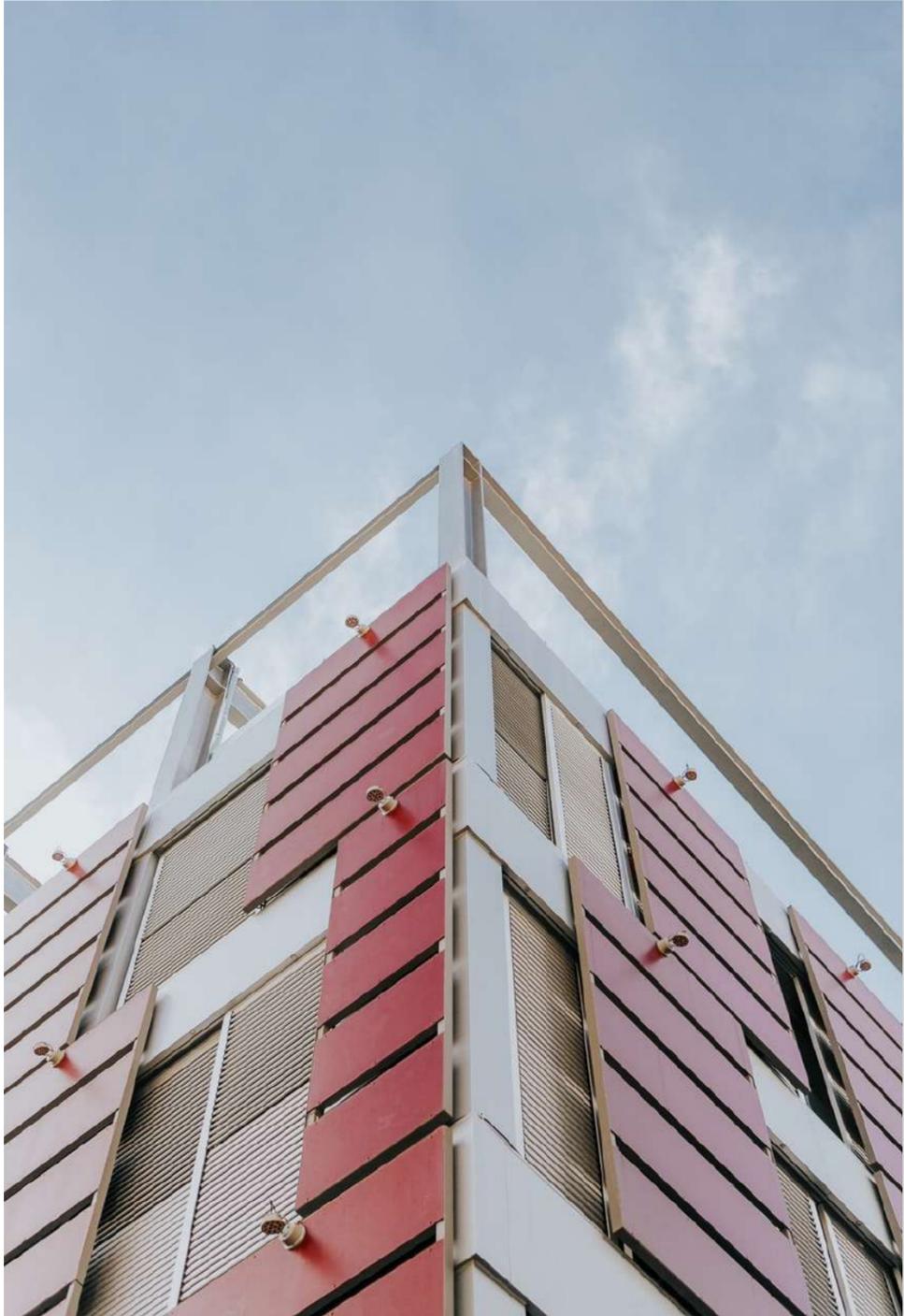




Underwriting the Renovation Wave with **Mortgage Portfolio Standards** for Energy Efficiency

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Agenda

1

Why focus on banks for buildings ?

2

What is a Mortgage Portfolio Standard ?

3

What can be done ?





**Why focus on banks
for buildings ?**

Buildings are a \$280 trillion wealth store, representing half our savings and backing 30% of SME loans

