

EMF-ECBC Response to European Commission on a delegated act establishing a portfolio framework to encourage financial institutions to increase lending volumes for energy performance renovations

Questions for all respondents

18. In your view, how can public authorities improve the risk-return profile of all types of energy renovation projects (for residential and non-residential buildings), making them more attractive to private investors (lenders and the refinancing market)?

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Public subsidies exist across the EU for a variety of different purposes. These can be very useful, however the application process is typically difficult and lengthy, and the subsidies can often be temporary in nature. This means that they may have limited impact. Measures need to be easy to access, predictable and be driven through bodies that are credible to the consumer.

19. Are there any specific non-financial measures that you would like to see implemented to support the supply of and demand for energy renovation financing?

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The EU could pursue actions towards municipalities and states (local) aimed at financing, co-financing public energy and climate advisers and distributing co-financing and guarantee programmes.

20. Are there any specific government programmes or policies that you have found effective in mobilising private capital for energy renovation projects (for both housing and non-residential buildings, including the various categories therein)?

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As described in more detail in the answer to question 25, there are successful government programmes related to the provision of affordable financing for fragile mortgage borrowers, which present as relevant examples to guide similar action in respect of mobilising private capital for energy renovation projects in residential buildings. The Prima Casa ("First Home Loan Guarantee Fund") (IT), Prima / Noua Casa ("First/New home") (RO) and Spiti Mou ("My Home") (GR) Programmes involved an initial state guarantee, based on which banks were able to lend with a leverage factor of 10/12 times..

The EMF-ECBC sees strong potential in a European public guarantee that could support banks' mortgage lending activities with a focus on providing affordable financing to fragile borrowers for energy renovation projects. See answer to question 25 for more details.

21. In your view, does the current legislative framework, including the EU taxonomy and the Energy Performance of Buildings Directive, provide adequate and appropriate criteria to define and qualify the scope of lending for energy renovation (for strategic planning, marketing or reporting purposes, etc.)?

No

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Key Challenges in EU Taxonomy for Real Estate Financing

1. **Entry Standards Too High:** Entry standards are currently very high and there are limited incentives for renovating or acquiring buildings with poor energy performance, resulting in low adoption rates and inefficient resource allocation. While we support the PSF's recommendation to harmonise the EPBD targets with the Taxonomy, the assumption that the Taxonomy should be more ambitious than the EPBD undermines harmonisation and usability efforts.
2. **Lack of Mapping Activities:** Transitional activities are not sufficiently recognised in the current Taxonomy. This limits incentives for both the real and financial economy, despite their importance in the broader sustainable transition.
3. **Complexity of TSC & Data Availability:** Activities 7.1, 7.2 and 7.7 are critical for real estate financing but require significant improvement:
 - The DNSH criteria often block Taxonomy compliance and the transition to a climate-neutral building stock.
 - Testing procedures are time-consuming and documentation-heavy, creating costs that are disproportionate to benefits.
 - Since the Taxonomy and Delegated Acts came into force, real estate financing has hardly applied them, highlighting the need for usability improvements.

Example – Renovation: Documenting the required 30% energy savings is challenging, as efficiency gains from renewable energy are often excluded. DNSH compliance for water consumption, recycling and pollutant limits is extremely time-consuming or unfeasible due to data gaps and lack of mandatory documentation during construction or renovation.

Recommendations:

- Simplify TSC, particularly for 7.1 and 7.2. Focus on CO2 savings and temporarily make DNSH criteria "observation criteria" so that failure to meet a single requirement does not block Taxonomy alignment.
 - Standardise legal requirements across the EU to close data gaps.
 - Establish barrier-free databases to facilitate data collection and reporting, including the temporary use of proxies for missing energy data.
 - Align climate risk assessment and management with ISO 14090 and ISO 14091 standards.
4. **Lack of proportionality:** A disproportionate burden arises in renovating owner-occupied housing, where Taxonomy compliance is often economically unfeasible. Moreover, the PSF rightly notes that DNSH criteria for small residential renovations are identical to those for large commercial buildings, with insufficient data and high reporting burdens.

Recommendation: Embed proportionality in the Taxonomy to reduce bureaucratic hurdles for renovation of owner-occupied properties, exempting them from DNSH compliance.

