UNLOCKING HOME RENOVATION IN EUROPE

Three demands to unleash affordable financing for energy efficient homes

Unlock

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About Unlock

Unlock is an EU-wide campaign that aims at unlocking affordable financing solutions for people to make their homes more energy efficient. We are a coalition of civil society organisations coordinating a citizen-powered movement to put pressure on the European Union (EU) institutions, national governments and financial regulators to make deep home renovation accessible.

Everyone should be able to live in comfortable and healthy homes. Yet, most of the buildings in the EU are old and do not provide good housing conditions. The walls of our homes are not able to retain or keep out heat, and a lot of energy is consumed to warm up or cool the space. Due to poor energy efficiency, buildings are responsible for over one third of the EU's greenhouse gas emissions and for 40% of the EU's energy consumption.[1] This forced us to import close to € 65 billions worth of fossil fuels from Russia since the war in Ukraine started, which contributed to its funding.[2]

The surge in energy prices this year also turned the cold and hot weather into a real threat for many families. People face prohibitive energy bills and are sometimes forced to choose between paying those bills or putting food on the table. All these factors led the EU to launch a new REPowerEU strategy, which aims to increase the EU's energy efficiency target from 9% to 13%.[3] This means that the EU will be required to increase its annual rate of renovation 15 times, from the current 0.2% to 3% per year.[4] In other words, around 150,000 homes need to be upgraded every week in order to achieve the EU's decarbonisation goals for 2050.[5]

This challenge is unprecedented. It is, however, achievable if EU institutions, national governments and financial regulators work together to unlock the trillions of private and public funding available to make our homes greener and safer, by reducing their energy consumption and carbon footprint.

Positive Money Europe

The Unlock campaign is an initiative of Positive Money Europe and it is carried out with the support of a wide coalition of civil society organisations. Visit the Unlock campaign website at: https://unlock.green/en/.

[1] European Commission (2020), https://ec.europa.eu/energy/sites/ener/files/eu_renovation_wave_strategy.pdf.

[2] Europe Beyond Coal (last retrieved on 30/06/2022), https://beyond-coal.eu/russian-fossil-fuel-tracker/.

[3] EU 'Save Energy' (2022), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2022%3A240%3AFIN&qid=1653033053936.

[4] BPIE (2021), https://www.bpie.eu/wp-content/uploads/2021/11/BPIE_Deep-Renovation-Briefing_Final.pdf.

[5] European Commission (2020), https://ec.europa.eu/energy/sites/ener/files/eu_renovation_wave_strategy.pdf.

1. Make banks play their part

The EU renovation challenge requires the upgrade of 220 million buildings by 2050, amounting to a total cost of €275 billion / year.[6] Finding adequate financing solutions to meet this challenge is therefore paramount.

The European Central Bank estimates that €214 billion / year of the funding needs for renovation should be covered specifically by bank lending.

According to the European Commission's research, 72% of people resort to their own savings when renovating, while others benefit from grant schemes developed by governments.[7] While public subsidies are crucial incentives to encourage renovations, they also present important pitfalls. First, the limited size of the grants often does not cover the entire costs of deep renovation works. By providing small grants, governments are essentially incentivising people to carry out only partial renovations instead of deep renovations, which reap more benefits, such as energy savings and cleaner air, over time.[8]

In cases where the grants are generous, they are distributed widely and with little conditions attached with the result that they weigh heavily on public budgets. The Italian Superbonus, for instance, is well-known for its generosity by offering to cover 110% of the renovation costs. However, the programme will be shut down prematurely because the funding to finance this programme until 2036 has already been spent.[9]

Public subsidies are by their nature limited and unscalable, and will not be able to match the overall size of the renovation challenge. Banks, on the contrary, have the unique ability to create and inject as much new money as demanded into the economy. They can count on a powerful network of thousands of branches across the continent, which can be mobilised to reach out to consumers en masse. Banks are also uniquely well positioned to engage with homeowners, since they are in contact with about 50 million customers through their mortgage relationships.[10]

Given that public finances are limited, it is clear that bank lending should cover most of the cost for renovation in the future. The European Central Bank (ECB) estimates that €214 billion / year of the funding needed for renovation should be covered specifically by bank loans.[11] **Banks need to do their fair share and join other institutions in mobilising their resources in order to achieve the EU's renovation goals**.

