



# European Union Energy Day

Clean energy solutions for the buildings  
of the future

Astana EXPO, 24 July 2017

**#EUenergyday**



[Euenergyday.eu](http://Euenergyday.eu)





# Clean Energy Solutions for Buildings

10:20-12:30

**Luca Bertalot**

Secretary General, European Mortgage  
Federation – European Covered Bond Council  
(EMF-ECBC) & EeMAP Coordinator

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**EeMAP**  
Energy efficient  
Mortgages  
Action Plan

# Energy efficient Mortgages Action Plan (EeMAP) Initiative

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 746205.

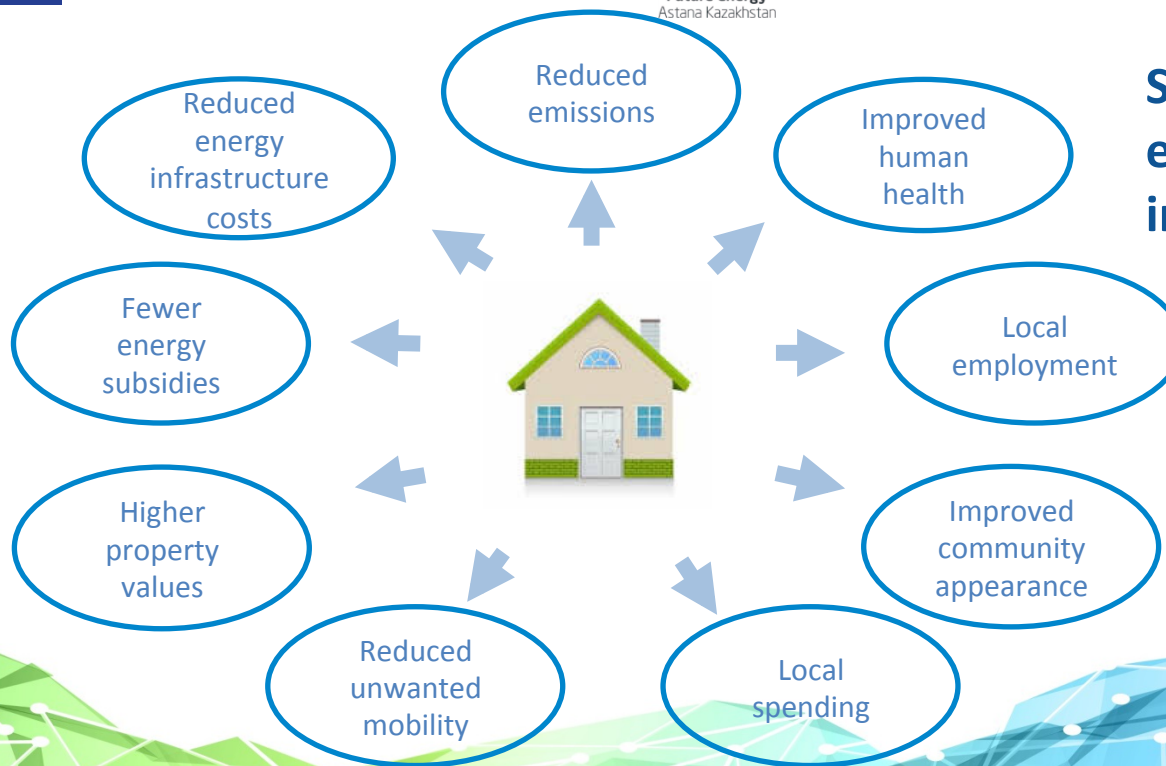
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## Specific benefits from energy efficiency (EE) in households



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In the EU 28 there are...



510 million people

...of which

More than 350 million live under their own roof



498 MFIs and 188,109 branches

Private financing



On average each branch serves around 2,700 people



247 million dwellings

more than 220 million dwellings were built before 2001



## How can banks play a game changing role in improving Energy Efficiency?

This initiative has huge potential!

