



# MORTGAGE PORTFOLIO STANDARDS

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The EPBD Delegated Act process can synchronise regulatory developments, climate initiatives, and EU technologies to offer a window into the future

## Conclusions and recommendations

2024 is a positive year for energy efficiency. The adoption of the recast EPBD and EED provides a new level of objectives, standards, templates, and definitions that brings clarity for governments, financial institutions, and technology providers on the next steps required to decarbonise European buildings.

Both Directives frame the current elements and terms that serve as a basis to adopt energy efficiency policies at the Member State and launch new instruments at the EU level. Additionally, they serve as the ideal platforms to tap into and coordinate the latest EU funded buildings' technology developments, to launch new coalitions (like the Energy Efficiency Finance Coalition), and unite the years of experience of the top EU financial institutions greening their mortgage portfolios, connect to international decarbonisation initiatives with EU sustainability taxonomies, and implement the advice of forward looking supervisory authorities.

The European Commission has a singular opportunity to make the delegated act on the voluntary uptake of Mortgage Portfolio Standards (MPS) 'future-oriented' by coordinating the elements above and by presenting it as an enabler of technical and financial avenues for FIs to decarbonise the properties they mortgage according to the EU Taxonomy and hence preventing their stranding.

### The European Commission has an opportunity to make the delegated act on the voluntary uptake of Mortgage Portfolio Standards (MPS) 'future-oriented'

2024 has also seen political turmoil with social discontent directed at high energy prices, energy poverty, and falling standards of living. Mortgage Portfolio Standards can serve as a union-wide mechanism to extend energy efficiency finance at scale and identify disadvantaged Europeans among retail bank networks. Complemented with the promotion of public guarantees to enable EU Renovation Loans (ERLs), MPS can help mitigate and manage the multiple negative social and energy effects of a dated building stock and create long sustainable jobs, and increase the habitability and value of properties, thus improving the lives of their occupants.

The trajectory of Mortgage Portfolio Standards, while voluntary, has been fruitful, sparking numerous expert discussions and study by parties seeking to modernise and broaden sustainable finance. The process of drafting a delegated act will crystallise these conversations and this briefing offers a set of available developments for the European Commission to take into consideration when formulating it, and to encourage its cooperation with the different actors that have harnessed key knowledge on buildings and energy efficiency finance over the years. This incredible knowledge is instrumental to help the EU to leapfrog in the decarbonisation of its residential buildings, offering Paris and EU Taxonomy-aligned tailored inclusive finance, and engage EU-made technologies and manpower that can evaluate buildings under different horizons, and shorten the expected timeframes to carry out renovation works (ahead of Directives' targets).

Equally as important, the 'forward looking' implementation of Mortgage Portfolio Standards can help reinforce the position of the EU, its Member States, and EU-based financial institutions as the global sustainability pacesetters, capturing the benefits from the introduction of legislation resembling EU led MPS in other jurisdictions.

EU buildings represent upwards of 40% of the energy consumed and for 36% of energy-related GHG emissions in the EU. While, three quarters are energy inefficient, and their decarbonisation is imperative. The delegated act on Mortgage Portfolio Standards can certainly assist the EU address this.

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# 1.

**EU funded technology can enable the quick and accurate diagnosis of the energy performance of buildings in all EU Member States. This would offer a clear plainfield to put into motion a strong Mortgage Portfolio Standards framework that is also supportive of other EPBD related items.**

Under the EPBD recast, Member States are mandated to adjudicate residential buildings EPCs using a A-G energy scale, and to prioritise the “worst-performing” buildings (‘G’) for renovation. This is a complex task indeed, where a “virtual approach” approved by the EPBD which has already been carried out successfully by a number of providers can accelerate this process. As part of the Delegated Act process for Mortgage Portfolio Standards, through ‘digital twin’ technology and following the EPBD template data points, Member States could carry out the calculation of EPCs - using the metrics for ZEB buildings as the reference value- to determine their classes and prevent the formation of clusters. Thereupon, the defined EPC classes could be verified through EU funded projects (e.g. U-CERT). Having clarity on the EPCs of the mortgages in their portfolios, would allow banks to pinpoint the worst performing ones and offer renovation financial solutions, and in turn also comply with EU Taxonomy requirements.

The “virtual approach” to define EPC classes is also beneficial to national databases who under the EPBD recast have to display the energy performance of buildings and integrate this data in digital building logbooks (DBLs). Also, the recast calls for renovation passports (which can be accessed through DBLs) to access the information to renovate buildings into NZEB or ZEB.

As part of the Delegated Act process, MS could be encourage Member States to include the smart readiness indicator (SRI), found in the recast’s template for EPCs as optional, which would allow EPCs to be dynamic, making buildings ‘future proof’ allowing them to adapt to occupants’ needs, optimise energy efficiency, and adapt to grid signals.



