

EMF ECBC



ENERGY EFFICIENT MORTGAGES

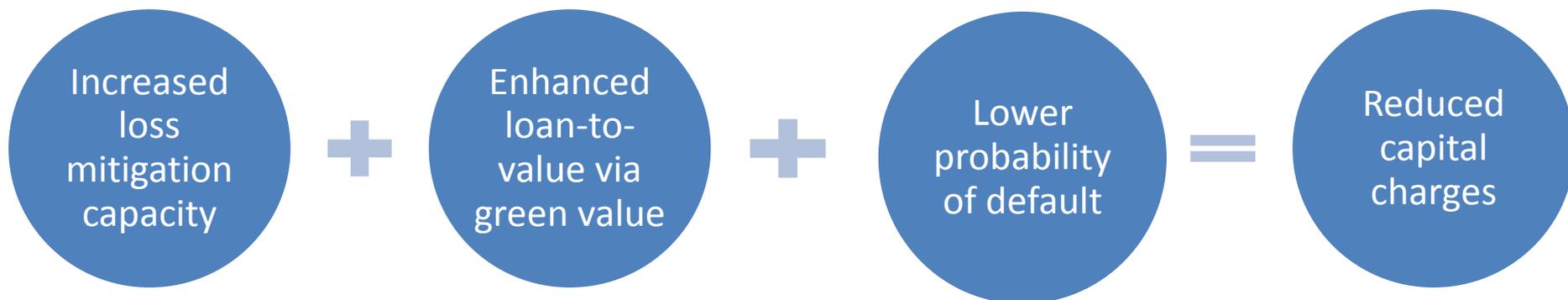
Brussels
30 March 2017

OBJECTIVE & UNDERLYING BUSINESSES CASE

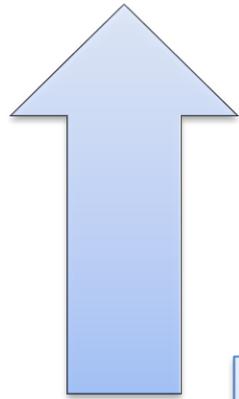
The **ultimate objective** is a pan-European private bank financing mechanism, based on a standardised approach, to encourage energy efficient improvement by households of the EU's housing stock by way of financial incentives linked to the mortgage, and in this way support the EU in meeting its energy savings targets.

Independent from, but complementary to, public funds or tax incentives

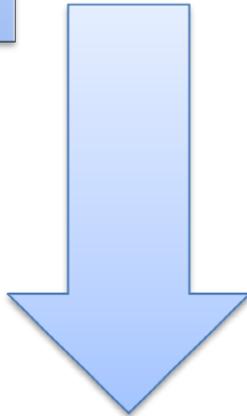
Underlying business case



UNDERLYING MARKET CHARACTERISTICS IMPACTED BY ENERGY EFFICIENCY (EE)



Retrofitting impacts positively on property value ensuring **wealth conservation & loss mitigation** by preventing “brown discount”



EE leads to a reduction in the impact of energy costs to income, reducing borrowers' **probability of default**

ENERGY EFFICIENCY IMPACT ON PROPERTY?

Every time a house moves up a notch in energy performance, its price gets around the same boost that it would from an extra 10-15 m² in size

EE jump = Gain of €24,000 over 30 years:

- A renovated house that moves from an 'E' to a 'B' notch in its energy performance certificate (EPC) will save an estimated €24,000 over 30 years according to an [analysis of 365,000 house sales in Denmark](#) last year

EE notch= €5,400/€7,400 for an average 100 m² property:

- Each one-notch energy improvement from G-A is worth between €5,400-7,400 to an average 100 m² property according to a [Copenhagen Economics study](#) for the Danish Energy Agency

Correlation between EE and sale price?

- A [European Commission assessment](#) in 2013 found that in Vienna, a one-notch EPC improvement corresponded with an 8% rise in the sale price. In Flanders (BE), the equivalent of a one-notch upgrade was found to trigger a 4.4% rise in property value, while for Marseille and Lille (FR), the figure was 4.3%.

