The Consumer Voice in Europe

AFFORDABLE GREEN LOANS: GETTING CONSUMERS ON BOARD OF THE GREEN TRANSITION

BEUC position

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Why it matters to consumers

In order to tackle climate change and to achieve relevant targets in reducing greenhouse gas emissions, society has no choice but to move towards more environmentally-friendly lifestyles, including via more energy-efficient housing and more sustainable vehicles and modes of transport. While consumers are increasingly willing to make sustainable choices, having the right incentives and financing options in place is crucial to make environmentally-friendly choices affordable and realistic for consumers. Unfortunately, competitive green loan[1] offers are currently scarce across the EU. We therefore call for a range of standardised "green mortgages" and "green consumer loans" to be developed, offering competitive conditions and clear benefits to consumers, in order to help them tackle the substantial up-front costs associated with the switch to energy-efficient technologies, homes, or home renovations.

Summary

- Consumers are increasingly willing to make sustainable choices, but struggle with the **upfront installation costs** associated with energy-efficient technologies or renovations. This is where "green loan" offers come into play. Green loans can enable consumers to finance their green projects, and act as a complementary measure to public funding and subsidies. They can be used to tackle up-front costs needed to fund energy-efficient homes or renovations, purchase electric vehicles, install solar panels, and finance other environmentally-friendly projects, products or services.

- In practice, however, the **definition of "green loans" is not harmonised**, **"green loans" are not widely offered** to consumers across the EU or are not competitive compared to traditional loans, and benefits/incentives to take up such "green loans" are not easily identifiable for consumers. In order to avoid a risk of "greenwashing", it is therefore crucial for the European Commission, with the help of the European Banking Authority, to develop harmonised definitions of "green loans" which are offered to consumers, based on standardised criteria, which are fully in line with the EU Taxonomy.

- Consumers will only be incentivised to take out green loans through **competitive and affordable conditions** of such loans and/or if they receive additional benefits. As such, the Mortgage Credit Directive and Consumer Credit Directive should be amended in order to include provisions obliging banks to have a range of standardised green loans at favourable conditions in their product catalogue and requiring bank staff to inform consumers of the existence of such products. Such favourable conditions could include lower interest rates, higher available capital, but also affordable technical assistance and energy audits. They could be justified by the lower level of risk presented by such loans. For consumer credit, **maximum caps on annual percentage rates of charge (APRC)** (referring to the total cost of borrowing for a year) should be implemented. Banks should also be incentivised to provide green loans by developing standardised green bonds and favourable re-financing conditions before the European Central Bank. Specific types of green loan products should be available to vulnerable consumers, such as loans attached to the value of the property repayable at the time of its sale, or green loans used to finance "on-bill schemes" (repaid as part of the consumer's energy bill).

[1] The term "green loans" in this paper refers both to green mortgages and green consumer loans.

- Finally, green loans should not be offered in isolation but (i) as part of independent **one-stop-shops** providing integrated advice to consumers, including on available financing options, and (ii) along with complementary measures such as **on-bill schemes** or **grants, tax-rebates and other subsidies**, directed in particular to the most vulnerable consumers.

1. Introduction

1.1. Context

The European Commission has proposed in its Climate Target Plan 2030 to cut net greenhouse gas emissions in the EU by at least 55% by 2030 compared to 1990.[2] In order to achieve this target, society has no choice but to move towards more environmentally-friendly lifestyles, including via more energy-efficient housing and more sustainable vehicles and modes of transport. While consumers are increasingly willing to make sustainable choices, **having the right incentives and financing options in place is crucial** to make these sustainable choices affordable and realistic for consumers. This is because consumers often still struggle with the upfront installation costs associated with energy-efficient technologies or house retrofit.

For example, the European Commission's recent EU Renovation Wave Strategy[3] highlights the importance of stimulating private and green loan financing, in addition to public funding, in order to help consumers to improve the energy efficiency of their homes. Improving the energy efficiency of buildings through renovations is a key priority for the EU's climate strategy, and the European Commission aims at doubling renovation rates in the next ten years. However, as noted in BEUC's position paper on "*how to make green and healthy housing affordable for all consumers*"[4] consumers often have to bear the up-front costs of such investments, and cannot achieve those without the right financial support.

As noted in BEUC's *response to the European Commission's consultation on the renewed sustainable finance strategy*, according to the *Comprehensive EU study of building energy renovation activities and the uptake of nearly zero-energy buildings in the EU*,[5] grants and loans are mentioned to be a very strong incentive to overcome financial barriers related to building renovations. However, this study indicates that there is a significantly negative attitude towards loans. This explains the high shares of own capital used for financing energy renovation measures and its increase with the age of respondents. It is therefore important for a variety of viable financing options to be available to households: affordable and well-designed green loans (including payments by instalments), public funding for immature technologies as well as tax incentives and "pay as you save" schemes, in particular for the most vulnerable consumers. [6]