The European Commission is already taking steps to incentivise banks to play their part. Under the current review of the Energy Performance of Buildings Directive (EPBD), it has proposed to introduce a "Mortgage Portfolio Standard" (MPS) - a new mechanism that requires banks to increase the median energy performance of their portfolio of mortgages. However, the proposal is not well-defined yet and presents significant operational challenges. For example, banks will need to obtain access to the energy performance certificates (EPCs) of the properties of their borrowers, but this data is most often unavailable.

[6] European Commission (2020), https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1603122220757&uri=CELEX:52020DC0662#footnote2.

[7] European Commission (2019), https://ec.europa.eu/energy/sites/ener/files/documents/1.final_report.pdf.

[8] BPIE (2021), https://www.bpie.eu/wp-content/uploads/2021/11/BPIE_Deep-Renovation-Briefing_Final.pdf.

[9] Corriere Della Sera (28 June 2022), https://www.corriere.it/economia/casa/22_giugno_28/superbonus-110-l-alt-governo-stop-nuovi-fondi-proroghe-97412c64-f6f7-11ec-9143-1626935df89d.shtml.

[10] Climate Strategy (2021), https://www.climatestrategy.es/press/MortgagePortfolioStandardsREPORT2021.pdf.

[11] European Central Bank (2021), https://www.ecb.europa.eu/pub/financial-stability/macroprudential-bulletin/html/ecb.mpbu202110_2~ea64c9692d.en.html.

Governments and EU institutions can take a number of measures to enable banks to increase their investments in energy efficient renovation and make them play a bigger role in achieving the EU's renovation goals:

- As proposed by the European Banking Authority[12], **the European Commission should oblige all banks to collect EPCs data**, ideally at the moment of issuing loans **and mortgages, and establish reporting rules to financial supervisory authorities. Member States should develop cross-national and publicly available databases of EPCs**.
- When implementing the EPBD at the national level, **Member States should establish mandatory annual targets consistent with their national building renovation plans and with a view to prioritising deep renovation of the worst-performing buildings** before financing the purchase of new, energy efficient houses. These targets should be revised periodically to monitor improvements and foster further progress.

Our recommendations:

1. **The EU Commission should oblige banks to collect EPCs data at loan origination level and establish reporting rules to financial supervisory authorities.**
2. **Member states should develop publicly available databases of EPCs.**
3. **Member States should establish binding annual targets for banks. These targets should aim at worst-performing buildings and prioritise deep renovation.**

2. Make renovation affordable for everyone

Multiple surveys have shown that the cost of renovation is a major barrier for homeowners.[13] For people who already have a mortgage, there is strong resistance to taking on even more debt[14]. It is therefore critical to push down the cost of renovation and make it affordable enough so as not to be a reason for inaction.

Currently, the financial products offered by banks are broadly inadequate in supporting people to renovate their homes. Renovation loans are too expensive, with interest rates ranging from 5 - 7%. The maturity of these renovation loans is also too short, making it uncomfortable for people to contract them, provided they can even afford to apply for one in the first place. Banks deny loans to a large number of people due to stringent credit assessments, which mainly exclude people with low-income or unstable jobs.

Governments and EU institutions can enable people to access affordable financing for renovation by intervening on different levels:

- **The ECB should apply a green discount rate on its loans to commercial banks, under the condition that the commercial banks, in turn, use these loans to offer zero-percent loans to their customers for energy efficient renovations.** In practice, commercial banks could borrow money from central banks at a lower interest rate than the

[12] European Banking Authority (2022), https://www.eba.europa.eu/eba-publishes-binding-standards-pillar-3-disclosures-esg-risks.