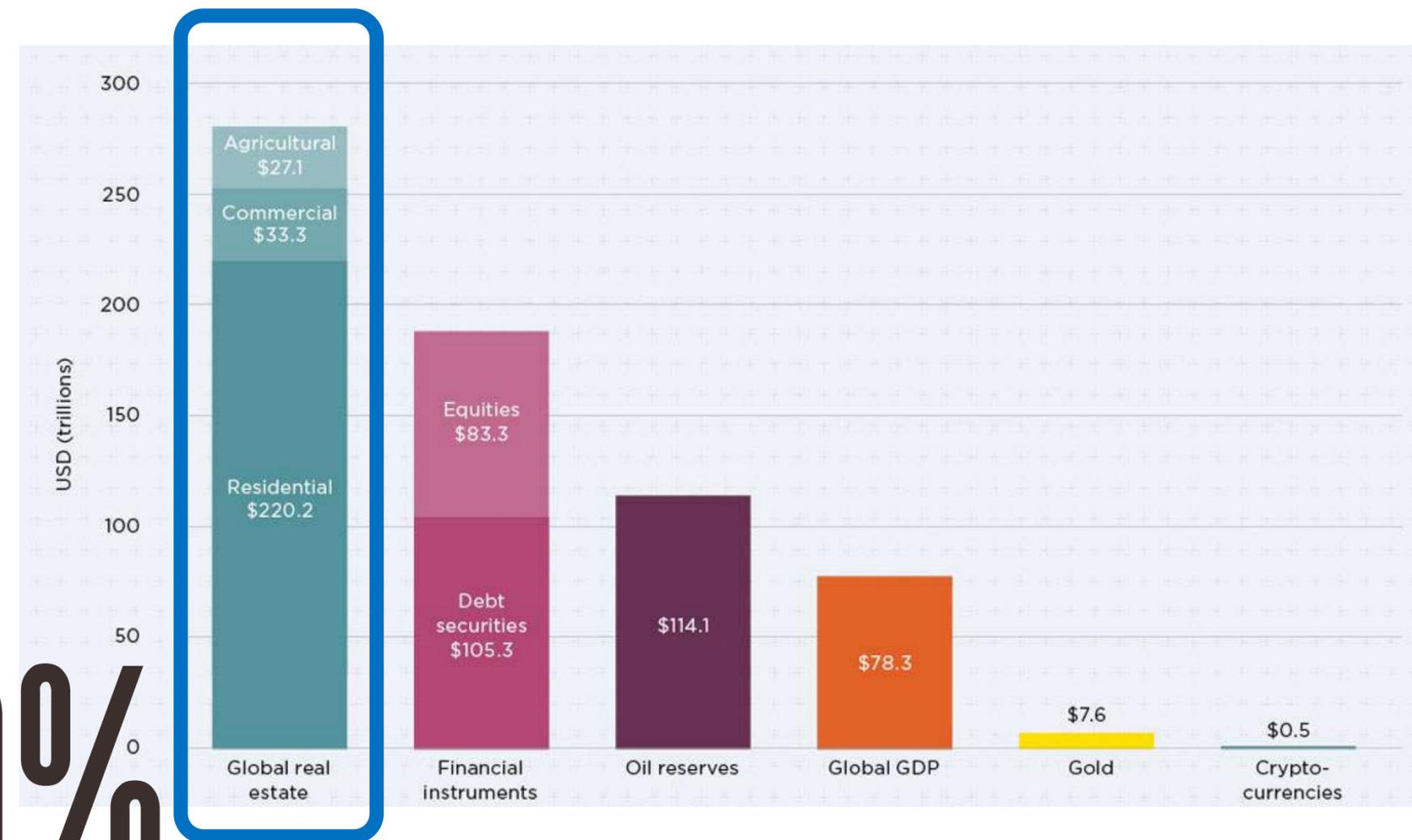
Buildings' value is threatened by climate change

- Considerable investments are required to:
 - Elevate their efficiency
 - Reduce their emissions footprint
 - Protect their long-term value
 - Reduce the risk of their physical or regulatory stranding



50%

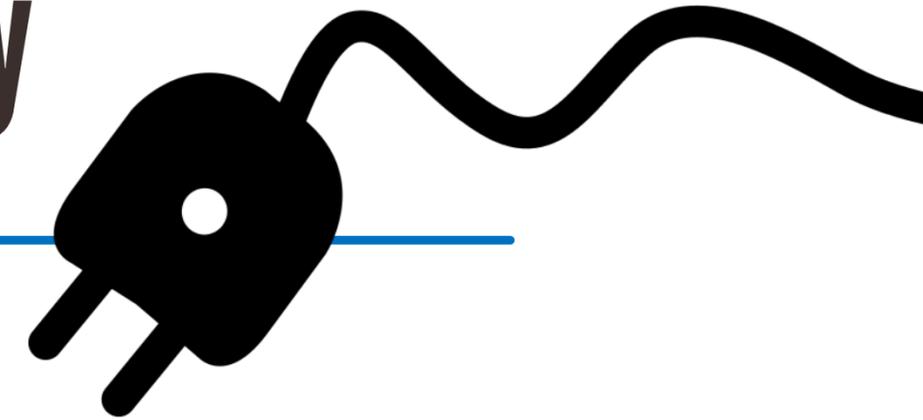
Global real estate universe in comparison



Source: Savills, 2018



Buildings & Energy



Buildings are responsible for around:

- 40% of the EU's energy consumption
- 36% of its energy-related greenhouse gas emissions

Two thirds of the EU's buildings were built when energy efficiency requirements were limited or non-existent

- Buildings **renovation rates** in Europe have been around 1.2% for a decade:
 - Only a fifth of these save more than 60% energy
 - Renovation rates need to increase **three-fold at the headline level and ten times for deep renovations**



EU Renovation Wave / moving forward



- Launched in Oct 2020, the EU Renovation Wave plans to improve the energy performance of buildings

35 million building renovations by 2030

- The EC believes will require €275 billion invested per annum to promote an increased rate of renovation

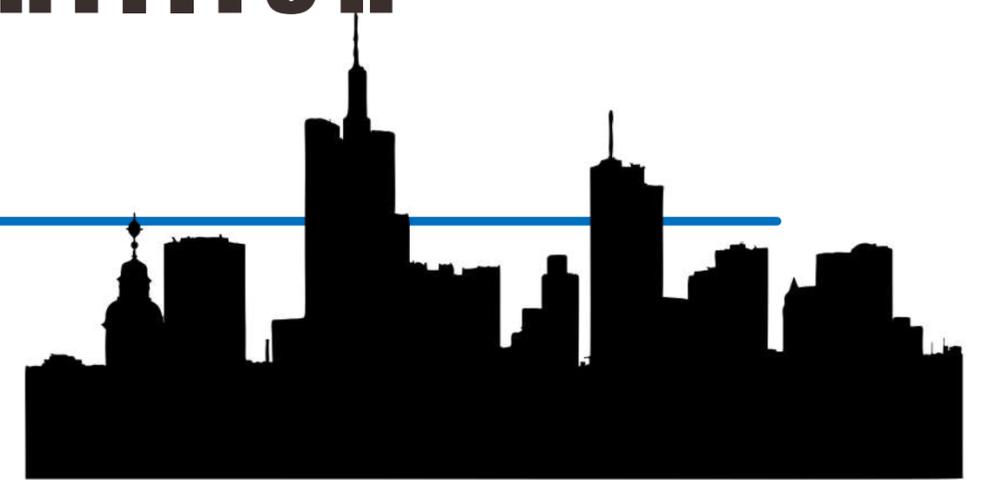
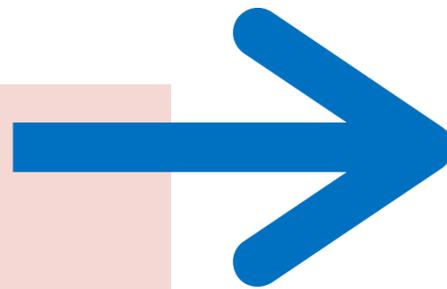
- It appears that energy efficiency upgrades will need to be mandatory if EU wishes to meet its climate targets:

