

Final European Mortgage Federation-European Covered Bond Council (EMF-ECBC) Comments on the Proposal for a Directive of the European Parliament and of the Council on the Energy Performance of Buildings (recast)

31 March 2022

The EU's mortgage and covered bond industries will be instrumental in helping the EU meet its ambitious renovation targets and are fully committed to mobilising private finance to support the Renovation Wave and NextGenerationEU. Mortgages are crucial in securing an affordable socio-economic lift and incentivising the shift of critical volumes to support the climate transition. Deploying an integrated market 'ecosystem' which boosts and responds to consumer demand for energy renovation and supports investor due diligence is at the heart of the market-led Energy Efficient Mortgages Initiative (EEMI), the EEM Label (EEML) and the Covered Bond Label.

Better quality, more comparable and publicly accessible **Energy Performance Certificates (EPCs)** are fundamental for financial institutions. We therefore welcome many of the proposed actions which will support them in reaching their retail and funding potential, but would like to highlight 4 important considerations:

- Access to EPC databases should not be hindered by national legislation which in some countries is currently preventing open access to existing registers, due to different GDPR interpretations. Please see attached document for proposals for amendment.
- We support the standardisation of EPCs which will allow for the comparison of building energy performance across the EU. In this respect, digitalisation presents an opportunity to enhance the comparability and accuracy of EPCs by metering real energy performance and the EPBD should allow for this.
- Linked to the point above and regarding the requirement for "on-site visits" in Art. 16, it should be possible to issue EPCs by whatever means national legislation or practice deems adequate, including by digital means.
- Regulatory stability regarding energy performance thresholds is fundamental for the EU's citizens and financial institutions.

We understand it might be necessary to put in place measures to achieve climate neutrality in buildings and support an approach with an initial focus on the worst performing buildings. However, this huge challenge can only be achieved with strong incentives and/or subsidies for borrowers and lending institutions, which is not addressed in the proposal for **Minimum Energy Performance Standards**. The subsequent risk is the creation of stranded assets, with negative social and financial implications for borrowers (especially where renovation is not economically viable (often the most fragile households)) and financial institutions, that could undermine social and financial stability. A careful balance should also be struck between measures needed to achieve the climate goals and measures that are practicable.

To support market efforts to mobilise private finance, EU Taxonomy eligibility should be aligned with the EPBD's goals e.g. where a 30% PED reduction is achieved in a renovation, the entire building and thus the entire loan for its acquisition should be Taxonomy compliant. Any other approach would distort lending institutions' strategy on renovation financing, resulting in higher borrowing costs.

Finally, regarding "**Mortgage Portfolio Standards**", lenders are not the owners of the underlying buildings in their loan portfolios and cannot themselves improve their energy performance. Rather this is the choice and responsibility of borrowers, as owners, supported by lenders via specific instruments, such as EEM. Proposals

to emulate other industry portfolio standards, particularly without appropriate and efficient access to EPC data, represent an oversimplification for these reasons and because of legal complexities (GDPR compliance) rooted in regional/national discretions. The application of these standards to the mortgage business is inappropriate and could limit consumer access to finance and hinder the Industry's ability to support the Renovation Wave. Specific public guarantee schemes, fiscal incentives and preferential supervisory rules can support the development of the EEM market.