[13] IPSOS (2018), Uncover the underlying motivations and barriers for energy efficient renovations https://europeanclimate.org/wp-content/uploads/2019/11/12-03-19-uncover-the-underlying-motivations-and-barriers-for-energy-efficient-renovations.pdf.

[14] Marco Marijewycz, Stephen Worrall, Laura Weimann, Catherine Parkinson, Chris Hope, Hereward Feldwick (2018), https://energyefficientmortgages.eu/wp-content/uploads/2021/07/Consumer-Research-DE-IT-SE-UK-2018.pdf.

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central bank's normal key interest rate[15]. By adopting this green discount rate, the ECB would not only lower the cost of renovation, but, in the medium term, it would also support the ECB's mandate to keep prices stable across the Eurozone. By contributing to make the Eurozone's buildings greener and more energy efficient, the ECB could curb the current trend of rising prices, which are mainly driven by the increasing costs of the fossil fuel energy that European homes depend on.

- **Until the ECB implements a green discount rate, governments can also develop subsidised loan initiatives to ensure that banks offer cheap renovation loans to consumers**[16]. Where they exist already, these subsidised loans should be further improved to ensure that as many people as possible are eligible, and to increase the maximum amount of these loans to ensure they can cover the cost of deep renovation.
- **The EU should establish an EU loan guarantee fund for energy efficiency loans and mortgages, which would cover the financial risks of the most vulnerable households in case they should default on their loans**. By acting as a guarantee, the EU can reduce the risk profile of consumers that are currently not eligible to receive bank loans. Reducing the risk will also lower the cost of the renovation loans. While some governments already offer state guarantees for renovation loans, an EU-level guarantee fund would ensure that all Europeans can benefit from this supportive mechanism.
- Finally, **governments should provide grants for those households who are not eligible for a loan** despite the accommodating measures mentioned above. **These grants should cover up to 100% of the deep renovation costs**. They should be disbursed in several instalments, including an upfront payment (or a temporary line of credit) before the renovation works begin, to avoid cash flow issues for families. Public one-stop-shops should facilitate the distribution of such grants (see below).

Banks can also play a role in making renovation affordably by developing innovative types of renovation products:

- **An example of such a product would be a loan whereby the entire debt repayment is made at the moment of sale of the house, or at the moment of succession, or in any case after a long period such as 30 years**[17]. The advantage of this proposal is that, because households do not have to repay their debt monthly, they immediately benefit from the effects of energy efficiency savings in their budgets. In the long run, the renovation works will likely have increased the value of the property, thus making it possible for them to pay back the capital when selling the house

[15] For example, if the ECB raises the key interest rates to 1%, it could at the same time offer commercial banks a green discount rate at 0% for renovation loans . The EC B already implemented a similar concept through its "TLTRO" programme between 2020 and 2022, to incentivise lending to businesses and people but without any green conditions attached. https://www.positivemoney.eu/2021/02/report-building-renovation-wave-tltros/.

[16] The French government has developed a zero-percent loans scheme ("ECO-PTZ") which is distributed by a limited number of commercial banks. Under this scheme, the absence of interest payments on these loans is compensated by a tax discount offered by the government to banks. https://www.ecologie.gouv.fr/eco-pret-taux-zero-eco-ptz; A similar scheme exists in Flanders: https://www.vlaanderen.be/bouwen-wonen-en-energie/lenen/mijn-verbouwlening.

[17] See the EU Renovation Loan proposal by Climate Strategy (2022), https://www.climatestrategy.es/press/EURenovationLoanSummApr2022.

or at the succession. This kind of "zero-coupon" loan would be particularly adequate for young working people, who usually do not own enough capital to undertake renovation works, or to the elderly, to whom banks rarely accept to lend money to, due to their age and their higher risk profile. However, consumers should retain the possibility to take up a standard repayable loan.

