

The EU

Renovation Loan: a new instrument to fund the EU Renovation Wave

Executive Summary for Policymakers

The energy crisis in the winter of 2022 combines a “perfect storm” of conditions that highlight the energy inefficiency of European buildings, and the insecurity and fragilities that stem from this. Nevertheless, decades of expert and technical evidence on the efficiency and successful renovation of buildings shows that things do not have to be this way.

This report describes a new and concerted institutional collaboration and alignment that can be built around the design and launch of a new buildings renovation financing instrument -the “EU Renovation Loan”- that fills a gap and has the potential to address over 50 million EU homeowners. The EU Renovation Loan (“ERL”) combines existing financial elements and components and joins them together in a new instrument designed to deliver finance at the EU Renovation Wave scale.

There are three sections to our analysis:

1. Identifying the right 50 million homeowners: The first section describes the physical state of existing EU buildings and how they are currently financed to find that there are 50 million primary homes lived in by their owners with more than sufficient home equity to afford them a deep renovation. There is a growing concentration of homeowners who cannot finance an energy efficiency renovation who are elderly, and who can’t get a new mortgage; and there are those working families with existing mortgages who have no headroom left as energy bills and interest rates rise.
2. Designing the EU Renovation Loan to fill the identified gap: A move by EU institutions to resolve the deficit in attractive renovation finance alternatives for income-poor, asset-rich homeowners must together address the needs of owner, lender and policymakers – and be cost effective and financially efficient for all. The EU Renovation Loan proposed has a series of unique features: A zero-coupon structure, the lowest 30-year compound interest rate available to the EU, ECB liquidity via a targeted liquidity programme for ERLs (the “eTLTRO”) and an operational structure that makes ERLs uniquely attractive for retail lenders to distribute. These features are explained and assessed from the perspective of each stakeholder group in Section 2.
3. Implementing the right enabling framework to ensure ERL’s success: Resolving homeowners’ financing challenges is not a “silver bullet” and can only unlock the financial barriers to a deep renovation. Efforts are also needed to remove policy and practical barriers. In parallel, the enabling environment and renovation supply chains need to respond to the urgent need to upgrade homes and make them more resilient to energy shocks and higher prices. This requires EU-wide mobilisation of independent home energy advisors and project managers who can organise, identify finance for and deliver high quality and performing deep renovations. Key components of the recast of the Energy performance of buildings directive (EPBD) currently being negotiated on Energy Performance Certificates, upgraded access to data and databases to renovation contractors, minimum energy performance standards and mortgage portfolio standards are designed to align industry and financial stakeholders in a full upgrade of the delivery mechanisms for the EU Renovation Wave. A new EU financial instrument distributed to millions of homeowners through thousands of retail lenders can act as a catalyst to deliver energy efficiency renovations by bringing together policymakers, financial institutions and homeowners with a common interest to make the Renovation Wave a reality. Successful examples and models are reviewed in Section 3.

The report concludes calling for a technical task force to be launched containing senior members of relevant EU institutions to develop this blueprint for the EU Renovation Loan. This envisaged task force would need an initial investment of internal human capital by the EU Commission, central bank officials, and retail bank lenders to, in principle, agree on the design and technical blueprints for the components of the ERL which fall into their competences. It also reflects on the critical role of the “fit-for-55 package” in providing an ERL Facilitation Framework, and the importance of Mortgage Portfolio Standards as a tool to engage EU mortgage lenders as a delivery network for the ERL. Finally, the report calls for an alignment of EU financial and prudential frameworks to ensure they promote and do not inadvertently harm the energy transition, especially at such a critical juncture for Europe.

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