BROADER PERSPECTIVE

Better Risk Management:

- Lower Credit Risk: Due to reduced probability of default and loss given default
- Lower Asset Risk: Due to “green value” and protection against “brown discount”
- Lower Performance Risk: Due to robust assessment of EE improvement ensuring lower energy consumption and “green value”

Financial Stability:

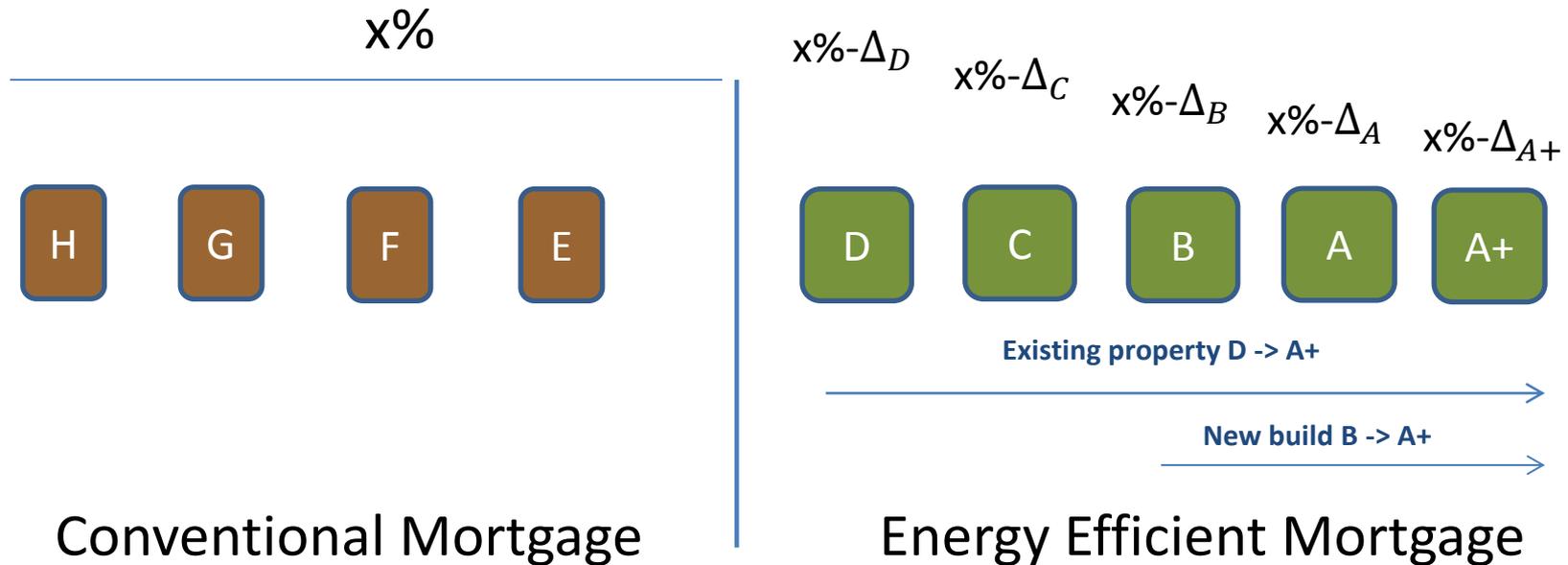
- Increased due diligence for consumers, issuers and investors
- De-risking of banks' balance sheets and management of non-performing loans
- Enhanced transparency and pricing in the market

Jobs and Growths:

- Improvement in private investment in EE improvement via retrofitting
- Support for SMEs and contribution to job agenda under Juncker Plan