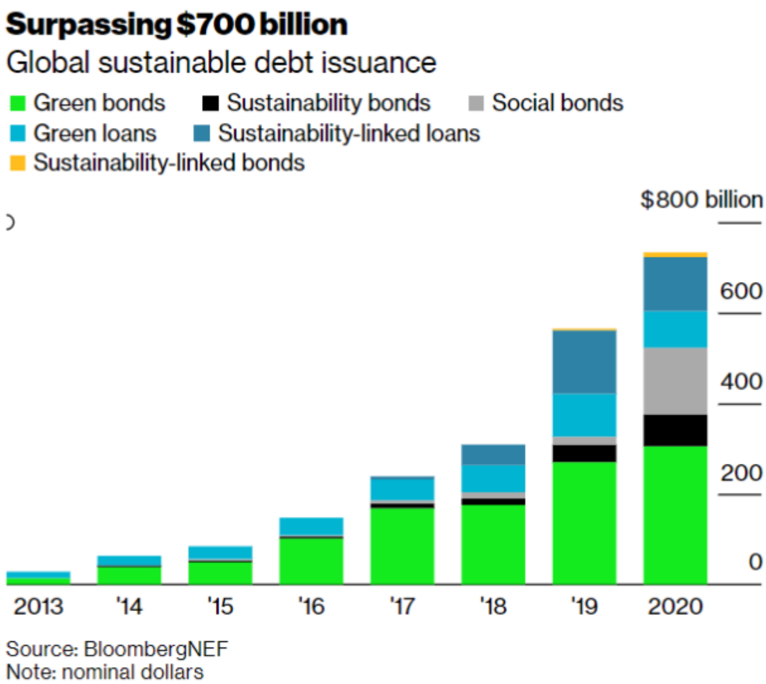
Similarly, when purchasing electric cars, a recent study by BEUC and several of its member organisations has found that a medium-sized electric car bought today is already the most financially interesting solution over the car's lifetime.[7]. Having **affordable and**

[2] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0562&from=FR
[3] https://ec.europa.eu/energy/sites/ener/files/eu_renovation_wave_strategy.pdf
[4] https://www.beuc.eu/publications/beuc-x-2021-019_how_to_make_green_and_healthy_housing_affordable_for_all_consumers.pdf
[5] https://ec.europa.eu/energy/studies_main/final_studies/comprehensive-study-building-energy-renovation-activities-and-uptake-nearly-zero-energy_fr
[6] https://www.beuc.eu/publications/beuc-x-2020-069_consultation_on_the_renewed_sustainable_financial_strategy.pdf
[7] https://www.beuc.eu/publications/beuc-x-2021-040_electric_car_ownership-an_affordable_option_for_all_consumers.pdf

competitive financing options** is important in this context. For example, BEUC's position paper "*Putting our foot on the electric pedal*"[8] suggests putting in place zero-interest rate loans for the purchase of electric cars to address the barrier of a higher purchase price, which could be an important incentive for more vulnerable consumers.

1.2. How green loans can help

Green loans act as a complementary measure to public funding and subsidies, which are equally necessary to steer consumer choice towards more sustainable options (in particular for the most vulnerable consumers, where measures such as grants, tax-breaks or on-bill schemes described further below, are particularly relevant). As can be seen in the diagram below,[9] the issuance of "green loans" by financial institutions is generally increasing (with a small decline, however, in 2020).



In theory, green lending offers considerable benefits to both lenders and borrowers. For consumer borrowers, taking up a green loan can in theory allow them to undertake green projects under beneficial financing conditions, such as lower interest rates and/or a higher available amount of capital, provided that the loans are designed with these features. For lenders, reputational benefits are in play, as well as a transition towards more sustainable financing activities. In addition, the cost in the capital markets of raising green financing is generally lower (in particular, via the issuance of green bonds, explained below).[10]

In practice, however, as will be explained in the next sections, the definition of "green loans" is not harmonised, "green loans" are not widely offered to consumers across the EU or are not competitive compared to traditional loans, and benefits/incentives to take up such "green loans" are not easily identifiable for consumers. As noted by BEUC member Asufin (Spain), the possibility of accessing "beneficial" green loans to finance projects with a positive environmental impact is becoming more and more widespread among companies and large customers, but for the moment is almost unknown to households.

[9] https://www.bloomberg.com/news/articles/2021-01-14/the-sustainable-debt-market-is-all-grown-up
[9] https://www.bloomberg.com/news/articles/2021-01-14/the-sustainable-debt-market-is-all-grown-up
[10] https://www.irishtimes.com/special-reports/green-finance/green-lending-offers-big-benefits-to-both-lenders-and-borrowers-1.4539438

As such, the development of "green loans" which "work for consumers" can only be achieved with the right **incentives and regulatory framework** in place.

2. What are "green" loans

2.1. Lack of EU regulatory definition

There is no EU-wide regulatory definition of what constitutes a "green loan". In a recent report, the European Parliament defines green loans as:

> *"any type of loan instrument whose* ***funds are committed exclusively to green projects*** *addressing key areas of environmental concern, such as climate change, natural resources depletion, loss of biodiversity, and air, water and soil pollution. A fundamental part of a green loan is the* ***periodic reporting*** *by the borrower to the lender of the actual use of proceeds, also by using qualitative* ***performance indicators*** *and quantitative performance measures (for example, electricity generation, greenhouse gas emissions reduced/avoided, etc.).*[1]

In some Member States, the law prescribes what can be considered a "green" loan or mortgage. For example, in Spain, BEUC member Asufin notes that a mortgage will be considered "green" if the sale of a house comes with a housing energy efficiency certificate, regulated by law.[11] In other countries, the appreciation of the "greenness" of a loan or mortgage is left to the industry. For example, in the UK, BEUC member Which? notes that lenders will often require that the property achieves an energy performance certificate (EPC) rating of A or B.[12]

2.2. Industry definitions

At the wholesale level (i.e. loans which are not sold directly to consumers but to institutional investors), the industry (including the Loan Market Association) has put in place **Green Loan Principles**[13], which are voluntary industry guidelines on what may be considered a "green loan". Green loans are defined as loans granted to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects, and four criteria must be fulfilled:

(i) use of loan **proceeds for green projects** (categories include renewable energy, energy efficiency, pollution, etc.);

(ii) the borrower clearly indicates its "**green" objectives** and process to determine eligibility within the categories, and preferably any certification schemes or standards they are trying to conform to;

(iii) the proceeds of a green loan should be credited to a **dedicated account or otherwise tracked** by the borrower;

(iv) **borrowers should report annually** on the use of proceeds and the green projects for which they were used with qualitative and if possible, quantitative performance indicators (e.g. energy capacity, electricity generation, CO2 reductions).