Specific Building Criteria Recommendations

New Construction: The PSF recommends updating the TSC to take account of the EPBD and specifically the replacement of NZEB with ZEB. A key question is exactly how the TSC will be adapted to the ZEB requirement

and a potential new performance level. The potential for even stricter requirements for new construction should be carefully considered in light of rising construction costs and housing shortages across Europe.

Renovation of existing buildings: The Taxonomy requires the separation of efficiency gains based on renewable energy sources from those achieved elsewhere. This separation is extremely time-consuming, if possible at all. Additionally, demonstrating efficiency gains is often only feasible post-financing. However, for Taxonomy-aligned financing of a renovation, the evidence would have to be provided at the same time as the financing application. Furthermore, loans are not allocated on an activity basis. Such a structure lacks pragmatism: a bundle of different energy-related renovation measures is often financed with a single loan. We propose amending footnote 299 of the Taxonomy Regulation¹ in order for efficiency gains from renewable sources be taken into account for renovations.

Interaction between 'Renovation and 'Acquisition & ownership: Renovation is often co-financed as part of acquisition loans and often only a small part of the loan is used for the renovation. However, if post-renovation efficiency improvements fail to meet the EPC A or top 15% requirement, even where they meet the 30% energy reduction requirement, the entire loan is deemed non-compliant. This issue has been acknowledged by the PSF². To address this:

- The entire loan should be classified as “green” if the renovation meets Taxonomy criteria.
- The TSC (in particular DNSH) should be reduced to focus on key decarbonisation measures and verification simplified.
- Transitional green status for buildings on a defined decarbonisation pathway³ should be permitted.

Acquisition and ownership of buildings: We support measures that would enhance the applicability of the Taxonomy. Additionally, we welcome the PSF’s recommendation to allow proxy solutions for documenting Taxonomy compliance, given current data limitations⁴. Moreover, ensuring comparability of EPC and energy classes across the EU is essential to improve data consistency and usability.

22. Which EU-level initiatives could in your view support the provisions of financing for energy renovations (e.g. action plan to be adopted by financial institutions, criteria for potential energy renovation labels, initiatives under the European Affordable Housing Plan, other)?

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- **Amendments to the EU Taxonomy:** The TSC for renovation are extremely relevant from a financing perspective and are in need of improvement. As described variously above, the EU Taxonomy currently sets high entry standards and offers hardly any incentives to finance the renovation of buildings and particularly those with poor energy performance. In the case of a loan for acquisition and renovation, in the event that post-renovation efficiency improvements fail to meet the EPC A or top 15% requirement, the entire loan is deemed non-Taxonomy compliant, even if the renovation meets the required 30% energy reduction. Moreover, the complex and demanding DNSH criteria stand in the way of Taxonomy compliance, while the requirement to separate efficiency gains based on renewable energy sources in the

¹ “[...] The 30 % improvement results from an actual reduction in primary energy demand (where the reductions in net primary energy demand through renewable energy sources are not taken into account), and can be achieved through a succession of measures within a maximum of three years”.

² PSF report, page 89, Renovation to acquisition and ownership: “However, in most jurisdictions the renovation criteria for a “major renovation”, or 30% energy reduction outside of the EU, does not result in the building reaching energy performance level of EPC A. However, EPC A is the required threshold to acquire or own an EU Taxonomy aligned building before December 2020. Ebd. page 97, point 3, Recommendations for future developments: “Instigate: a. the reporting imbalance of mortgage / loan ratios of renovation compared to new construction and ensure that sustainable finance for renovation is not disincentivised b. the Taxonomy-compliance of the loan / mortgage when the owner uses blended finance”

³ This would also be in line with the PSF’s idea of introducing decarbonisation paths in the ‘Acquisition and ownership of buildings’ activity, see PSF report, page 99.

⁴ PSF report, page 99, point 1: “Allow proxies to demonstrate compliance with the TSC, with the requirement to label proxied data as such”

context of a renovation from those achieved elsewhere is time-consuming, if possible at all, and ignores the realities of how a renovation is typically financed. All in all, the result is limited investment in energy renovation and inefficient resource allocation, particularly in relation to the worst-performing buildings. Proportionality should be embedded in the Taxonomy as a priority in order to reduce hurdles for the renovation of owner-occupied properties, exempting them from DNSH compliance, allowing for efficiency gains from renewable sources to be taken into account for renovations and ensuring that the entire loan (where it also finances acquisition) can be classified as “Taxonomy compliant” if the renovation meets Taxonomy criteria.