METHODOLOGY - FINANCING MECHANISM

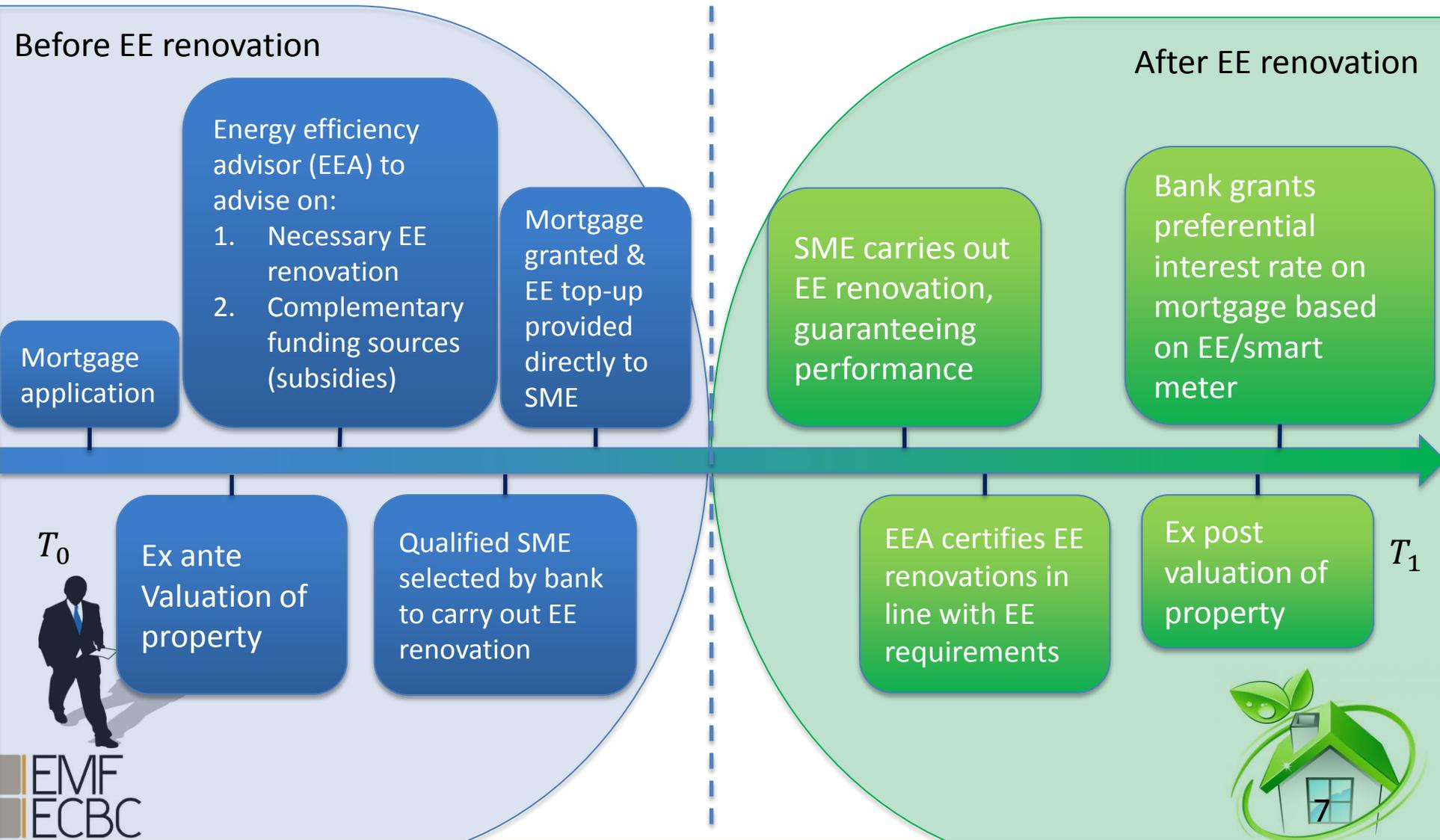
- Key challenge: to incentivise energy efficient investment in existing dwellings, which constitute bulk of EU housing stock
- Based on a **set of EE indicators**, lenders could offer:
 - *New Builds*: Discount in interest rate for new builds with energy rating A+/A or B;
 - *Existing property*: Discount in interest rate according to improvement in energy rating of property between D and A/A+