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- ABN Amro
- BNP Paribas
- ING
- Münchener Hypothekenbank
- UniCredit
- Crédit Foncier de France
- Barclays
- Berlin Hyp
- Crédit Agricole CIB
- Volksbank Bozen
- Caja Rural de Navarra



EXPO 2017  
• Future Energy •  
Astana Kazakhstan

- Cooperative Central Bank  
Cyprus
- NIBC Bank N.V.
- Obvion Hypotheken
- Crelan
- BBVA
- JP Morgan
- Banca Monte dei Paschi di  
Siena
- Fannie Mae
- DBS Bank Singapore
- Japan Housing Finance  
Agency
- HSBC
- KBC



## List of Banks Involved in EeMAP initiative

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## Objective & Underlying Business 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



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

**Underlying risk parameters impacted by EE**

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

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# Incentive Chain



**Borrower:**

- Lower energy bills
- Energy Efficiency Behaviour
- Lower interest rate on mortgage for energy efficient property
- Free capital for retrofitting

**SME/ Real Economy:**

- SMEs active in the retrofitting of buildings and dwellings to become more energy efficient
- Juncker Plan

**Issuer/Originator:**

- Access to funding cost advantages
- Increased loss mitigation capacity
- Lower capital requirements as a result of lower PD
- Reputational benefits

**Society:**

- Reduction in energy consumption
- Wealth conservation
- Reduction in greenhouse gas emissions



**Investor:**

- Diversification of investor portfolio
- Allocation of energy efficient investment buckets
- Green added value vs brown discount

**Government:**

- Pan European plan to stimulate energy efficient investment in residential property
- Improvement of existing housing stock
- Compliance with 1997 Kyoto Protocol – COP21
- Access to quantitative & qualitative database on energy efficient mortgages & covered bonds



## EE Impact on Properties?



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 m<sup>2</sup> 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 365,00 house sales in Denmark last year

### ***EE notch= €5,400/€7,400 for an average 100 m<sup>2</sup> property:***

- Each one-notch energy improvement from G-A is worth between €5,400-7,400 to an average 100 m<sup>2</sup> 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%.

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## 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

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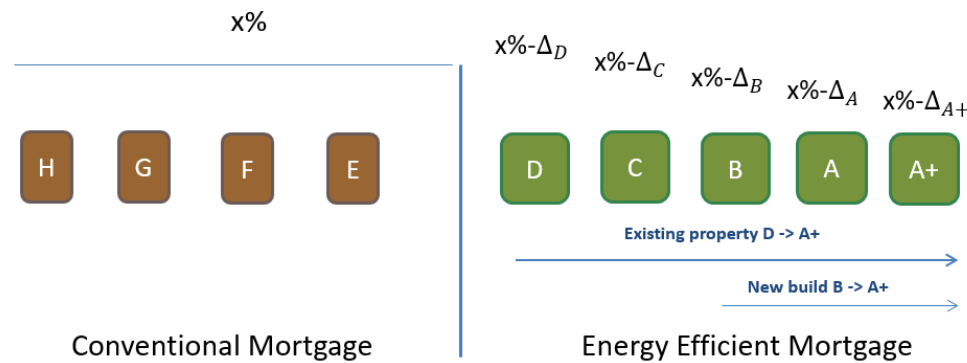
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# Financing mechanism



- 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:  $\Delta_{A+} > \Delta_A > \Delta_B > \Delta_C$

