



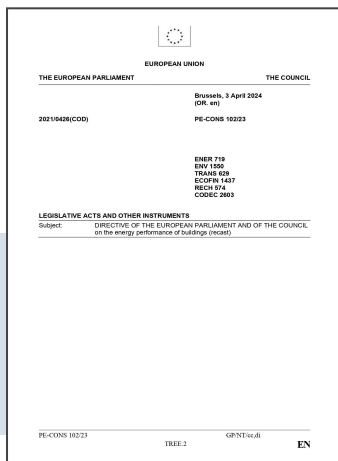
# MORTGAGE PORTFOLIO STANDARDS

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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

## Executive summary

Support for energy efficiency investments is a clear priority in Europe, however, more work assessing buildings' energy performance and environmental footprints accurately and offering a tailored set of measures and financial solutions is needed. While energy regulation, as well as attitudes towards energy efficiency are different in every Member State of the European Union, there is an opportunity to advance EU-wide measures especially in Governments' engagement with private lenders. Mortgages are the single most frequently used financial instrument in the EU and constitute a direct connection between building owners and financial institutions (FIs). The regulatory and market pressures being placed on financial institutions to transition their main portfolios and manage the climate risks in buildings and real estate is increasing. A set of reporting and decarbonisation initiatives have emerged and have started to offer common frameworks and tools to help FIs with their own sustainability targets and to prepare them for rigorous regulatory scenarios. All of this is "on-going" and yet the agenda is not moving fast enough.



The EU Council's adoption of the Energy Performance of Buildings Directive (EPBD) recast in April 2024 completed the Fit for 55 package<sup>1</sup>. This recast Directive highlights the importance of investing in energy efficiency<sup>2</sup> to help Europe meet its decarbonisation targets and achieve energy independence from foreign sources of energy, while boosting competitiveness, lowering energy bills, and mitigating energy poverty. For the first time, this recast EPBD<sup>3</sup> directly implicates lenders through Mortgage Portfolio Standards (MPS) as a voluntary measure to track the decarbonisation of their mortgage lending:

*"Mechanisms incentivising mortgage lenders to establish a path to increase the median energy performance of the portfolio of buildings covered by their mortgages towards 2030 and 2050, and to encourage potential clients to improve the energy performance of their property in line with the Union's decarbonisation ambition and relevant energy targets in the area of energy consumption in buildings, relying on the criteria for determining environmentally sustainable economic activities set out in Article 3 of Regulation (EU) 2020/852"*

The recast EPBD also tasks the EU Commission with the adoption of a Delegated Act<sup>4</sup> over the course of 12 months to establish voluntary Mortgage Portfolio Standards in the following terms:

*"comprehensive portfolio framework for voluntary use by financial institutions that supports lenders in targeting and increasing lending volumes provided in accordance with the Union's decarbonisation ambition and relevant energy targets, in order to effectively encourage financial institutions to increase lending volumes provided for energy performance renovations. The actions set out in the comprehensive portfolio framework shall cover increasing lending volumes for energy renovations and shall include suggested safeguards to protect vulnerable households through blended funding solutions. The framework shall describe best practices to encourage lenders to identify and act upon the worst-performing buildings within their portfolios."*

<sup>1</sup> European Council. (2024). *Towards zero-emission buildings by 2050: Council adopts rules to improve energy performance*. [Website]. Retrieved from <https://www.consilium.europa.eu/en/press/press-releases/2024/04/12/towards-zero-emission-buildings-by-2050-council-adopts-rules-to-improve-energy-performance/>

<sup>2</sup> Euroace. (2024). *Final agreement on the Buildings Directive Time to deliver on the ground*. Retrieved from <https://efficientbuildings.eu/wp-content/uploads/2024/05/05042024-PR-EPBD-Adoption-Council.pdf>

<sup>3</sup> European Union. (2024). *DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the energy performance of buildings (recast)*. Retrieved from <https://data.consilium.europa.eu/doc/document/PE-102-2023-INIT/en/pdf>

<sup>4</sup> Ibid.