Mandatory minimum energy performance standards (“MEPS”) for all existing buildings

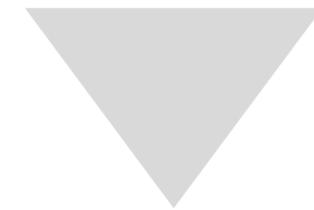
Mortgage banks talk to 50+ million customers across Europe

Given their relationships with over 50 million homeowners:

- Banks are the single major common stakeholder in the decarbonisation of buildings
- They are a uniform point of entry into a highly diffuse sector
- Buildings are at increasing risk of becoming stranded by new regulations



With millions of property-backed loans and mortgages:



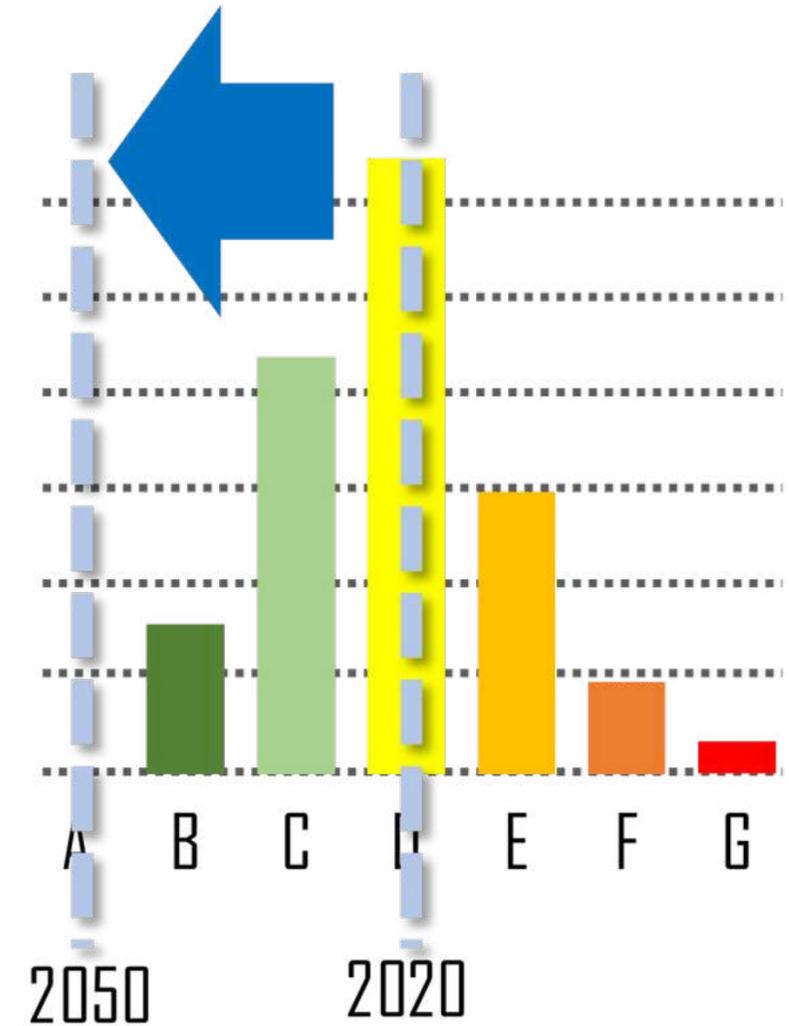
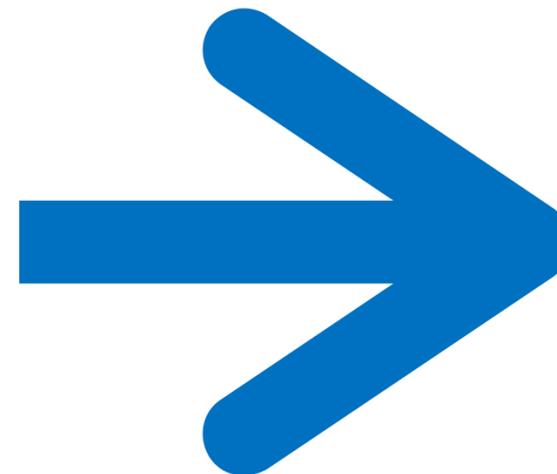
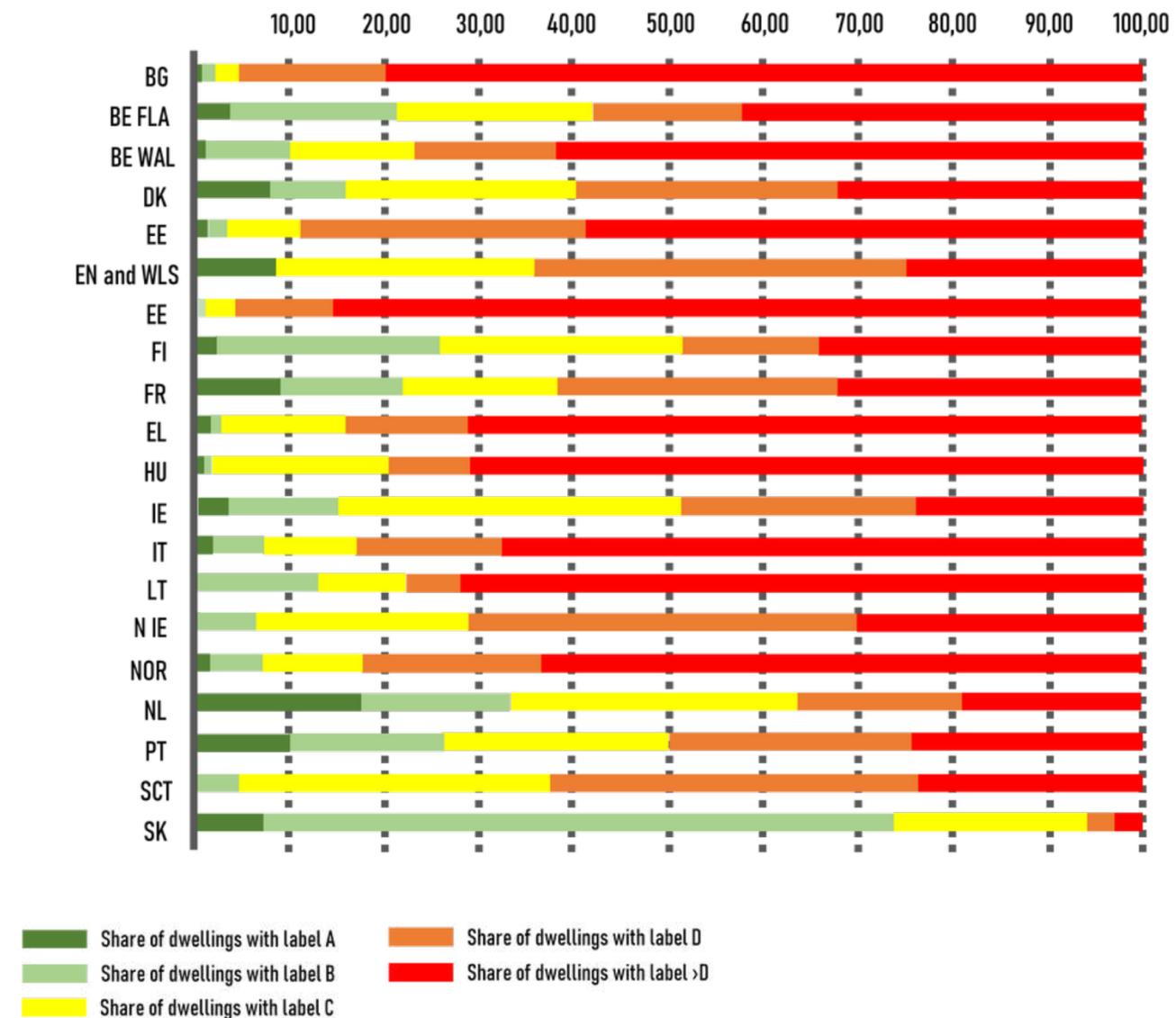
The climate transition contains many important risks at a portfolio level