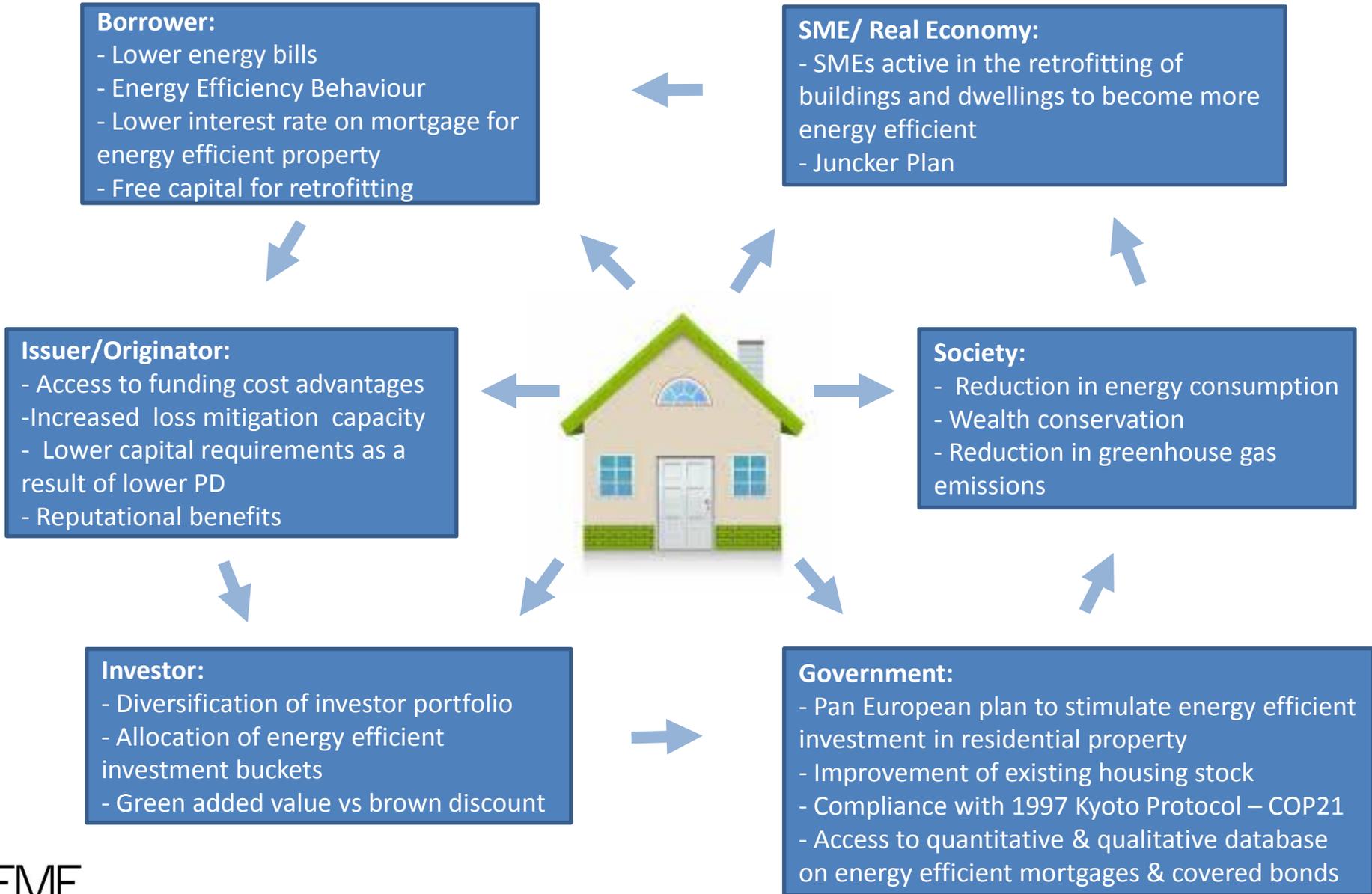
$x\%$: mortgage interest rate
EE delta: $\Delta_{A+} > \Delta_A > \Delta_B > \Delta_C$