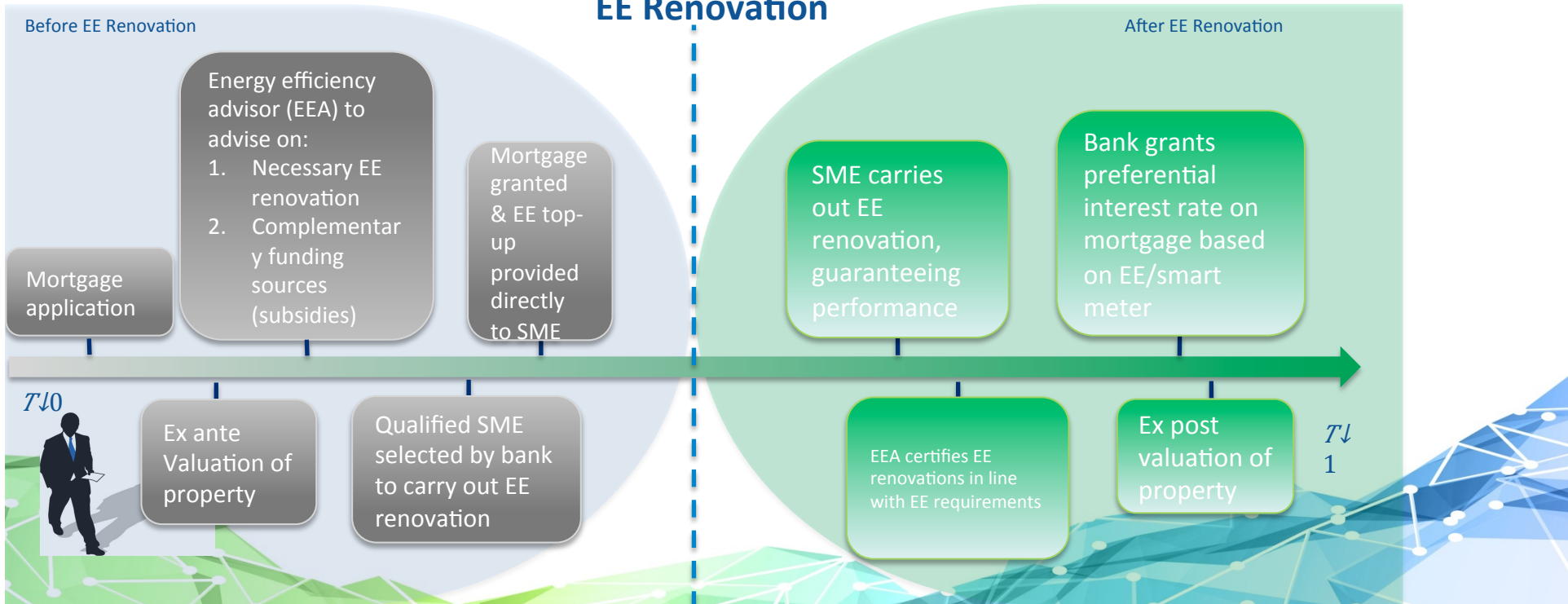




# Bridging Renovation Gap - In Practice



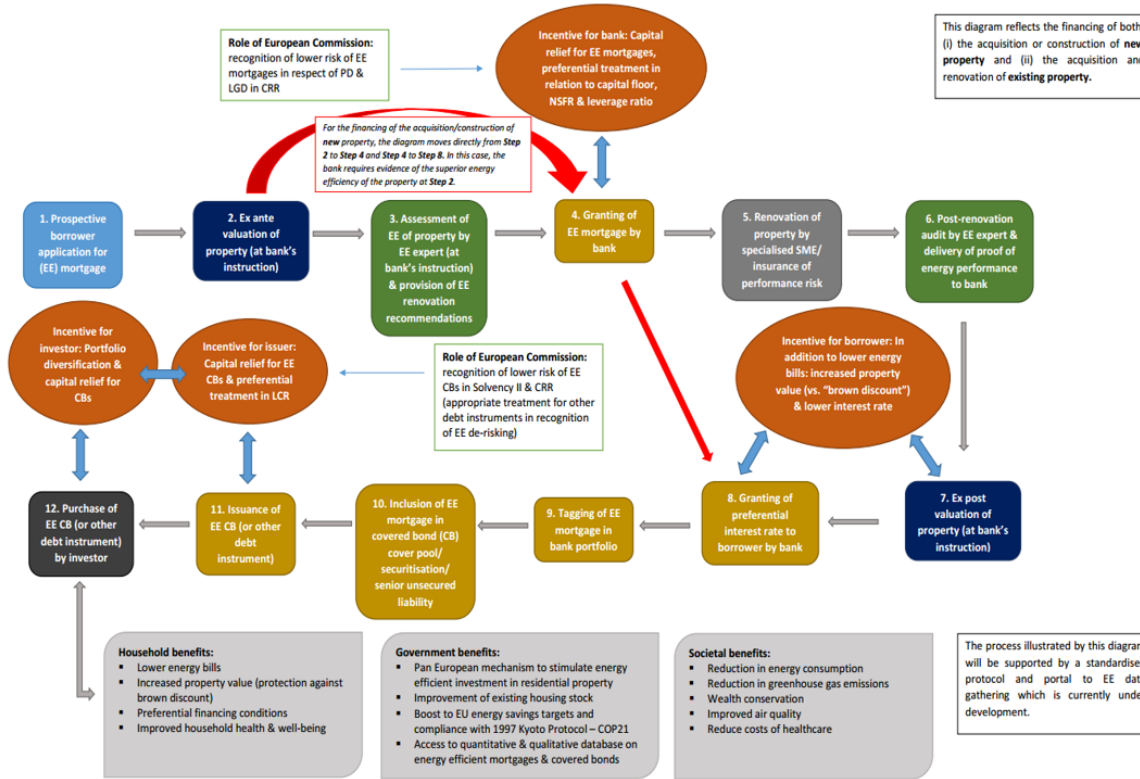
## EE Renovation



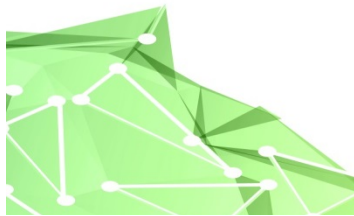
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# EE & Mortgage Lending & Covered Bond Value Chain



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## EeMAP Pilot Phase: Existing Data Analysis & Operational Test Phase

### Phase 1: Analysis of Existing Data:

- Substantiation of business case
- Focus on correlation between EE and LGD & PD

### Phase 2: Operational Test Phase:

- Deployment of valuation instructions & EE indicators
- Origination of EE mortgage product
- Potential involvement of EIB/EIF
- Data collection

June  
2017

June  
2018

May  
2019

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# The 'chicken & egg' dilemma



Assets	Liabilities
EE mortgages • collateral	EE bonds • Covered Bonds • Securitisation







# Covered Bond Label: Sustainable CBs



Sustainable Covered Bond  No  Yes  All

Search ▶

ISIN	Issuer	Initial Date of Issuance	Maturity Date	Face value*	Coupon	Syn.	Listed	Tapped	Ext.	EEA**	LCR***
ES0443307063	Kutxabank S.A.	22/09/2015	22/09/2025	EUR1,000,000,000	Fixed	Yes	Yes	No	No	Yes	2A

1 - 1 of 1 First | < Previous | Next > | Last

[Download Results \(csv\)](#)

(\*) Please note that the face value of this bond has been converted into EUR values on the 15th of January of the current year (where the exchange rate protocol takes the ECB bilateral exchange rate on the last business day of the previous year) in order to facilitate the comparison across issuances and to increase the overall transparency of the website. Nevertheless, you will be able to check the original currency by directly clicking on the covered bond.

(\*\*) European Economic Area (EEA) or non-EEA. While all the non-EEA labelled programmes' quality standards will be fully aligned to the Covered Bond Label Convention, to Article 129 of the Capital Requirements Regulation (CRR) and to the definitions in the Liquidity Coverage Requirements (LCR) with the exception of being based in the EEA, i.e. they will present similar legislative safeguards from a qualitative and supervisory point of view to those in Europe, these bonds will present different characteristics, for example in terms of risk weights. Therefore, non-EEA Labels will be identified on the Label website by using a different graphic solution.