[11] https://www.asufin.com/wp-content/uploads/2020/12/ESTUDIO-FINANZAS-VERDES_maq_ingles.pdf
[12] https://www.which.co.uk/news/2021/05/could-you-save-money-by-taking-out-a-green-mortgage/?utm_medium=Email&utm_source=ExactTarget&utm_campaign=4067846-M_MW_EM_100521
[13] https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

The use of an external review is recommended (e.g. consultant, certification, or verification via auditors), but not obligatory. The European Investment Bank is currently developing a green loan product which will reference such Green Loan Principles, but will also adapt the EU Taxonomy to it. The green loan offer will be complemented by a technical assistance/advisory proposition.[14]

At the retail level, in the field of "green mortgages", an initiative called the Energy Efficient Mortgages Initiative (EEMI)[15] was recently launched, along with an **"energy efficient mortgage" (EEM) label**. This is a voluntary industry initiative financed by the EU, which aims to create a standardised energy efficient mortgage to incentivise building owners to improve the energy efficiency of their buildings or acquire energy efficient properties, by way of preferential financing conditions. The EEM label is based on self-certification and a standardised template. The current definition of Energy Efficient Mortgages is as follows: (i) energy performance which meets or exceeds relevant market best practice standards in line with current EU legislative requirements and/or (2) an improvement in energy performance of at least 30%. Evidence should be provided by way of a recent Energy Performance Certificate (EPC) rating or score, complemented by an estimation of the value of the property according to the standards required under existing EU legislation. This definition is **currently not aligned with the criteria of the EU Taxonomy**.[16] While the European Commission and the European Investment Bank appear to endorse the EEMI project, BEUC is not aware of any involvement of consumer representatives in the project, and the ultimate benefits for consumers are unclear.

2.3. Need for harmonised definitions

It is crucial for the European Commission to develop **harmonised definitions of "green loans" which are offered to consumers based on standardised criteria, which are fully in line with the EU Taxonomy**. As such, the definition of green loans should consider both climate mitigation and climate adaptation measures, and objective and standardised conditions should have to be complied with for a project, a product or a service to be considered "green" and to be eligible for green loan financing. In addition, remedies should be stipulated in the event of a non-compliance with such requirements. This could be done on the basis of draft regulatory technical standards to be formulated by the European Banking Authority (EBA). A logo could be created to identify green loans which are subject to such criteria and compliant with the Green Taxonomy objectives. For mortgages, these could build on the current EEM initiative. In that respect, BEUC welcomes the Commission's plans announced in its Strategy for financing the Transition to a Sustainable Economy[17] to ask the EBA for an opinion on the definition and possible supporting tools for green retail loans and green mortgages. However, for such a definition to be effective, it should ultimately be inserted in revised legislation, in particular in the revised Consumer Credit Directive (CCD) as well as the upcoming review of the Mortgage Credit Directive (MCD).

The risk, otherwise, is for diverging approaches to be taken by lenders on what constitutes a "green loan", and for loans to be presented as "green" when they in fact are no different than ordinary loans, leading to "green washing" concerns. In a discussion paper on "*Climate Change and Green Finance*", for example, the UK's Financial Conduct Authority, states that:

[14] https://www.eib.org/attachments/thematic/eib_group_climate_bank_roadmap_en.pdf
[15] https://eemap.energyefficientmortgages.eu/
[16] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en
[17] https://eur-lex.europa.eu/resource.html?uri=cellar:9f5e7e95-df06-11eb-895a-01aa75ed71a1.0001.02/DOC_1&format=PDF

"*Minimum standards can be helpful for enhancing investor confidence and trust and enabling markets to develop. For example,* ***minimum standards may help ensure investors understand what they are buying and prevent misleading 'green washing'*** *of financial products and services. Green washing is marketing that portrays an organisation's products, activities or policies as producing positive environmental outcomes when this is not the case.*"[18]

Such greenwashing concerns are reflected in the European Commission's evaluation of the MCD, where one industry association indicated that the term "energy efficient" is generally considered as an **advertising tool for mortgages**, rather than as something that could make a meaningful contribution to emissions reductions.[19]

BEUC's recommendations

- The European Commission should develop EU-wide, **harmonised definitions** of **green mortgages** and **green consumer loans which benefit consumers.**
- Such definitions should be included in the **revised Consumer Credit Directive** and **Mortgage Credit Directive** and should be based on regulatory technical standards to be defined by the EBA
- They should be fully **aligned** with the EU Taxonomy on sustainable finance.

3. Availability and affordability of green loans

3.1. State of play

Despite of the existing initiatives described above, the **availability and conditions to access green mortgages and green consumer loans vary** greatly across Member States.

3.1.1. Green mortgages and consumer loans for home renovations

Current evidence shows that while banks are increasingly developing green EEM products and other "green" mortgages or loans for the purchase or renovation of energy-efficient homes, in practice, these are **not always advertised nor issued at beneficial conditions for consumers**.