BRIDGING RENOVATION GAP IN PRACTICE

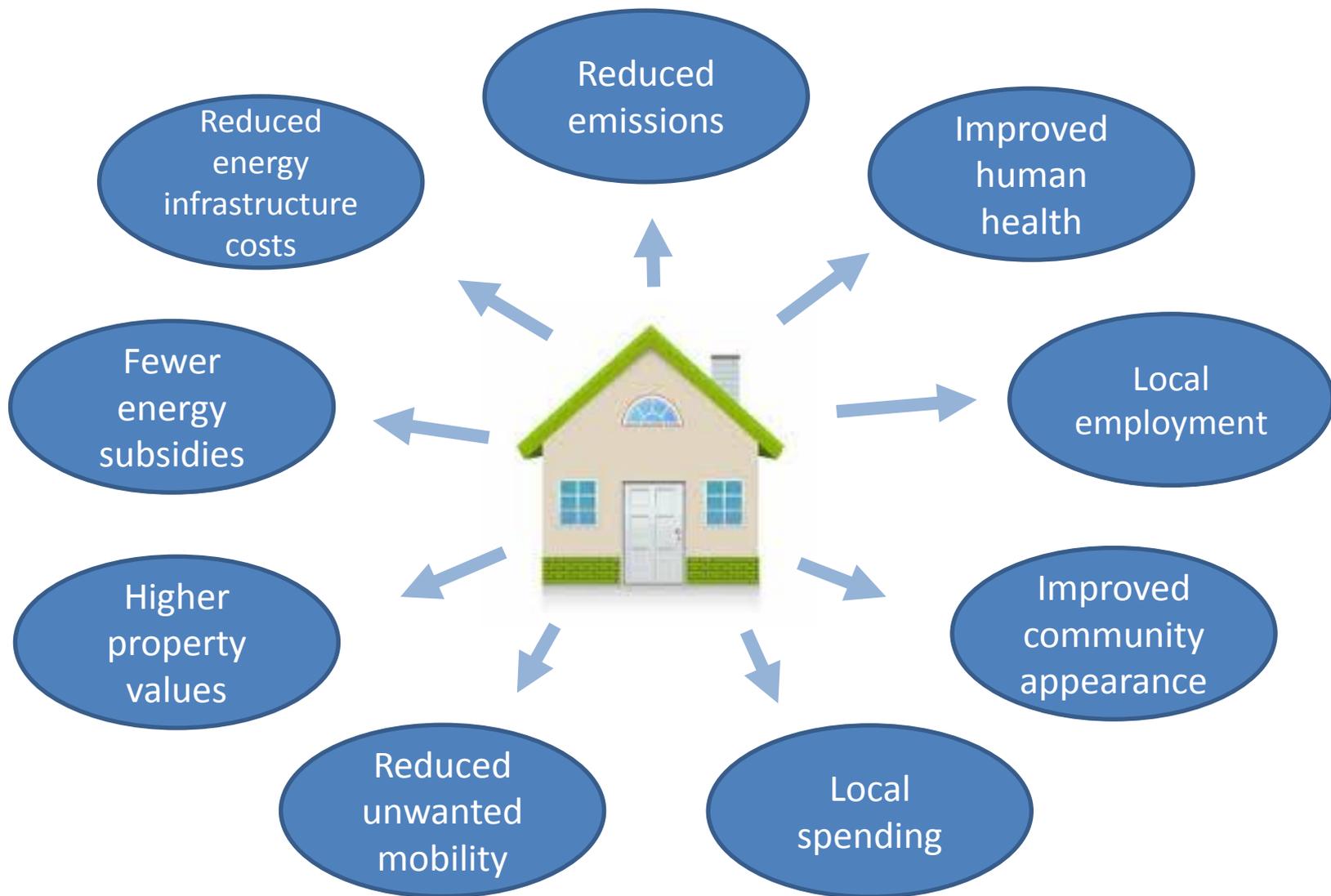
EE renovation



INCENTIVE CHAIN



SPECIFIC BENEFITS FROM EE IN HOUSEHOLDS





European Mortgage Federation European Covered Bond Council

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