Brussels, November 2024

EACB response to the EBA opinion (EBA/Op/2023/13) and report (EBA/REP/2023/38) on green loans and mortgages

November 2024

The **European Association of Co-operative Banks** (EACB) is the voice of the cooperative banks in Europe. It represents, promotes and defends the common interests of its 26 member institutions and of cooperative banks in general. Cooperative banks form decentralised networks which are subject to banking as well as cooperative legislation. Democracy, transparency and proximity are the three key characteristics of the cooperative banks' business model. With 2,700 locally operating banks and 40,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 227 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 89 million members and 720,000 employees and have a total average market share of about 20%.

For further details, please visit
www.eacb.coop

Introduction

The EACB welcomes the opinion (EBA/Op/2023/13) and the report (EBA/REP/2023/38) on green loans and mortgages issued by the European Banking Authority of 18 December 2023. We are confident that the efforts of the EBA will contribute to the realization of ambitious EU environmental and transition goals.

Nevertheless, the EACB considers it crucial to underscore several comments from a practical perspective on green loans and mortgages in Europe, in the context of the current sustainable finance framework, the various initiatives it encompasses, and the foreseen activities of the incoming legislature (e.g. recast of the Mortgage Credit Directive, review of the Sustainable Finance Disclosures Regulation).

General Comments

The EACB wishes to highlight that cooperative banks generally encounter no issue in financing their clients' green property or project, provided these clients are creditworthy. Indeed, banks' main line of conduct is to follow a responsible credit policy and comply with prudential requirements. From our perspective, an insufficient uptake of green loans can be explained by looking at the demand side (i.e.: lack of clients seeking bank financing for renovation projects, sustainable real estate projects or electric vehicles). It is also worth noting that the demand for green loans greatly fluctuates from one Member State to another, and that initiatives have been put in place by public powers to incentivize green loans at the national level, tailored to fit the various Member States' markets; and that individual banks have also set up their own mechanisms.[1]

To accelerate the transition of the housing sector, structural measures, such as subsidies or tax incentives to convince households to renovate their homes, and environmental standards when acquiring a property, can play a decisive role. We take the view that focus should remain on addressing barriers and boosting the demand for green financing in the real economy, taking into account national specificities.

Furthermore, the European Performance of Buildings Directive (EPBD) introduces the concept of « mortgage portfolio standards » which aims at incentivising banks to improve the average energy performance of their mortgage portfolio, and to encourage clients to enhance the energy performance of their property. These standards are only at the very first stages of development.

As a matter of principle, the EU framework should avoid unnecessary overlaps and complexity, and should remain coherent. Drawing the lessons from the application of the sustainable finance framework, we would recommend simplicity, legal clarity and consistency across pieces of legislation going forward. Aside from national policies mentioned above, we should take into consideration the EPBD (and upcoming Mortgage Portfolio Standards delegated act), changes to

[1] Certain banks have developed preferred rates for transition loans. Interest rate loans for home energy renovations are also an example (e.g.: regulated 0% in France,…). Available public tools exist nationally to support people in the financing of their renovation (e.g. "Ma prime renov'" in France, "Primes Renolution" in Belgium,…).

the prudential framework[2], as well as initiatives undertaken in the area of financial products, which are only coming into effect and the impacts of which are yet to be assessed.

The EACB wishes to take this opportunity to underline certain reservations regarding a voluntary EU label for green loans and mortgages. We nonetheless find it relevant to explore the following topics in this context:

1. An EU green loan definition should be based on established scientific criteria. However, clarifications are needed in applying the EU Taxonomy.
2. The policy framework should not overlook the need for a tool to enable transition.
3. A European label for green loans should be voluntary; should not interfere with financial institutions' business policy; and should consider the risk of greenwashing.
4. Several aspects should be considered in enacting a potential voluntary green mortgage label.