For example, in Italy, BEUC member Altroconsumo conducted a study showing that despite of the EEM having been rolled out by six major banks, green mortgage loans or consumer loans are not always available or actively offered to consumers by the banks.[20] Similarly, in Spain, BEUC member Asufin notes that currently, very few private entities offer green mortgage loans. In addition, according to Asufin, "green mortgages" in most cases offer worse economic conditions for consumers than conventional mortgages.[21] Except in one

[18] https://www.fca.org.uk/publication/discussion/dp18-08.pdf
[19] https://op.europa.eu/en/publication-detail/-/publication/e4a1db26-2f94-11eb-b27b-01aa75ed71a1/language-en
[20] https://www.altroconsumo.it/soldi/mutui/news/finanziamenti-green
[21] https://www.asufin.com/wp-content/uploads/2020/12/ESTUDIO-FINANZAS-VERDES_maq_ingles.pdf

case, Asufin notes that the availability of green consumer loans for improving a home's energy efficiency is also scarce, although the conditions at which they are offered are more competitive than for traditional consumer loans.

In Portugal, BEUC member Deco explains that the "Casa Eficiente 2020" program, co-financed by the European Investment Bank, enables consumers to request green loans from participating banks, to help make their house more energy efficient.[22] However, the program was criticised as conditions in practice aren't particularly favourable when compared to other types of loans.[23] In addition, Deco explains that for consumers looking to buy an energy efficient home (or to include energy efficiency works in their home purchase), there are very few green mortgages on offer on the market. There is one credit provider associated to the EEM initiative and only a handful of Portuguese banks currently offer reductions on interest rates or cash-back for loans when buying houses with an A+ or A energy efficiency rating or to fund refurbishments targeting a 30%+ increase in energy efficiency.[24]

In the Netherlands, banks offer green loan products with interest discounts conditional upon energy performance requirements. In addition, a "106% scheme" allows households to borrow more than the home value to carry out renovation works, and the interest paid is tax deductible. However, BEUC member Consumentenbond reports that not all banks comply with the scheme, some even applying interest surcharges.[25]

In some countries, such as Slovakia, green loans or mortgages are **not offered at all,** according to BEUC member Spoločnosť ochrany spotrebiteľov (S.O.S.).

There is a more positive outlook in the UK, where BEUC member Which? notes that green mortgages are now beginning to take off, with 26 green mortgages on the market. Research by Which? shows that green mortgages usually offer cheaper rates than standard mortgages, or are amongst the lowest rates available. Deals also include standard mortgages that offer "cashback" to consumers who buy energy-efficient properties or make home improvements.[26]

BEUC Belgian member Test-achats notes the existence of "green renovation loans" offered by banks in Belgium.[27] However, consumers need to be careful as lenders often apply two distinct rates: one for home renovations, and the other for "green" home renovations, the first of which is often twice as high as the second. As such, consumers should take care to check what is covered by the loan (energy performance works, or also other works).

Such findings are in line with the European Commission's evaluation of the Mortgage Credit Directive, which found that green loans are not currently available to consumers in many markets.[28]

3.1.2. Other green consumer loans

When it comes to other types of consumers loans used for green purposes (for example, in order to purchase electric vehicles), evidence from BEUC members also shows **differences in the availability** of such products across Member States.

[22] https://casaeficiente2020.pt/
[23] https://www.idealista.pt/news/imobiliario/habitacao/2019/01/15/38466-programa-casa-eficiente-asfixiado-pela-banca
[24] https://www.beuc.eu/blog/overcoming-the-financial-hurdle-to-home-renovation-in-portugal/
[25] https://www.consumentenbond.nl/energiebesparende-maatregelen/financieren-met-je-hypotheek
[26] https://www.which.co.uk/news/2021/05/could-you-save-money-by-taking-out-a-green-mortgage/?utm_medium=Email&utm_source=ExactTarget&utm_campaign=4067846-M_MW_EM_100521
[27] https://www.test-achats.be/argent/emprunter/dossier/emprunter-pour-renover/les-prets-renovation-proprement-dits
[28] https://op.europa.eu/en/publication-detail/-/publication/e4a1db26-2f94-11eb-b27b-01aa75ed71a1/language-en

In Portugal, most banks do already provide consumer loans to help consumers purchase renewable energy equipment, such as heat pumps or solar panels. A legal cap on annual percentage rates of charge (APRC) lower than for common purpose loans, helps to keep such loans affordable for consumers.[29]

By contrast, in Spain, Asufin notes that although, in most cases, more competitive prices are available for "green consumer loans" than for average consumer loans, in particular for the purchase of hybrid or electric vehicles, there is nevertheless a scarcity of such products in the market. The focus, in addition, is primarily on electric vehicles, with the amount of loans available for energy-efficient domestic appliances being less significant. [30]

3.2. Necessary regulatory changes

3.2.1. Green loans in lenders' product catalogues

As demonstrated above, "voluntary" schemes such as the EEM initiative do not always provide sufficient incentives for banks to offer green loan products which are affordable and competitive from a consumer perspective. In its study on green finances, Asufin found that in order to undertake the purchase of an electric car or an energy-efficient home, **consumers need incentives**, including beneficial conditions when taking up loans and mortgages. This is because, when deciding to invest in such as project, **short term costs are more important for consumers than potential future savings.[31]**

Consumers will therefore only be incentivised to take out green mortgages and green consumer loans through **competitive and affordable conditions** of such loans and/or if they receive additional benefits. Such favourable conditions should include a lower interest rate and/or higher loan to value, as well as affordable technical assistance and energy audits guaranteed through comprehensive information provided by independent one-stop-shop platforms (described below).

Regulatory changes are therefore needed in order to guarantee an equal access to green loans at such favourable conditions for all consumers across the EU. In particular, the CCD and the MCD should be amended, in order to oblige banks to have a range of standardised affordable green loans in their product catalogue (on the basis of the criteria and definitions set out by the EBA) along with appropriate technical assistance, and to require bank staff to **inform consumers of the existence of such green loans**.