- **Access to data in line with the GDPR:** Banks should have access to public databases providing information on the energy performance of buildings (such as the EPC). Indeed, national legislation limits access to building energy performance data in some countries. This would allow for a proper classification of loans as green/energy efficient mortgages and the application of discounts/incentives under banks’ internal credit policies.
- **Dedicated prudential treatment for green/energy efficient mortgages:** As per the European Commission’s mandate to the European Banking Authority (EBA) under Article 501c CRR, it would be appropriate to introduce a dedicated prudential treatment for green/energy efficient mortgage loans. A growing body of analysis⁵ first conducted back in 2019 and ongoing today points to a significant negative correlation between building energy performance and credit risk, driven by lower probability of default and lower loss-given-default.
- **European public guarantee:** In the context of the EU Affordable Housing Plan, the EMF-ECBC sees strong potential in a European public guarantee that could support banks’ mortgage lending activities with a focus on providing financing to fragile borrowers such as first time buyers, young families and elderly people, which combines affordability and sustainability. The guarantee scheme could be administered by an entity such as the EIB. A key feature of this guarantee scheme would be that it would allow for a reduction in the capital requirements for the guaranteed exposure. See the answer to question 25 for more details.

23. In your view, how could financial institutions and financial intermediaries be supported to increase their clients’ awareness of existing energy performance requirements, the benefits of energy renovations, climate risks and the technical assistance and information tools available?

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We welcome the European Commission’s focus on raising client awareness in the area of energy renovation. Indeed, research and analysis since 2015 under the EU-funded Energy Efficient Mortgages Initiative (EEMI), led by the EMF-ECBC, has clearly pointed to a lack of consumer demand as being one of the biggest barriers to energy renovation. As a result, the EEMI has been supporting banks across the EU in developing energy efficient/green mortgage products, offering renovation advisory tools and developing strategic partnerships with a view to raising consumer awareness and generating and sustaining demand.

In more recent years, efforts under the EEMI have focused designing and deploying an integrated ecosystem approach as the means to engage consumers in the Renovation Wave. By way of a virtuous circle of products, processes and providers, with the customer at the centre, the objective is to deliver a seamless, end-to-end customer journey, supported by optimised processes and strategic partnerships. As part of these efforts, a

⁵ [Knowledge Hub – EEMI](#)

Consortium of expert partners, led by the EMF-ECBC, is exploring 5 workstreams focused on ensuring that all actors have the capabilities, tools and mechanisms they need in order to participate in and benefit from this ecosystem: (1) de-risking energy efficiency investments for banks, (2) enhancing the articulation of ESG risks in property valuation, (3) optimising financial operating models with a focus on ESG, (4) coordinating a robust renovation supply chain and (5) putting the consumer at the heart of the transition.

At the heart of the EEMI is the Energy Efficient Mortgage Label (EEML) and its Harmonised Disclosure Template (HDT) which are the subject of workstream 3 with a view to improving and reinforcing the scope and coverage of the Label. The EEML and the HDT are laying the foundations for better and faster data collection and reporting, and equipping lenders with the necessary tools to enhance their understanding of building energy efficiency, helping them to scale-up their financing of the renovation of the existing building stock and tailor their financial products accordingly, thereby responding to the rationale of the EPBD's portfolio framework for voluntary use by financial institutions.

As a transparency and quality benchmark for consumers, lenders, investors and regulatory and supervisory authorities, the EEML is intended to increase confidence in energy efficient mortgages and consumer loan products and catalyse consumer demand, whilst enhancing transparency regarding the energy profile of lenders' portfolios, driving efforts to improve the quality of assets and supporting their inclusion in green covered bonds and securitisation. A core objective of the EEML is to ensure that EEM loan portfolios are closely aligned with key regulatory frameworks, as well as international equivalents.