(\*\*\*) The issuer believes that, at the time of its issuance and based on transparency data made publicly available by the issuer, this bond would satisfy the eligibility criteria for its classification as a Level 1 or Level 2 asset in accordance with Chapter 2 of the LCR delegated act. It should be noted that whether or not a bond is a liquid asset for the purposes of the Liquidity Coverage Ratio under Regulation (EU) 575/2013 is ultimately a matter to be determined by a relevant investor institution and its relevant supervisory authority and the issuer does not accept any responsibility in this regard.

Sustainable covered bond. A Covered Bond Labelled sustainable covered bond is a covered bond that is fully compliant with the Covered Bond Label Convention, and also includes a formal commitment by the issuer to use an amount equivalent to the proceeds of that same covered bond to (re)finance loans in clearly defined environmental (green), social or a combination of environmental and social (sustainable) criteria. Covered Bond Labelled sustainable covered bond programs are based on their issuer's sustainable bond framework which has been verified by an independent external assessment. The issuer strives, on a best efforts basis, to replace eligible assets that have matured or are redeemed before the maturity of the bond by other eligible assets.  
[Against this background, please note that the EMF-ECBC is currently working on market initiatives which will ultimately define European criteria for energy efficiency covered bonds and sustainability standards]

The Labelled Sustainable Covered Bond Definition



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# The Energy efficient Mortgages Action Plan – EeMAP - is an initiative by:



**EMF | ECBC**  
FUNDING THE REAL ECONOMY



Università  
Ca' Foscari  
Venezia



**EUROPE** REGIONAL  
NETWORK



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For more information:

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