As noted in the European Commission's evaluation of the MCD, recent publications show evidence of the positive effect of energy-efficiency investments on a reduction of the risk of default by the borrower, because (i) energy savings are expected to be made, due to a reduction in energy bills and of their weight within the household budget, and (ii) the property value is expected to increase, due to the relevant works.[32] These factors could be reflected when assessing the creditworthiness of the borrower through corresponding reductions in the pricing of the loan and/or determination of the amount of available capital.

While, as argued by the EEMI, a lower level of risk of green loans could in theory justify a corresponding reduction of capital requirements for lenders, any reduction should be strictly proportional to such risk. In particular, a capital reduction should **not be a precondition for banks to offer green mortgages and loans at favourable conditions to consumers**. Any substantial or disproportionate reduction in capital could jeopardise financial stability, contrary to the interest of consumers. Finance Watch, for

[29] https://www.beuc.eu/blog/overcoming-the-financial-hurdle-to-home-renovation-in-portugal/
[30] https://www.asufin.com/wp-content/uploads/2020/12/ESTUDIO-FINANZAS-VERDES_maq_ingles.pdf
[31] https://www.asufin.com/wp-content/uploads/2020/12/ESTUDIO-FINANZAS-VERDES_maq_ingles.pdf
[32] https://op.europa.eu/en/publication-detail/-/publication/e4a1db26-2f94-11eb-b27b-01aa75ed71a1/language-en

example, notes that a green "supporting factor" would do little for the environment and would leave the banking system weaker. This is because evidence suggests that large changes to risk weights would need to be made in order to have any effect on bank lending decisions.[33] This is also the opinion of the Bruegel Think Tank, which states that lowering capital requirements for certain climate-friendly investments, such as energy-efficient mortgages or electric cars "*is asking banks to turn a blind eye on proper risk management*".[34] According to Bruegel, a much stronger case can be made for a "brown penalising factor" for fossil-fuel intensive and dependent assets. The European Banking Authority is currently examining the prudential treatment of green loans and is due to produce a discussion paper between 2022-2024.[35]

In addition, for vulnerable and in particular, elderly consumers who struggle to access financing, green loans should be created, which are attached to the property itself, and can be re-payable as a lump sum at the moment of sale of the property or legal succession, as proposed by a recent report commissioned by the Ministry of Finance in France[36]. Such loans could be backed by a state guarantee covering the difference between the final value of the good and the debt to reimburse, if it is negative.

Specific green loan products could also be used to finance "pay as you save" or "on-bill schemes", where the loan is repaid as part of a consumer's energy bill, via energy savings generated by the renovation works that the loan has financed. Such loans and corresponding schemes should be accessible to the most vulnerable consumers at competitive rates and could be used by landlords in order to ensure a fair split of renovation costs with tenants. For example, an industry project called "RenOnBill" aims to promote on-bill schemes, based on the cooperation between energy utilities and financial institutions. For such schemes to work, the history of utility bill payments could be factored into the creditworthiness assessment, and guarantees such as loan-loss reserves and subsidy schemes could be attached to the project in order to ensure the inclusion of the most vulnerable consumers. Such innovative schemes implementation should go hand-in-hand with consumer protection: ban on disconnection for the time of the energy efficiency loan-repayment, reform of the social housing benefits to make them compatible with on-bill schemes subsidies, dedicated one-stop-shop service (see definition below), etc. The introduction of on-bill schemes would also provide a good vehicle for the issuance of green bonds, provided that the quality of the works and accredited installers are guaranteed.

Specific collective green loans would also need to be put in place to fit the situation of multiple property buildings.

In order to ensure the development of green loan offers, the revised Directives should require Member States to set up **qualitative and where relevant, quantitative targets.** Creditors should also have **internal policies** and procedures related to the granting and monitoring of such green loan products. **Staff training** requirements should also be included, which should ensure that banking staff provide the right advice to consumers Staff bonuses and rewards should not incite them to push consumers into regular non-green offers, creating disincentives to offer green loan products. As noted by Asufin, obtaining good training for the managers of financial institutions is a priority in order to be able to offer consumers a catalogue of products suited to their needs. This would be consistent with the Commission's Strategy for financing the Transition to a Sustainable Economy,[37] which mentions the Commission's willingness to encourage greater retail

[33] https://www.finance-watch.org/a-green-supporting-factor-would-weaken-banks-and-do-little-for-the-environment/
[34] https://www.bruegel.org/2018/01/climate-change-adds-to-risk-for-banks-but-eu-lending-proposals-will-do-more-harm-than-good/
[35] EBA Action plan on sustainable finance.pdf (europa.eu)
[36] http://www.planbatimentdurable.fr/publication-du-rapport-de-la-mission-d-olivier-a1522.html
[37] https://eur-lex.europa.eu/resource.html?uri=cellar:9f5e7e95-df06-11eb-895a-01aa75ed71a1.0001.02/DOC_1&format=PDF

investor engagement by seeking improvements in the level of sustainability expertise of financial advisors.

Having regard to the upcoming revision of the CCD, BEUC proposes for the following article to be inserted:

Article [X] – Environmentally sustainable lending

1. Member States shall ensure that creditors offer as part of their portfolios environmentally sustainable consumer credit products at favourable conditions for consumers.

2. The EBA shall conduct a survey of environmentally sustainable credit products offered for sale across the EU. On this basis, the EBA, along with stakeholders from the industry and consumer representatives, shall develop a range of standardised environmentally sustainable consumer credit products, based on criteria consistent with the EU taxonomy on sustainable finance.