Workstream 5 is focused on employing consumer behavioural research to understand the real barriers to consumer demand and to design and deploy levers and nudges that financial institutions can use in their interactions with existing or prospective customers to generate and sustain demand for energy renovations. A key finding is that, before perceived complexity, uncertainty, and financing become barriers — which are often assumed to be the main obstacles — the most significant behavioural barrier is actually a lack of attention and low interest on the part of the customer. This is largely due to the absence of natural decision points in the renovation journey. Without contextual triggers such as moving house or refinancing a mortgage, customers are simply not thinking about energy renovation. The emphasis, therefore, needs to be placed on ensuring that homeowners are actively considering renovation in the first place, before addressing other well-known barriers. This is where banks can play a key role: through their regular touchpoints with customers, banks can create decision points, capture attention and raise interest through a strong value proposition, timely and targeted information and an action-oriented approach to supporting the consumer. Research and testing in Denmark and Italy is generating valuable insights that are helping financial institutions engage with customers more effectively.

These efforts are just some examples of how banks themselves are mobilising in order to generate and sustain demand, through an integrated ecosystem approach. However, as outlined elsewhere in our responses, efforts are constrained by excessively strict TSC in the Taxonomy, associated regulatory uncertainty and risk and fragmented data access, to name but a few concerns. The European Commission can play a critical role by streamlining data flows, introducing proportionality into the Taxonomy and ensuring consistent and appropriately accommodative regulatory frameworks. By doing so, it can help scale existing bank-led initiatives and accelerate building renovation at EU level.

24. What in your view can be done to make it easier for financial institutions to target worst-performing buildings specifically?

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The EPBD is built on a “worst first” approach, prioritising the renovation of the worst-performing buildings. In contrast, the EU Taxonomy applies a “best-in-class” logic, setting high entry standards for activities that qualify as sustainable economic activity. As a result, the Taxonomy offers limited support or incentive for financing the acquisition and renovation of buildings with particularly poor energy performance. For example, in the case of a loan for acquisition and renovation, if the renovated property does not meet the EPC A level or fall within the top 15% most energy-efficient buildings — even if it achieves the required 30% energy performance improvement — the entire loan is considered non-compliant with the Taxonomy. This discourages financial institutions from supporting renovations of the buildings most in need of improvement. Additionally, the complexity of the DNSH criteria creates further barriers to compliance. Finally, the requirement to separate efficiency gains derived from renewable energy sources during renovation from those achieved through other means is not only time-consuming and difficult to verify, but also fails to reflect how renovations are typically financed in practice. The cumulative effect of these issues is a distortion in investment flows, leading to underinvestment in the building stock most in need of renovation, particularly among owner-occupied properties. To correct this, proportionality should be embedded in the Taxonomy as a priority in order to reduce hurdles for the renovation of owner-occupied properties. This should include: exempting them from DNSH compliance, allowing for efficiency gains from renewable sources to be taken into account for renovations and ensuring that the entire loan (where it also finances acquisition) can be classified as “Taxonomy compliant” if the renovation meets Taxonomy criteria. Such changes would better align the Taxonomy with the EPBD’s goals, enable more efficient resource allocation, and support financial institutions in driving the energy renovation of Europe’s worst-performing buildings.

25. What in your view can be done to make it easier for vulnerable building owners to access appropriate financing for energy renovation?

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As indicated above, the EMF-ECBC sees strong potential in a European public guarantee that could support banks’ mortgage lending activities with a focus on providing affordable green financing to fragile borrowers such as first time buyers, young families and elderly people. The guarantee scheme could be administered by an entity such as the EIB and could be linked to the Energy Efficient Mortgage Label. A key feature of this guarantee scheme would be that it would allow for a reduction in the capital requirements for the guaranteed exposure. Typically, public funds receive a 0% risk weighting, so if a European guarantee were to cover 30-50% of the loan, depending on the LTV, the risk weight for the bank for the guaranteed portion of the loan should be 0%, providing significant capital relief and a clear incentive to banks.

There are successful national precedents in this respect including Fondo Prima casa (“First Home Loan Guarantee Fund”) (IT), Prima/Noua Casa (“First/New home”) (RO), Spiti Mou (“My Home”) (GR), where based on an initial state guarantee, banks have been able to lend with a leverage factor of 10 /12 times.

We would also like to take this opportunity to highlight the importance of capital markets in delivering affordable and sustainable housing. Indeed, public sector covered bonds provide funding to Member State public authorities in support of their public infrastructure projects, including affordable and sustainable housing, while securitisation and European Secured Notes (ESN) can scale-up SME financing, thereby providing the resources necessary to deliver a much-needed skilled workforce. These instruments provide vital access to capital markets for countries with high levels of public debt, mitigating sovereign risk, whilst securing critical infrastructures.