By 2050, all red, orange and yellow must be green...



Distribution of EPC Label ratings (%) in Europe

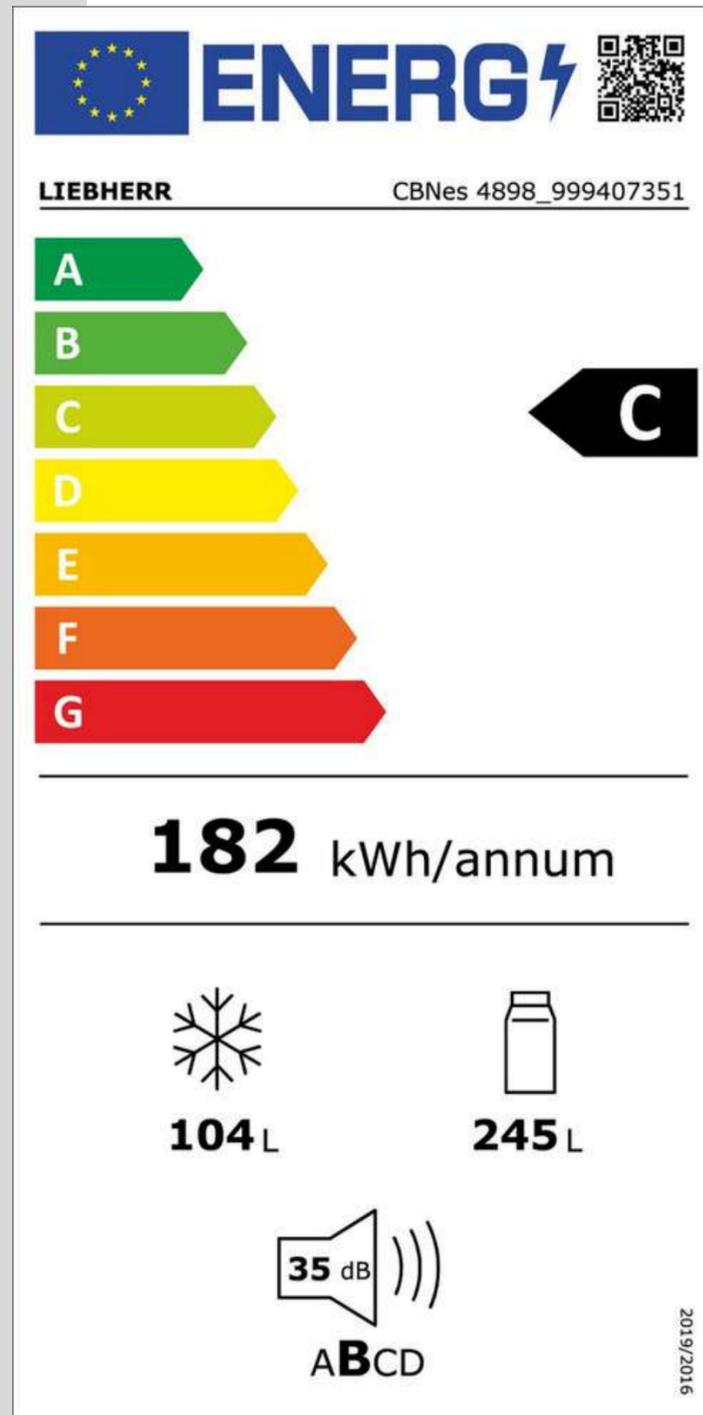


Source: X-tendo (2020) & EU Building Stock Observatory (2020) Sources: University of Southampton (2021) & Openrent (2020)



Mortgage Portfolio Standards for Energy Efficiency

What is a Mortgage Portfolio Standard (MPS)?