3. Creditors should develop specific details of their environmentally sustainable lending policies and procedures, covering the granting and monitoring of such credit facilities.

4. Member States shall set up qualitative and where relevant, quantitative targets to support the development and the integrity of creditors' environmentally sustainable lending activities.

A similar article should be inserted in the MCD at the time of its revision, in line with the Commission's plans announced in its Strategy for financing the Transition to a Sustainable Economy,[38] to explore ways to support the uptake of EEM in the framework of the MCD review.

3.2.2. Lower interest rate caps for green consumer loanss

As noted in our position paper *on the revision of the Consumer Credit Directive*,[39] the EU should introduce measures to prevent excessive costs associated with consumer credit, by establishing an **EU-wide ceiling on annual percentage rates of charge (APRC)** (referring to the total cost of borrowing for a year) based on existing national good practices. This would prevent issues of affordability and spiralling debt for consumers, which can be caused by high-cost credits.

In order to incentivise the take up of green consumer loans, **lower APRC caps could be applied to both socially and environmentally sustainable consumer credit products** (e.g. loans for education, green loans to finance home renovations or electric car purchases).

As noted by BEUC Portuguese member DECO, such measure already existsin Portugal, where maximum rates for different types of consumer credit products are strictly regulated by Banco de Portugal.[40] In Portugal, the APRC cap for certain types of green loans (e.g. personal loans related to renewable energies) is set at a **stricter level than other**

[38] https://eur-lex.europa.eu/resource.html?uri=cellar:9f5e7e95-df06-11eb-895a-01aa75ed71a1.0001.02/DOC_1&format=PDF
[39] https://www.beuc.eu/publications/beuc-x-2019-019_review_of_the_consumer_credit_directive.pdf
[40] https://clientebancario.bportugal.pt/en/interest-rates-consumer-credit

consumer credit products, as demonstrated by the below table. This cap however, does not apply to house retrofits or certain types of energy-efficiency investments.

Type of credit agreement		Maximum APR	
		2nd Quarter 2021	3rd Quarter 20
Personal credit	For Education, Health, Renewable Energies and Financial Leasing of Equipment	6.7%	6.8%
	Other Personal Loans (non-specific, home, consolidated and other purposes)	13.2%	13.0%
Car loans	Financial Leasing or Long-term rental: new	3.5%	3.3%
	Financial Leasing or Long-term rental: used	5.0%	4.8%
	Subject to the retention of the ownership and others: new	9.2%	9.2%
	Subject to the retention of the ownership and others: used	11.9%	11.8%
Credit cards, Credit lines, Bank credit accounts and Overdraft facilities		15.6%	15.6%

Having regard to the upcoming revision of the CCD, BEUC proposes for the following article to be inserted in the revised CCD, providing for a lower cap for all types of green consumer loans:

Article [X] – APRC Caps

1. Member States shall implement maximum APRCs caps for different types of consumer credit products.

2. The EBA shall conduct a stock-taking exercise of APRC or interest rate caps currently applicable in various Member States and create a list of the main categories of consumer credit products on offer in each Member State. On the basis of this exercise, the EBA shall develop draft regulatory technical standards specifying the method for calculating the APRC caps, adapted to national specificities, and define the main categories of credit products to which the caps should apply in each Member State. A lower cap shall apply to socially and environmentally sustainable credit products.

3. Power is delegated to the Commission to adopt the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

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BEUC's recommendations

- The Mortgage Credit Directive (MCD) and Consumer Credit Directive (CCD) should be amended, in order to include provisions **obliging banks to have a range of affordable standardised green loans** in their product catalogue, which are in line with the criteria of the **EU taxonomy**, and requiring bank staff to **inform consumers of the existence of green loan products**.
- The lower level of risk presented by such loans should translate into **consumer benefits, such as lower interest rates, higher loan to value, and affordable technical assistance** guaranteed through comprehensive information provided by independent one-stop-shop platforms (see below).
- For consumer credit, this could be ensured via **maximum caps on annual percentage rates of charge (APRC)** applicable to green loans which are **lower** than the general EU-wide cap, which BEUC advocates for in order to prevent excessive costs associated with consumer credit.

3.2.3. The development of one-stop shop platforms

Having the right technical advice, support and assistance, in particular through independent and impartial "**one-stop shops**", is also key for consumers to be able to undertake energy-efficiency investments with confidence. One-stop-shops are also beneficial for lenders, as they provide the technical assessment and support measures ensuring the quality of the works.

For example, when it comes to home renovations, as noted in BEUC's position paper entitled "*how to make one-stop shops consumer friendly*",[41] consumers need to get access to a **hub with integrated services**, where they can get one point of contact who guides them through the definition of their project, provides them with access to accredited and reliable installers, tailor-made financial offers, and informs them about the most up-to-date materials and appliances. Such one-stop shops should be available both physically and online.

It is crucial for all consumers to have access to such services, including the most vulnerable ones. Where the consumer goes directly to a bank in order to request a green loan, creditors should have an **obligation to inform consumers** of the existence of one-stop-shops where the consumer can obtain additional information, before concluding the contract.

With regard to financing, consumers should be able to easily obtain information on the financial support available in their area (grants, tax-breaks), which is related to their project, and to be presented with a representative list of green loan and mortgage offers, covering most or all of the market.