This briefing document analyses the different elements inherent to MPS in the frame of new buildings and energy regulation -such as the Energy Efficiency Directive (EED) recast adopted in September 2023- and given recent technology developments related to measuring and improving buildings' energy performance, complementary innovative climate finance. It provides a set of recommendations for the European Commission to take into account when convening its own experts and third parties to draft the DA for MPS. Moreover, it also provides a way to synchronise the elements above under an all-encompassing future-looking Mortgage Portfolio Standards that can speed up the mass renovation process of EU buildings, delivering decarbonisation targets and ensuring a just transition for Europeans of all economic backgrounds.

**Europe has a successful track record of bringing diverse climate finance experts together** under the Energy Efficiency Financial Institutions Group (**EEFIG**), whose reports, insights, and findings have built a technical consensus around buildings' solutions (including MPS), creating real intellectual assets to build on. As one of the European Supervisory Authorities (ESA), the European Banking Authority (EBA) references Mortgage Portfolios Standards as a recognised framework to address the challenges around **climate neutrality targets, the EU Taxonomy, and to improve energy performance of EU homes.**

**Accurate and reliable buildings' energy performance data** is critical for FIs to better address climate risks and to offer renovation loans and green mortgages to their clients. To do so, more EU technology and AI can be deployed to determine (or proxy) EPCs across the EU, and this will speed up the process of identifying lenders' worst-performing buildings and the tailored delivery of the proper finance products.

There are **global banking decarbonisation initiatives with aligned targets with the recast EPBD** to promote the voluntary uptake of Mortgage Portfolio Standards, and these also support banks delivering against EU decarbonisation and sustainable finance standards, and positioning the EU as a global leader.

**Decarbonisation pathways calculated using specialist EU technology providers** will enable mortgage lenders to have a clearer perspective of the depth of the renovations needed by the properties they lend to, hence preventing future stranded assets in their portfolios.

**Embodied carbon is a significant part of buildings' environmental footprint** and its measurement can be incorporated into a new generation of energy performance certificates, ensuring circularity efforts and preparing FIs and Member States for near-future regulatory requirements.

**The implementation of the EPBD and the Energy Efficiency Directive (EED) will be carried out in parallel** as both Directives are interconnected. For those banks advanced in their Mortgage Portfolio Standards processes, the need for an EU Renovation loan (ERL) is emerging. The ERL can be backed by an EU-level guarantee ensuring fair access to an EU Capital Market for citizens and to assist banks in their lending to some of the most deserving families, which is necessary to meet the Union's decarbonisation objectives.

The **impact assessments** for the EPBD and the EED indicate that the **EU needs to take on a larger role** in buildings' renovation policies. **Mortgage Portfolio Standards are a mechanism** that facilitates their joint implementation, and **can help them supersede their outcome expectations.**

Recognised by the International Energy Agency<sup>5</sup> as an innovative solution to increase energy efficiency finance, the momentum for MPS is building as over a third<sup>6</sup> of the top-30 banks in Europe already have a form of Mortgage Portfolio Standard, or equivalent, in place. Mortgage portfolio standards have become the touchstone which connects an already existing body of best practices developed by banks for banks, to the critical need to align mortgage portfolios with net-zero targets and address the potential for climate risk and stranded real estate assets through the energy transition.

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<sup>5</sup> IEA. (2024). World Energy Investment 2024. Retrieved from <https://iea.blob.core.windows.net/assets/d829545d-fab6-4c98-b266-28556d86ce8d/WorldEnergyInvestment2024.pdf>

<sup>6</sup> Climate Strategy & Partners. (2023). *Engaging Retail Lenders in Home Renovation: Turning Sustainable Finance Commitments into Household Energy Savings and Climate Resilience*. [Website]. Retrieved from [https://www.climatestrategy.com/en/informe\\_27.php](https://www.climatestrategy.com/en/informe_27.php)