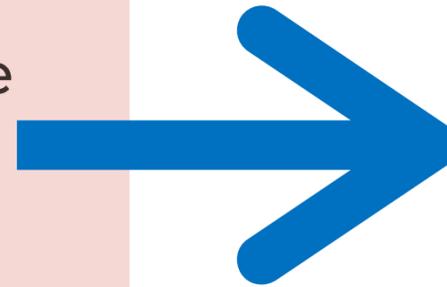
MPS is regulatory mechanism where banks pledge to work with their clients to increase the energy performance of the buildings which back their mortgages along a science-based trajectory for their portfolio.



It's like Fleet Emissions Standards (FES)...

EU Directive 2019/631 established fleet-wide CO2 portfolio emission performance standards mandating:

- Cars:
 - 15% CO2 emission reduction by 2025
 - 37.5% reduction by 2030
- Vans:
 - 15% CO2 emission reduction by 2025
 - 31% reduction by 2030.

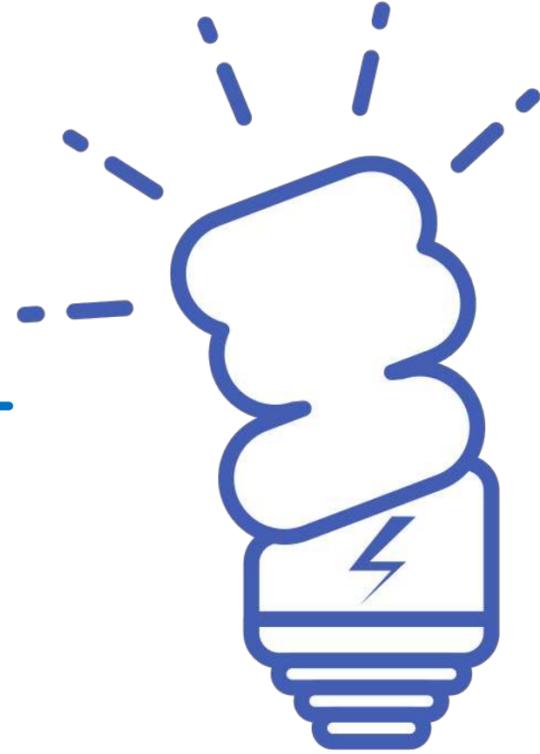


Expected results for 2030:

- Reduce road transport CO2 emissions by 25%
- Lifetime fuel savings
 - New cars - €1,100
 - New vans - €4,000
- Increase EU competitiveness and create some 60,000 jobs
 - 80,000 jobs should batteries be produced in the EU



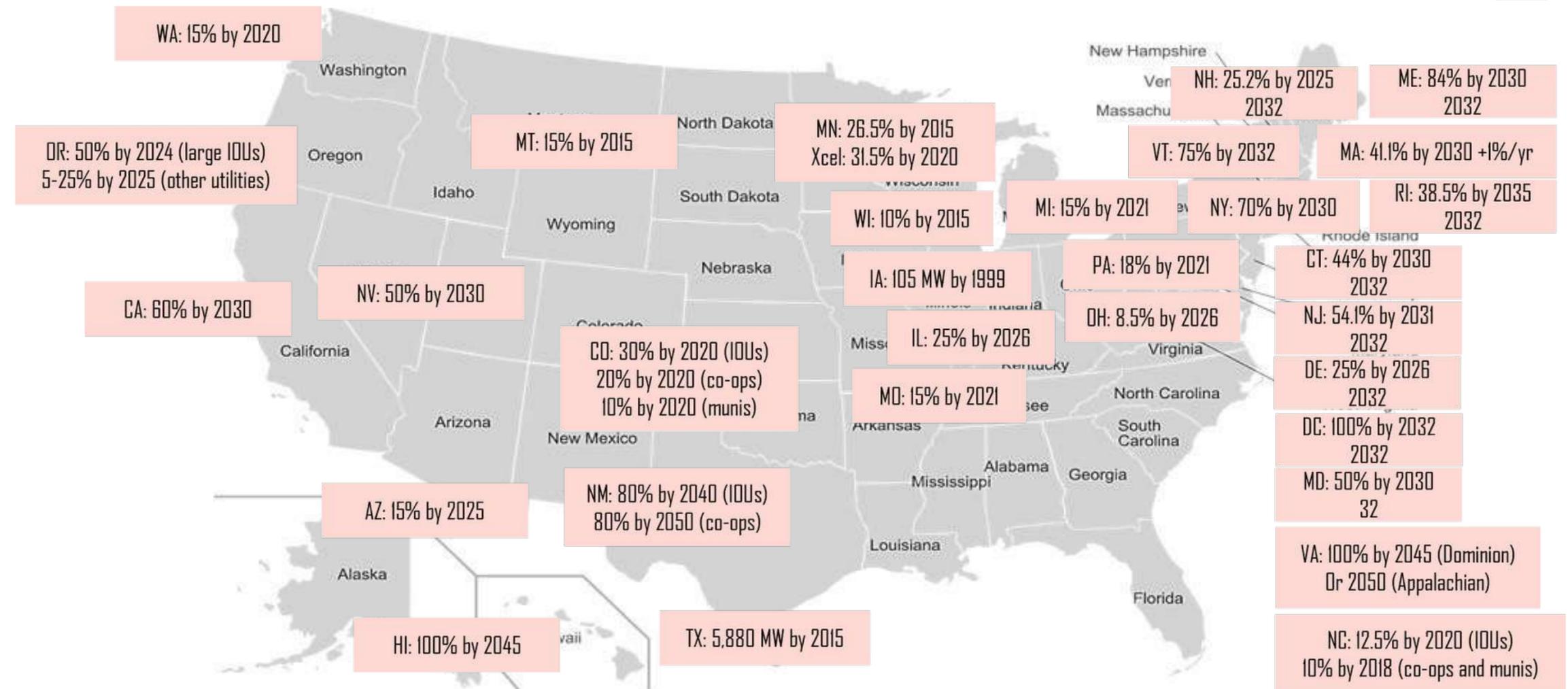
...or Renewable Portfolio Standards (RPS) which are responsible for half US renewables



RPS Policies Exist in 30 States and DC -
Apply to 58% of Total U.S. Retail Electricity Sales

- RPS are responsible for 82 GW of 174 GW

* Target percentages in states represent the sum total of all RPS resource tiers, as applicable.