[41] https://www.beuc.eu/publications/how-make-one-stop-shops-consumer-friendly/html

BEUC's recommendations

- **Relevant advice and technical assistance** should be provided to consumers in each Member State, for instance via the creation of **independent and impartial "one-stop-shop" platforms**, in order to advise them as to the various solutions available.
- These platforms should be available **physically, but also online**.
- They should inform consumers of **financial support available** in their area (grants, tax-breaks) and be presented with a **representative list** of green loans and mortgage offers, covering all or most of the market.
- Lenders should have an **obligation to inform consumers** of the existence of one-stop-shop platforms when presenting them with green loan offers, before the conclusion of the credit contract.

4. Incentivising banks to provide green loans

In addition to regulatory requirements, the **right incentives** should be put forward in order for banks to start providing affordable green loans on a large scale to consumers. These could include further developing **green bonds**, as well as **favourable re-financing conditions** from the European Central Bank (ECB).

4.1. Encouraging the issuance of green bonds

One way for banks to finance their lending activities is the issuance of bonds. When issuing bonds, banks themselves borrow money from investors. By issuing "green bonds", banks are generally able to secure a **lower cost of financing**, which can further incentivise banks to offer green loans.

Bonds will be considered "green" when the funds raised by the bank are used to finance environmentally sustainable projects, which can include green loans. A voluntary "green bond" label of the International Capital Market Association currently applies, if the bond complies with so-called "Green bond principles", which establish a series of transparency and reporting requirements regarding the destination of the bond proceeds.

For example, UK bank Barclays has issued a green bond in 2020 to institutional investors, where the funds raised were to be allocated towards the financing and/or re-financing of mortgages on energy efficient residential properties in the UK, including mortgages offered to customers at a discount provided their property met certain energy efficiency thresholds.

In order to facilitate the issuance of green bonds in the EU, the European Commission has recently issued a legislative proposal to set up an EU 'Green Bond Standard'. **BEUC encourages the issuance of such standard**, which, coupled with a standardised definition of green loans, could stimulate green loan offers across the EU.

4.2. Green TLTROs

As noted by Positive Money Europe in a recent report,[42] green loans could also be incentivised through favourable re-financing conditions granted to banks by the ECB, conditional upon meeting **specific green loan targets**. The ECB currently lends over EUR 1.3tn to European banks through its Targeted Long-Term Refinancing Operations (LTROs) program, a loan scheme designed to boost bank lending. Currently, T-LTRO operations by the ECB do not take into account any environmental considerations. A green T-LTRO programme would make lower interest rates that the ECB charges to banks conditional upon how many green loans they issue to households. Banks would be able to access cheaper funding through the ECB at lower interest rates, but only if they issue such green loans. By tweaking its T-LTROs programme to take into account environmental considerations, the ECB could, in theory, make green lending much more affordable.

However, as noted above, it is important for any such programme to be strictly **conditional on quantitative and qualitative targets** inserted in EU regulation (as suggested above), and on a uniform definition of "green loans" which ensures that the lower interest rates charged by the ECB are translated into favourable conditions for consumers (such as lower interest rates, higher loan to value, affordable technical assistance). Otherwise, any such scheme risks becoming nothing more but a "free ride" for the banking industry, without any concrete impact on the take-up of green loans by consumers. In addition, it will be important to ensure that such incentives do not lead to excessive risk-taking by the banking industry, and that lenders are held liable in case the assessment of a consumer's creditworthiness is not properly performed.

5. Green loans as part of a wider ecosystem

Green loans should not be developed in isolation, but should be part of a range of financing options in order to make the purchase of sustainable products or services (or the realisation of sustainable projects) **realistic for all consumers, including the most vulnerable ones.**

5.1. Combination of green loans, subsidies, and tax-benefits

5.1.1. State of play

The use of **taxation tools** in order to help consumers finance green products, such as green housing or cars, **appears limited** at present.

In its study,[43] Asufin notes that on the one hand, several subsidies are available in Spain for the purchase of energy-efficient vehicles. On the other hand, subsidies and/or tax-deductions granted for energy-efficient home purchases or renovations are very limited in time and scope.

In Italy, BEUC member Adiconsum explains that a 110% tax super-bonus was recently introduced, which is a tax break granted for qualifying expenditures (including energy efficiency improvements) made between 1 July 2020 and 31 December 2021.[44] However, some issues have been reported by consumers in the procedure, including unfair commercial practices.

While some Member States also offer **grants or subsidies** for facilitating green home renovations, purchases or constructions, sometimes coupled with favourable green loan or

[42] http://www.positivemoney.eu/wp-content/uploads/2021/02/2021_Building-Renovation-TLTROs.pdf
[43] https://www.asufin.com/wp-content/uploads/2020/12/ESTUDIO-FINANZAS-VERDES_maq_ingles.pdf
[44] https://www.accountingbolla.com/blog/superbonus-how-to-renovate-your-home-for-free#gref

mortgage conditions, a number of **issues** have also been reported by BEUC members in relation to such grants and/or loans.

In Slovakia, BEUC Member S.O.S reports that a subsidy of up to 40% of the costs incurred exists for the insulation of houses. However, such measure remains unaffordable for vulnerable consumers, and the press reports hurdles with the application process.[45] Similarly, in Slovenia, BEUC Member Zveza Potrošnikov Slovenije – (ZPS) explains that consumers can apply to get affordable loans with low interest rates and/or subsidies from a government-run Ecofund (typically covering between 20-50% of the investment, or 100% for vulnerable consumers under permanent social welfare), both for home renovation and building. Nevertheless, ZPS notes that more vulnerable consumers have trouble accessing the subsidies, primarily due to a **lack of awareness** of the scheme.