EACB comments on the EBA's opinion and report

1. A definition of green loans based should be based on established scientific criteria and necessitates clarifications for applying the EU Taxonomy

We believe that a common EU definition for green loans could be based on the Taxonomy, which establishes science-based criteria for defining an activity as green, but is not limited to this. However, the Taxonomy is ambitious yet incomplete: it does not cover all sectors, is complex and binary and does not yet promote transition enough.

Relying solely on the Taxonomy as the reference criterion for the green loan market could potentially reduce the uptake of green loans. This is due to the complexity of achieving full Taxonomy alignment and the fact that not all activities are included, which may exclude a significant portion of real economic activities. In our view, the EU Green Loan label should take this potential effect into consideration.

In addition, more clarity/operational simplification is needed when it comes to loans towards SMEs and private households.

For instance, applying and substantiating the "do no significant harm" criteria (DNSH) and "minimum social safeguards" (MSS) could be significantly simplified when it comes to loans to individuals and SMEs. Complying with Taxonomy criteria and demonstrating substantial contribution is already a challenge for these two target groups, but proof of compliance with DNSH / MSS can be very challenging to implement. With a proportionate policy approach, when focusing on retail clients, a Taxonomy-alignment assessment could for example rest solely on the criteria to be considered in terms of substantial contribution, or in case DNSH and MSS are deemed required, with a simplified application on those criteria subject to guidance from the Commission. This point of view is explored in the Commission's recent Study on SME Taxonomy alignment

[2] E.g. Article 229 CRR3; EBA report on the role of environmental and social risks in the prudential framework; EBA Guidelines on the management of ESG risk; CRD6 requirements for transition plans; ECB Guide on climate-related and environmental risks

disclosure[3], which underlines the gap in SME reporting and the possible approaches to pragmatically address this issue.

We would also like to emphasize that the EU Taxonomy does not yet adequately cover all economic activities and therefore should not be used as the sole reference framework for sustainability in the banking sector. A study shows that only a small part of economic activities' loan duration meets the criteria of the Taxonomy, and an even smaller part actually contributes to climate goals (only about 30% of the real economy is currently covered by the EU Taxonomy, which leads to difficulties in implementation, especially for SMEs).[4]

2. The policy framework should not overlook the need for a tool to enable transition

When considering Taxonomy alignment, there is a strong need for a tool to enable transition. Currently, the Taxonomy does not adequately reflect transition as it mainly covers the financing of economic activities that are already considered green. Yet, loans toward projects that do not yet meet the criteria of the Taxonomy but are enabling the transition of economic sectors, are instrumental in reaching our sustainability targets. They should also be accounted for and considered in a green loan framework.

It would be useful to establish intermediate targets and milestones in the direction of the current EU Taxonomy, to allow for shades of green to be incorporated into banks' environmental strategies[5] and properly reflected.

In this respect, we refer to the Commission's Recommendation on facilitating finance for the transition to a sustainable economy[6]. According to the Recommendation, the financing of transition is an integral part of wider sustainable finance efforts. Transition finance may include investments in portfolios tracking EU climate benchmarks; in Taxonomy-eligible activities becoming aligned over maximum 5 to 10 years; in undertakings or activities with credible transition plans or credible science-based targets. We take the view that it is crucial for such financing to also be considered a certain shade of green.

We therefore welcome the EBA's efforts to provide, in its Opinion, for some flexibility so that transition may be taken into account, namely by proposing a two-tiered approach (point 6, p. 58): the first tier concerning loans allocated to activities in line with the Taxonomy's technical examination criteria at the time of loan approval, and the second tier for loans not meeting these criteria but allocated to a transitional economic activity. We take the view that a balance should be achieved between a certain level of clarity (regarding for example the difference between a transition loan, a sustainable loan, and to what extent these may be considered as green) and sufficient flexibility for banks to finance the sustainable transition of different economic sectors.