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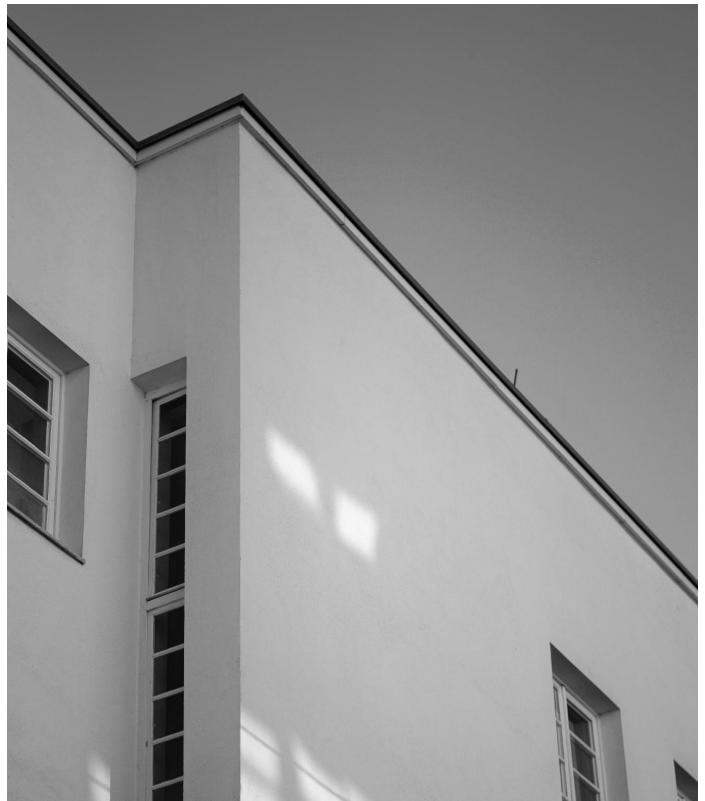
## 2.

**The Mortgage Portfolio Standards Delegated Act expert group must convene in-house EU experts already familiar with MPS and its related elements. This expert group can also include experts from the leading international decarbonisation initiatives.**

An important number of EU banks already have in place a form of a Mortgage Portfolio Standard, and this suggests that they perceive MPS as a solution rather than a green finance obstacle. The Delegated Act process convening experts can build on the positive experiences where banks -in some instances unbeknownst- have taken important steps in greening their mortgage portfolios through MPS.

Over the years, the EU has amassed invaluable knowledge on energy efficiency finance and the renovation of buildings in the EU and in Member States via the Energy Efficiency Financial Institutions Group (EEFIG). As part of the delegated act, it will be indispensable to match and compare the different data points related to Mortgage Portfolio Standards based on their EPBD definition, against the ones used by banks, to subsequently organise them following EEFIG's findings and insights to be in line with the 2030 and 2050 objectives and the EU Taxonomy.

Full engagement with the decarbonisation and reporting initiatives (whose work mirrors the EU Taxonomy) working with banks, who could integrate the voluntary MPS framework is encouraged. This would result in banks easily identifying clients' homes to renovate, the offering of smart climate finance, preventing stranded assets, and meeting EU decarbonisation targets.



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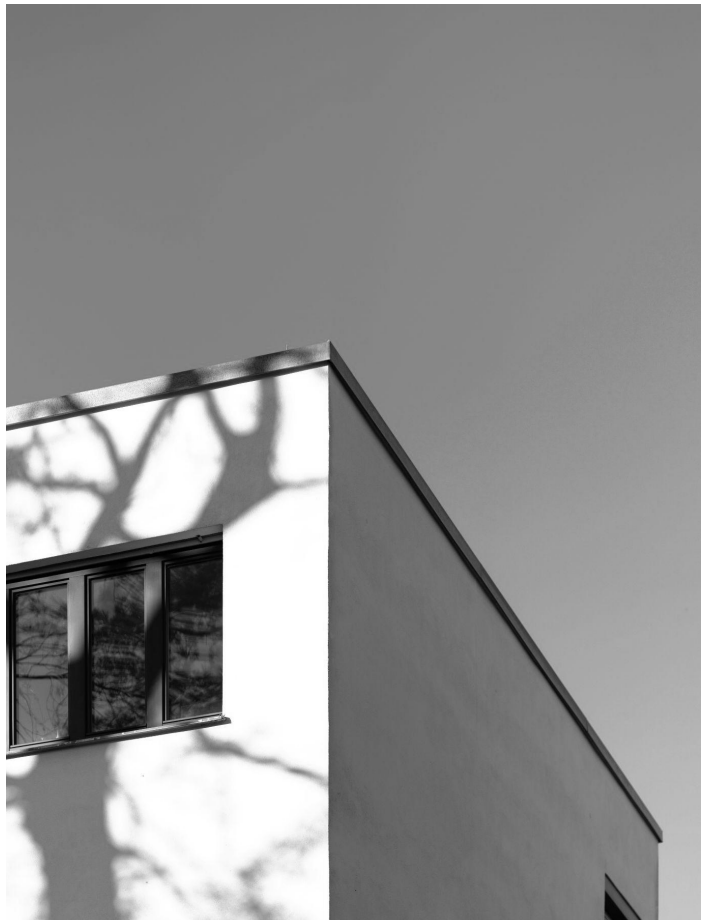
### 3.