Concrete Example:



Has a MPS target of
EPC "A" by 2030

ABN has a balance sheet of EUR 185 billion in outstanding loans for residential and commercial property (2/3 of its loan portfolio)



- By **2030** the bank intends for its commercial real estate and entire residential mortgage portfolios, and branch network to have an

"A" weighted average energy label



- The Bank has partnered with  **PCAF** Partnership for Carbon Accounting Financials to assess the carbon intensity and the necessary measures for each building



- And compares the trajectory towards 2030 using the IEA's Beyond 2 Degrees Scenario (B2DS)





Department for
Business, Energy
& Industrial Strategy

UK Evaluates improving home energy performance through lenders

*UK Designs Mortgage Portfolio
Standard for 2030*



1st

Regulatory
proposal:

Mandatory disclosure of energy performance for all registered mortgage lenders on their websites and to Gov't on an annual basis

- Current percentage of properties in each EPC Band A to G;
- Percentage of the portfolio with an existing EPC;
- Gross value of mortgage lending by EPC band each year; and
- Gross value of 'green' mortgage lending for energy performance improvement works by EPC band

2nd

Regulatory
proposal:

UK lenders should voluntarily agree to meet an average MPS of EPC Band C by 2030



- UK promotes the scheme, where businesses are vetted to meet standards and are required to provide robust consumer and financial protection

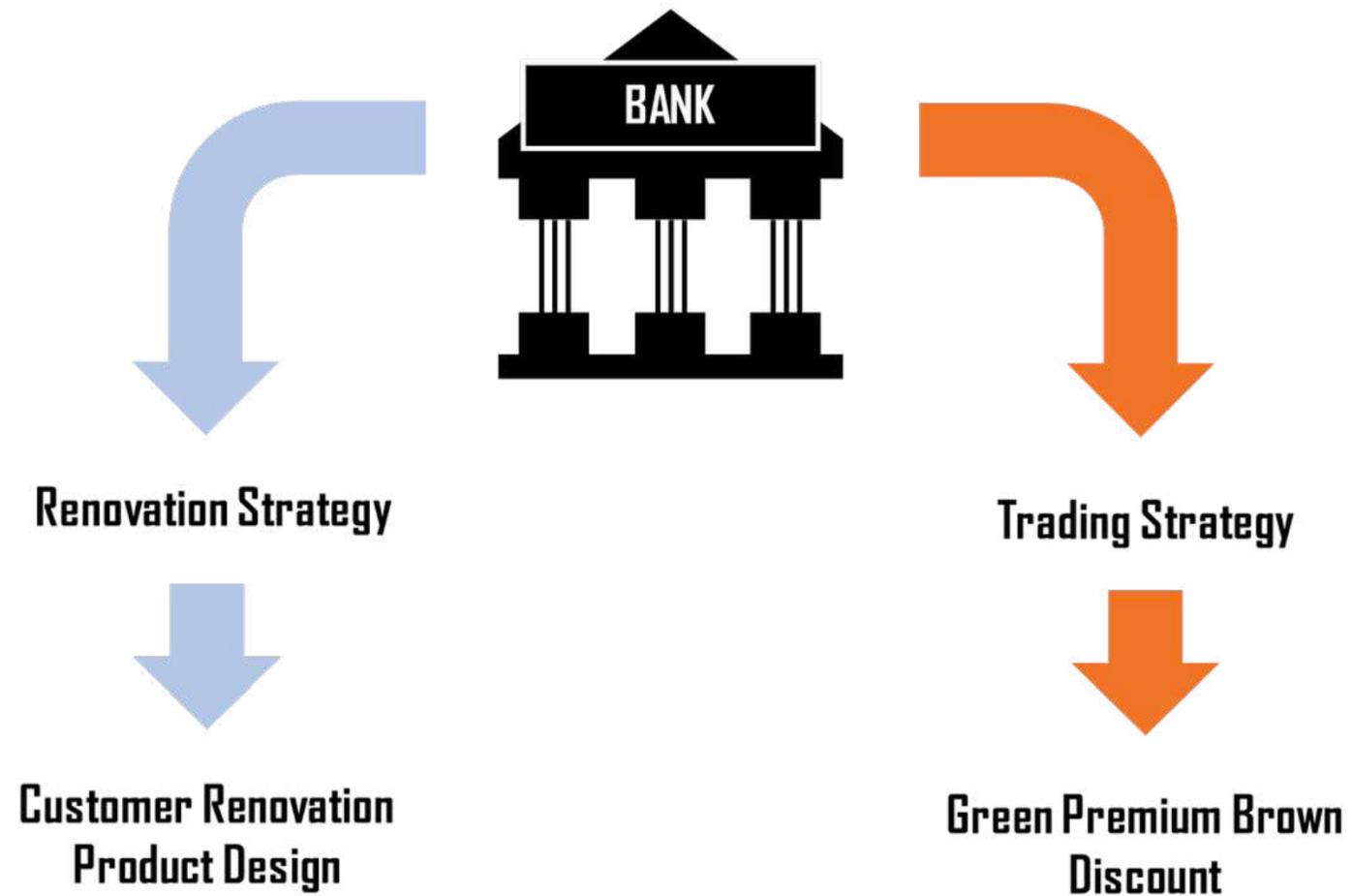


Proposed design elements of a European Mortgage Portfolio Standard

- MPS covers all mortgage lenders and mortgage debt holders (as regulated parties), *including final holders of mortgages housed in special purpose vehicles, securitisation companies and other intermediate bodies;*
⋮
- MPS would target a 2050 whole portfolio final destination with interim steps to allow for long-term renovations and upgrade planning and financing by owners and finance providers alike;
⋮
- MPS targets would be aligned with a Paris Agreement trajectory, stable, ramp-up steadily over time and not be subject to sudden or uncertain shifts;
⋮
- MPS can rely on verified real energy or emissions data from the property or an Energy Performance Certificate as a proxy; and
⋮
- MPS rules would include non-compliance penalties on those entities that fail to meet their stated goals



MPS Compliance will require Banks to Work with Property Owners to Boost Renovation Rates