At the current stage of the transition and until markets reach a certain level of maturity, any policy initiative should also take into account market participants' efforts that contribute to

[3] European Commission publication on "SME disclosure on taxonomy alignment", 2024

[4] "Let's talk numbers: EU Taxonomy reporting by German companies - What can we learn from the first EU Taxonomy reporting season?" Econsense Forum for Sustainable development of German Business, 27 June 2023

[5] As proposed by the Platform on Sustainable Finance, European Commission, 2022

[6] European Commission Recommendation on "facilitating finance for the transition to a sustainable economy", 27 June 2023

environmental objectives based on available market standards[7] other than those specified in the EU Taxonomy. In general, the possibility to include less stringent goals in green loans, while avoiding greenwashing, should be considered, for example by reference to international frameworks like ICMA and LMA standards that are widely used by market players.

3. A European label for green loans should not interfere with financial institutions' business policy

The potential commercial policy on green loans should remain at the discretion of the institutions, each of which maintains its own risk and business policies. If a European label/standard were introduced, it should be voluntary, similar to what has been adopted for green bonds under the EU Green Bonds Standard Regulation.

In point 4. (Treatment of newly originated loans and the loan stock, p. 52 of the EBA report), the EBA suggests that loans originated at an earlier date should become green later solely if their proceeds are allocated to Taxonomy-aligned economic activities. We support this idea, but to avoid creating legal uncertainty and imposing an disproportionate administrative and operational burden on financial institutions, the decision to reassess loans proceeds alignment to the Taxonomy criteria should be at the discretion of the respective banks.

Regarding point 5. Capital expenditure (p. 52 of the EBA report), we agree that the financial sector should not be obligated to impose more lenient conditions on the initial loan agreement. This is particularly relevant when alignment with the Taxonomy is attainable not at the time of the loan's approval but within a reasonable period. We are of the view that future EU legislation should neither oblige financial institutions to promote green loans, nor impose a specific amount or number of green loans or apply certain conditions to such loans (such as interest rates, consideration of energy efficiency in solvency assessment calculations, loan duration).

4. Considerations on green mortgages

Taking into account energy savings and the potential associated savings in energy costs to facilitate repayment of the home improvement loan should not take precedence over solvency frameworks and rules for assessing creditworthiness in both consumer and real estate lending. Energy costs are highly variable and there is no guarantee that the homeowner will behave 'energetically frugally' after the work has been carried out[8]. In addition, the return on investment of energy renovation is quite long and may not always compensate the cost of the loan for sizeable renovation that the client would pay.

---

[7] Certain cooperative banks have e.g. implemented Net Zero commitments on Residential Real Estate to order to support national GHG emissions reduction objectives.

[8] Studies, e.g. Performance énergétique du logement et consommation d'énergie : les enseignements des données bancaires (cae-eco.fr)" (Council of Economic Analysis. 2024) have shown that home renovations do not systematically result in lower *actual* energy consumption due to a "rebound effect" that materialises in a spread between the theoretical energy consumption (performance) of a home, as calculated by the EPC, and the actual energy consumption of households. That spread is mainly explained by households' behaviours, where users adapt their energy consumption based on their energy comfort but also their revenues. In other words, users who can afford it increase their energy consumption rather than save energy (and money). The rest of the spread can be explained by underlying models and measurement issues of EPCs

Moreover, the financial characteristics of loans deemed "green" for real estate financing (e.g., interest rates, financial conditions) fall under banks' commercial and risk policies and should not be frozen in sectoral legislation.

Regarding the documentation requirements linked to green mortgages, the EACB does not support the inclusion of the energy performance certificate or any other information related to the characteristics of the financed property in the European Standardised Information Sheet (ESIS), as it contains information provided to the customer concerning loan features rather than property features. Instead, we suggest that the energy performance certificate and other information regarding the property's characteristics should be provided by the (new) asset owner in the loan file as evidence of the property's category (green loan or otherwise).

Finally, we take the view that obligations regarding the knowledge and skills of personnel in green loans should not be further introduced into a potential recast of the Mortgage Credit Directive (MCD), the Consumer Credit Directive (CCD), or other EU legislations. The existing requirements for knowledge and skills of personnel in loans already encompass green loans.