- To encourage banks to develop innovative renovation products like the one above, **the European Commission should create an energy efficiency renovation loan standard or label**. This instrument would establish strong criteria as to the affordability and accessibility of the loans, while also certifying the greenness of the underlying renovation works, thereby preventing greenwashing. The European Commission could introduce such an initiative when they review the Mortgage Credit Directive in the coming months. The products that obtain the label should be eligible for support mechanisms such as a green discount rate by the ECB and the EU loan guarantee fund.

Our recommendations:

4. **The ECB should apply a green discount rate on its loans to commercial banks, under the condition that they offer zero-percent loans to people for energy efficient renovations.**
5. **Until the ECB implements a green discount rate, governments can develop subsidised loan initiatives to ensure that banks offer cheap renovation loans to consumers**
6. **The European Commission should create an EU loan guarantee fund to take on the financial risks of the most vulnerable households.**
7. **Governments must target their grants to vulnerable families and deep renovation.**
8. **Banks should develop innovative lending products to make renovation affordable to a larger share of people.**
9. **The European Commission should create an energy efficiency renovation loan standard or label to encourage the development of innovative lending products by banks.**

3. Make renovation simple

The renovation process can be a highly complex and discouraging one: people are often faced with burdensome bureaucracy, as well as complex and time consuming technical evaluations, which are required to assess the building's energy efficiency performance and to carry out the renovation. All of this also entails non-negligible costs.

The challenge is even bigger when it comes to building units owned by different people, such as apartment blocks. In some countries, co-ownership structures cannot be direct recipients of bank loans due to their lack of legal entity. In these situations, each co-owner has to contract a loan individually, which increases complexity, delays and overall transaction costs.

Providing households with financial support for technical assistance would lower the barriers to entry and encourage more households to carry out renovation works. Technical assistance will also help ensure more people understand the benefits of deep renovation, increasing the likelihood that people make the right investment decisions, and it will also help people find the best financing solutions according to their needs and economic means.

- **Member States should increase funding for the creation and financing of One-Stop Shops (OSS) to provide families with free-of charge technical assistance**, such as energy audits and the preparation of technical documents. Energy performance certificates and renovation passports should also be provided free of charge for low-income households.
- **Co-ownership structures should be allowed to be direct recipients of renovation financing (such as bank loans and public subsidies) to simplify the lending process and facilitate decision-making**, as well as the coordination of the renovation works. Member States can make this change when implementing the EPBD at the national level.
- A precondition for reaching the EU's renovation goals is the availability of a skilled workforce that is able to meet the scale of energy efficient renovation needed. Currently, increasing demand for renovation is met with a shortage of labour in the industry, which leads to delays and may cause discouragement. Moreover, many workers in the construction sector still build or renovate homes using obsolete and energy-inefficient technologies and practices. **The EU and Member States therefore need to invest in large scale re-training and upskilling programmes, to increase the workforce supply with 1.2 million new jobs**.[18]

Our recommendations:

Member States should

10 **Of fer technical assistance free of charge for everyone.**

11 **Enable co-ownership structures to take out collective loans and receive public grants.**

12 **Invest in 1.2 million new green jobs to make renovation feasible.**

[18] SEuropean Climate Foundation (2022), https://europeanclimate.org/wp-content/uploads/2022/03/modelling-the-socioeconomic-impact-of-zero-carbon-housing-in-europe-final-technical-report-march2022.pdf.

Our recommendations at a glance

Make banks play their part

1. The European Commission should oblige banks to collect EPCs data at loan origination level and establish reporting rules to financial supervisory authorities.
2. Member States should develop publicly available databases of EPCs.
3. Member States should establish binding targets for banks. These targets should aim at worst-performing buildings and prioritise deep renovation.

Make renovation affordable for everyone

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9. The European Commission should create an energy efficiency renovation loan standard or label to encourage the development of innovative lending products.

Make renovation simple

10. Offer technical assistance free of charge for everyone
11. Enable co-ownership structures to take out collective loans and receive public grants.
12. Invest in 1.2 million new green jobs to make renovation feasible.

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