reduce the risks and impacts of climate change, and undertook to strengthen their 2020 targets by the end of 2022, reaching the objectives of the Paris

4. To support the mobilisation of investments, Member States shall ensure that enabling funding and financial tools are effectively put in place, namely energy efficiency loans and mortgages for building renovation, energy performance contracting, pay-as-you-save financial schemes, fiscal incentives, including reduced tax rates on renovation works and materials, on-tax schemes, on-bill schemes, guarantee funds, mortgage portfolio standards, economic instruments to provide incentives for the application of sufficiency and circular measures, funds targeting deep renovations, and funds targeting renovations with a significant minimum threshold of targeted energy savings and targeted whole-life-cycle greenhouse gas emission reductions.

Member States shall ensure that information about available funding and financial tools is made available to the public in an easily accessible and transparent manner, including by digital means.

Member States and the relevant financial authorities shall review relevant legislation and develop supporting measures to facilitate the uptake of renovation loans and energy efficiency mortgages, and the development of innovative lending products dedicated to the financing of deep renovation and staged deep renovation in line with the steps in renovation passports. The Commission and the European Investment Bank shall ensure access to finance at favourable conditions, facilitating the deployment of financial instruments and innovative schemes, such as a European renovation loan or a European guarantee fund for building renovations.

The enabling funding and financial tools shall also guide investments into an energy efficient public building stock, in line with Eurostat guidance on the recording of Energy Performance Contracts in government accounts.
Six Take-away Conclusions

1. **3.5 million** deep renovations needed annually
2. Unlocked by **Euro 10 trillion home equity** ERLs
3. Standardised and offered by **thousands of approved lenders**
4. Using **existing components** (Zero Coupon, Guarantee & TLTRO)
5. **Aligns interests** of lenders with EU Institutions and Customers
6. Provides **confidence** to MS to train and engage project managers and renovation supply chains
Four Actions for 2023...

1. **A technical task force** must be launched containing senior members of relevant EU institutions to deliver a blueprint for the EU Renovation Loan.

2. The “fit-for-55 package”, especially the EPBD, must provide the outlined “ERL Facilitation Framework”.

3. Retail lenders must **urgently address mortgage portfolio climate risks and support their customers renovate**.

4. **EU Financial and Prudential frameworks must be fully reviewed** to see that they are not inadvertently doing harm to the energy transition.
EU Renovation Loan in the press

**Euractiv**
(Feb 09 2023)
Climate Strategy OpEd

**ENDS**
(Feb 09 2023)

**Sustainable views**
(Feb 13th 2023)

**Global Banking Regulation Review**
(Feb 14th 2023)

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An EU Renovation Loan can unlock €2 trillion of future energy savings

**DISCLAIMER:** All opinions in this column reflect the views of the author(s), not of EURACTIV Media network.

By Peter Swinnerton

EWI on the other hand, welcomed the introduction of mortgage portfolio standards (MPS) by which banks would be required to improve the energy efficiency of buildings covered by their mortgages, offering more attractive loan products to encourage rennovation. This would help plug the annual financial gap of €270bn needed to achieve the EU’s renovation targets, the environmental group said.
The EU Renovation Loan: a new instrument to fund the EU Renovation Wave