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FUNDING THE REAL ECONOMY

EUROPEAN MORTGAGE FEDERATION-EUROPEAN COVERED BOND COUNCIL (EMF-ECBC)

Response to Consultation on Taxonomy Delegated Act

The EMF-ECBC strongly supports the Next Generation vision, the Green Deal and Renovation Wave Strategy. We recognise the significance of the Taxonomy's socio-political perspective, particularly in the current pandemic context and are working to mobilise stakeholders via the Energy Efficient Mortgages Initiative to scale up consumer demand and capital market leverage. We would like to highlight some serious concerns which will be extremely disruptive for the energy efficient mortgage (EEM) and green bond market:

1. Acquisition & ownership of buildings

The proposal that pre-2020 buildings must have at least EPC A (mitigation) to be taxonomy eligible would significantly impact market critical mass by reducing (up to 95%) eligible assets, with knock on effects for the entire value chain, from eligible mortgages to Taxonomy aligned green bonds. Indeed, 90% of the building stock was built before 2001 and EPCs vary across countries: for example, buildings with EPC A may only represent 1% of the building stock in some countries. Moreover, upgrading a low energy level building to EPC A is extremely difficult technically, economically and financially and will create 'stranded assets' in the housing market for consumers, lenders and investors.

This will disincentivise banks and borrowers to favour better homes when purchasing and financing. Post COVID-19, the proposal will be socially exclusive for less affluent citizens in less efficient buildings. Finally, the proposal creates a 'moral hazard' by disincentivising Member States from tightening of EPC definitions and jeopardises a level-playing field.

We strongly support a more inclusive approach where, in addition to EPC A (mitigation), buildings in the "top 15% of the local existing stock" will be considered taxonomy eligible. The EEM Label will support consumer demand and provide a gradual market alignment mechanism for banks, enabling them to demonstrate portfolio eligibility and deliver transparency and best practice at European and global level.

2. Renovation of buildings

The renovation of the existing building stock is key to upgrade EPC levels and promote EPC alphabetisation. Only buildings sold or rented since 2010 have an EPC so many do not. The Renovation Wave will help drive the qualitative upgrade of bank portfolio energy profiles, enhance asset quality in terms of loan to value and improve borrower disposable income. This aids financial stability by reducing NPLs and making bank books more resilient. Green renovations boost employment, achieve positive socio-political impacts and fight energy poverty.

It is therefore important that the entirety of renovation loans be 'eligible transition activities' when at least 50% relates to energy efficiency. When expenditure cannot be distinguished by type, 50% of the total renovation cost should be the proxy of energy efficiency. Furthermore, where costs cannot be practically separated in loans for acquisition <u>and</u> renovation, acquisition costs should be considered integral with eligible renovation costs. Finally, when determination of whether the loan relates to energy efficiency is not feasible, which is often the case for mortgages to retail customers, eligibility should be based on a minimum 30% decrease in primary energy demand certified by an EPC pre- and post-renovation.

3. Construction of new buildings

The EPBD aims to achieve the Paris climate goals in the building sector and the NZEB definitions should be designed accordingly. Consequently, for new buildings it should be sufficient to refer to the NZEB standards.

4. DNSH

Some of the DNSH requirements and the evidence required cannot be met by the financing institutions. EG, due to a lack of national regulations/laws and therefore of data collection, proof of water consumption is unavailable. First, legal requirements should be addressed to manufacturers, before a corresponding legal standard can be set up.