- Banks can support their customers renovate or sell mortgages which don't comply through a MPS "trading strategy". It will likely create:

- A market pricing response that priced-in a premium for high EPC linked mortgages ✓
- And potentially a discount for low EPC linked mortgages ✓

Delivering increased incentives for working with clients to renovate





Regulatory Approaches

EU Regulatory Landscape 2021-22



Buildings

Finance



Construction Products Regulation

- European Parliament approved its implementation on 10 March 2021
- Harmonises conditions for the marketing of construction products

Energy Efficiency Directive (EED)

- November consultation launched, process ran until February 2021
- The EC 2021 work programme anticipates a legislative proposal to revise the EED, coupled with an accompanying impact assessment, to be adopted in Q2 2021

Energy Performance of Buildings Directive (EPBD)

- The EC 2021 work programme anticipates a legislative proposal to revise the EPBD, coupled with an accompanying impact assessment, to be adopted in Q4 2021

Strategy for a Sustainable Built Environment

- The EC intends to put forward a holistic approach for the built environment in 2021 or 2022.



2021

2022

Mortgage Credit Directive (MCD)

- The EC carried out a review of the implementation of the MCD by Q1 2019 on the effectiveness and appropriateness of the MCD provisions.
- Review published on Q1 2021

Non-Financial Reporting Directive

- Adopted on 27 May 2020, the EC has indicated Q1 2021 as target delivery date for the revision

Renewed Sustainable Finance Strategy

- Intends to build on HLEG on Sustainable Finance and the TEG
- Consultation closed in Q3 2020
- Expected to be adopted in Q2 2021

Establishment of an EU Green Bond Standard

- Legislative proposal is scheduled to be delivered in Q3 2021

Capital Requirements Directives (CRD 4 & 5)

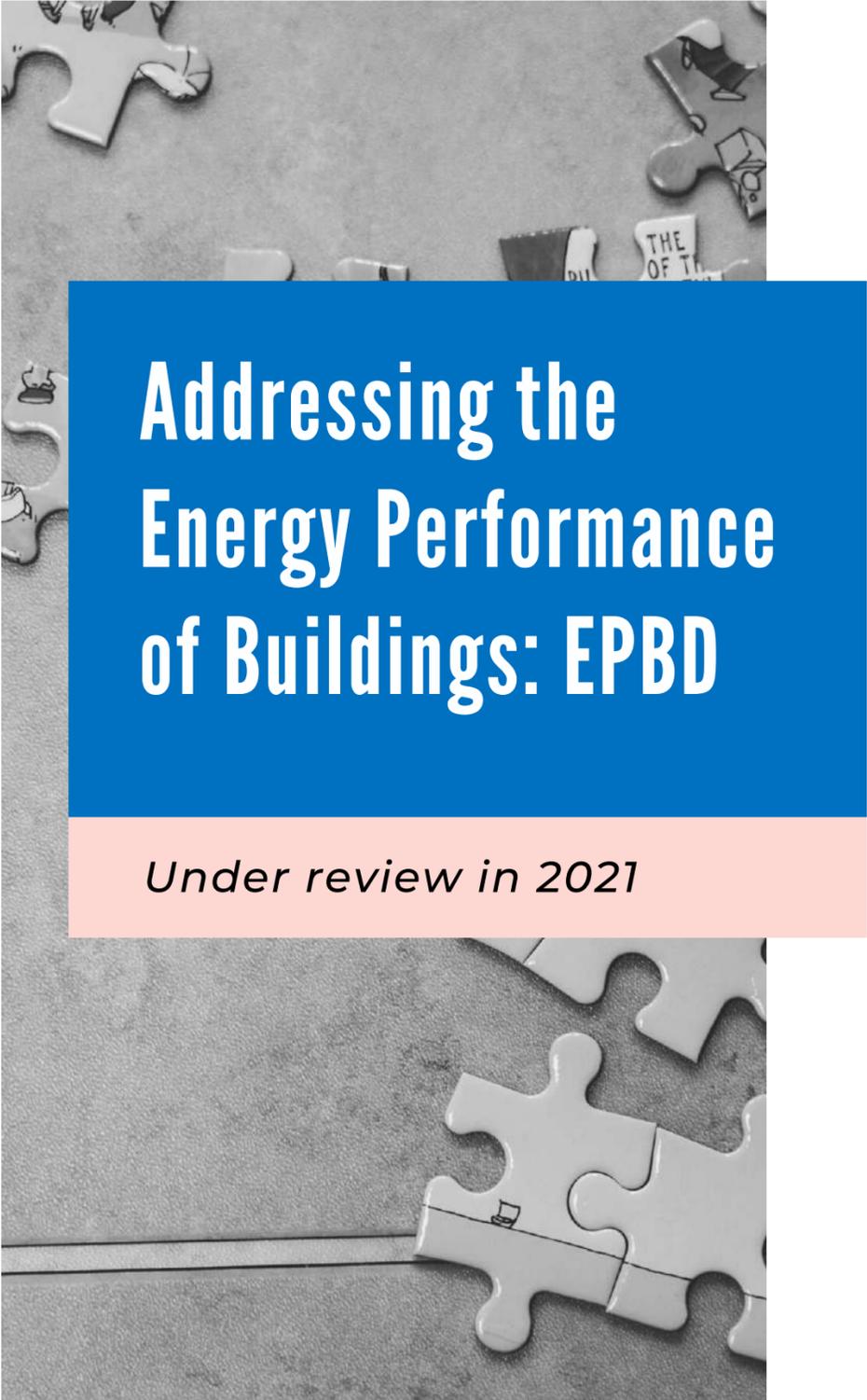
- *Formerly Capital Adequacy Directive**
- MS shall adopt and publish by November 20, 2021 the laws, regulations, and administrative provisions necessary.
- Measures shall be applied in Q1 2022

Consultation key takeaways related to buildings

- Insufficient physical asset data on building stocks was identified as one of most common regulatory hurdles
- Participants mentioned that CO2-intensive assets and energy-related assets, as well as buildings / real estate and mortgages / loans would justify a more risk-sensitive treatment from the finance sector.