**The Delegated Act on Mortgage Portfolio Standards can arrange the set of elements and available technology needed for Member States to meet their EPBD 2030, 2040, and 2050 renovation objectives.**

According to the EPBD recast, National Buildings Renovation Plans (NBRPs) need to include 2030, 2040 and 2050 national renovation targets. NBRPs second draft needs to be part of national energy and climate plans (NECPs) by Member States by 2028.

With specific default values for each MS, the EU funded CREEM risk assessment tool helps financial institutions evaluate reduction targets against Paris-aligned pathways. Therefore, the delegated act process can encourage Member States to include the promotion of the voluntary uptake of Mortgage Portfolio Standards to serve as a technical support instrument to mobilise 'CRREM-backed' private finance to meet NBRPs targets within the forthcoming submission of NECPs.

NBRPs that rely on 'digital twin' technology to calculate EPCs would ensure a more accurate climate pathway alignment of NECPs. This would ensure meeting their ambitious goals of transforming their buildingstock into zero-emissions by 2050 and surely reducing energy poverty.





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## 4.

**Financial institutions are increasingly aware of embodied carbon in their mortgage financing operations. The inclusion life cycle GWP in the EPBD recast signals the need for lenders to include embodied carbon in their emissions calculations.**

'Life-cycle global warming potential' or 'life-cycle GWP' was mentioned in the EPBD recast under the templates for NBRPs and EPCs, renovation passports, and digital building logbooks. The Delegated Act for Mortgage Portfolio Standards can promote the inclusion of life cycle GWP emissions in banks' mortgage portfolio transactions using EU-developed Level(s). In parallel, the Delegated Act can explore the use of financial indicators for life-cycle costing for energy efficiency retrofit elements.

This critical data can then be integrated into a new generation of EPCs that would allow for the environmentally holistic management of buildings and energy renovation works.

In addition, the Delegated Act for Mortgage Portfolio Standards can acknowledge the discussions around and the work carried out by banks and leading decarbonisation and disclosure initiatives on embodied carbon -particularly EN 15978-, and engage with them to build on their findings (e.g. pathways and the 'Ecological Breakeven Point'). Together, they overcome data barriers and find common ground to continue the research to serve as the foundation for sound proposals when the EPBD is revised in 2028.



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## 5.

### **The Delegated Act on Mortgage Portfolio Standards can help synchronise the EPBD and the EED. These recast Directives are intertwined and must maximise their ‘future oriented’ potential.**

Article 30 of the EED and Article 17 of the EPBD both call for the adoption of measures promoting energy efficiency lending products such as green mortgages and green loans. Both articles also advocate the uptake of loan guarantees potentially backed by an EU guarantee. The Delegated Act for Mortgage Portfolio Standards is a convenient opportunity for the European Commission to articulate the objectives of the EED and the EPBD together and engage with retail lenders on these matters.

The European Commission expert group should gather -as part of the delegated act process- key stakeholders (EIB, EFSI, InvestEU, and EIF) who are already working on the building blocks to set up a European Green Guarantee (EGG). The voluntary uptake of MPS can act as a common framework where banks accessing reliable energy data of the buildings in their mortgage portfolios can enable the offer of EU Renovation Loans (ERLs). ERLs will enable their most needy clients to carry out the Paris and EU Taxonomy aligned mass-renovation of the EU building stock, to deliver both the decarbonisation outcomes of the EED and the EPBD, and ideally reduce potential loan defaults, increasing resilience.

The delegated act process can tap into the true capacity of EU developed technologies to provide climate solutions whose findings are sometimes ahead of current policies and proposals. MPS, complemented by the ERL, and supported by the latest technology can quickly improve the lives of millions of Europeans, abate energy poverty, and prepare EU buildings to function and adjust to unpredictable near future climate events, as well as disruptive economic and technological changes.



#### **Media contact**

Mauricio Yrivarren  
Senior Research Associate Climate Strategy

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Paseo Recoletos, 5, Oficina 604, 28004, Madrid  
Email: [info@climatestrategy.es](mailto:info@climatestrategy.es)  
Tel local: +34 91 576 4837 Tel UK: +44 (0) 20 7193 4807

 LinkedIn and  @ClimateTest