Sources: European Parliament (2021) and European Commission (2021)





Addressing the Energy Performance of Buildings: EPBD

Under review in 2021

- As the **EPBD** calls for stronger data and transparency obligations and intends to introduce MEPS for existing buildings



- **MPS** can be included in Article 10 of the **EPBD**



10.8 Member States shall require all mortgages lenders to implement mortgage portfolio standards to align the energy and emissions performance of their financed buildings portfolio with the Paris Agreement





"Duty to Inform" (ESIS) and "Duty of Advice" (Art. 14):

Duty to
inform:

the creditor can have a duty of information to make the borrower aware of

- Any climate or transition risks that it reasonably may assess itself in respect of the property.



Duty of
advice:

Article 14 could include a duty of advice to provide the borrower with an estimate of a Paris-compliant deep renovation

- Recognising that point of purchase is one of the likely triggers for renovation





Mortgage Portfolio Standards will promote Green Asset Ratios (GAR)

- A MPS, can be referenced by the EBA as an element of the promotion of increasing GAR



Publication of GAR for FIs financial will show the alignment of lenders' activities with the EU Taxonomy

- 3/4+ of EU bank Taxonomy-relevant lending is not yet aligned with the Paris Agreement



- **A MPS is the perfect tool for banks to address this GAR transition to full alignment of buildings-backed lending**

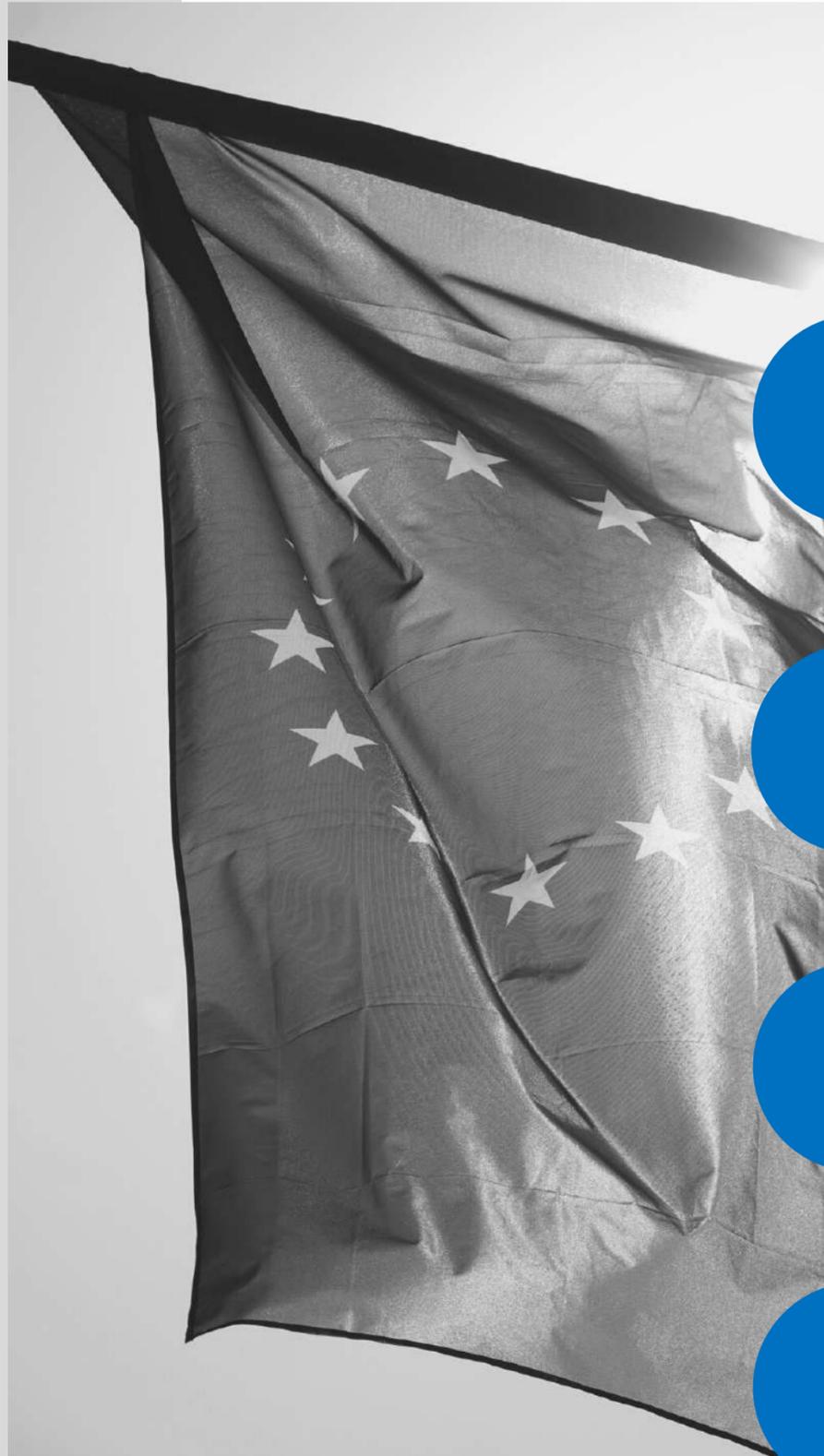


- Encouraging mortgage lenders to work with homeowners and building-owner clients to:

- Renovate and improve homes  + ◦ Save energy 

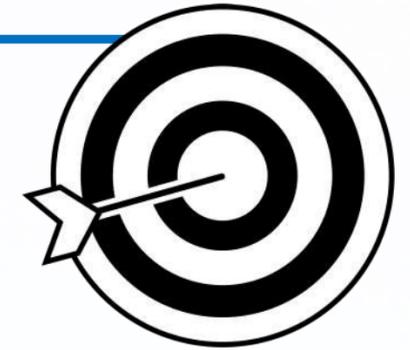


Conclusions



1

MPS will align mortgage lenders with the EU Green Deal and Renovation Wave strategy



2

MPS can address 50 million homeowners immediately



3

MPS will accelerate financed offers to the low hanging fruit for energy efficient renovations



4

MPS is a structured way for banks to manage climate transition risk in their mortgage portfolios



Funded by:



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Thanks!

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