In Greece, BEUC Member Kepka notes that under a "Home Savings Program II", co-financed by EU funds,[46] individual house owners can apply and receive grants up to a certain amount, as well as a loan with an interest rate subsidy for the remaining amount. However, there are many more applications than approved loans due to lack of sufficient funding. Consumers also have **issues dealing with the process,** and often have to pay renovation companies to help them with such applications.

In Portugal, the government recently launched a "More Efficient Buildings scheme" offering an incentive for the improvement of the energy performance of housing, worth 30 million euros. BEUC's Portuguese member DECO is receiving dozens of requests from consumers that need help and support to understand how they can apply, since the application is only online and requests several documents, certifications, that need to be obtained in different places. For a consumer with lower or no digital skills, it is not possible to apply on their own. The current support of the program is insufficient, since consumers are claiming that the telephone line isn't answering. In addition, applications can only be submitted once the improvement is completed. This means that consumers who cannot afford the up-front costs of home improvements **cannot benefit** from the scheme.

In Belgium, **"**Energy Grants" and "Renovation Grants" of up to 50% are available in the Brussels Region for renovation works. However, grants are only received once the works are finalised and paid for, and many homeowners, in particular those with low incomes, are unable to pay upfront. For this reason, a "Brussels Green Loan Scheme" offers a zero to low interest loan which helps homeowners to pre-finance energy renovation works, including for low and very low income households who may not be eligible for commercial loans. Technical assistance is also available to eligible consumers.[47] BEUC Belgian member Test-achats, however, stresses that **eligibility conditions are very strict**. For example, the property to renovate must have a very bad energy performance.[48]

In France, BEUC Member UFC Que Choisir notes that the government deployed a number of measures in parallel: (i) a reduced VAT rate at 5.5% for works carried out to improve energy efficiency, (ii) a "zero-interest eco-loan", which enables the financing of energy-efficient home renovation without advancing cash and without paying interest (which is subsidised by the State);[49] (iii) "MaPrimeRénov", a grant for home renovations, which amount depends on a family's revenues and ecological gains generated by the works;[50] (iv) an "Habiter mieux sérénité" aid from the French National Housing Agency (Anah),

[45] https://spectator.sme.sk/c/20447139/state-insulation-falls-behind-expectations-ministry-widens-support.html

[46] https://exoikonomisi.ypen.gr/opheloumenoi

[47] The Brussels Green Loan Scheme | Energy Cities (energy-cities.eu)

[48] https://www.test-achats.be/argent/emprunter/dossier/emprunter-pour-renover/les-prets-renovation-proprement-dits

[49] https://www.economie.gouv.fr/cedef/eco-pret-a-taux-zero

[50] https://www.economie.gouv.fr/particuliers/prime-renovation-energetique

conditional on minimum energy savings (25%) and subject to mandatory support;[51] and (v) grants offered by energy supply companies to carry out energy saving works, in exchange for Energy Saving Certificates.[52] According to UFC Que Choisir, despite these measures, an insufficient amount of homes is renovated each year, and credit often finances poor quality work, without being conditioned on performance levels. In addition, **banks are often reluctant** to grant "zero interest eco loans", as they are not very profitable and require additional monitoring, in particular when it comes to collecting invoices once the works are done.

5.1.2. Way forward

It is therefore important to ensure that **any public schemes are truly accessible** to consumers, including the most vulnerable ones with no digital skills, and that consumers are provided with necessary information and assistance in order to apply for any grants, subsidies or tax benefits through impartial and accessible one-stop-shops as described above.

A range of options should be envisaged to support consumers, in particular the most vulnerable ones. For example, a UK Green Finance Taskforce report "*accelerating green finance*"[53] recommends to the UK government to provide short-term incentives to stimulate the green consumer loans and green consumer mortgages markets, thereby ensuring their competitiveness. Solutions include time-limited, partial government guarantees to support the development of green mortgage products. Funds could also be awarded to enable lenders to offer a range of incentives to homeowners, such as cashback in return for making improvements or, a lower-to-zero interest loan to help finance improvements.

In France, UFC-Que Choisir notes that France Stratégie proposes an **on-bill financing mechanism**, whereby operators would carry out and finance the renovation works, and would later repay themselves by sharing the savings made on the energy bill with the beneficiary households.[54] A public guarantee would cover half of the costs in case of a lack of profitability of the operations. Its implementation would first target the most profitable thermal renovations. The introduction of such mechanism could be encouraged in all Member States.

Indeed, any such initiative should be defined by an obligation to achieve a specific outcome applied to professionals carrying out the works, who should be duly accredited, and all such financial incentives should be correlated to the achievement of a level of **energy performance**. They should also integrate **monitoring and control mechanisms** after the work is completed to ensure the quality of the work. Project managers should also have a training obligation and be duly certified in order to ensure their reliability, as well as the quality of the works.

[51] https://www.anah.fr/proprietaires/proprietaires-occupants/etre-mieux-chauffe-avec-habiter-mieux-et-maprimerenov/#:~:text=Habiter%20Mieux%20s%C3%A9r%C3%A9nit%C3%A9%2C%20c'est,au%20montant%20de%20vos%20travaux.

[52] https://www.quechoisir.org/conseils-renovation-energetique-trouver-les-aides-au-financement-n80159/

[53] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/703816/green-finance-taskforce-accelerating-green-finance-report.pdf

[54] https://www.strategie.gouv.fr/publications/accelerer-renovation-energetique-logements

BEUC's recommendations

- Application processes for government subsidies and schemes should be **simplified, appropriately publicised,** and sufficient funds allocated to such schemes to prevent the undue rejection of qualifying consumers.
- In particular, such schemes should be easily accessible to vulnerable consumers via impartial one-stop-shop platforms, both online and offline.
- The scope of such schemes should cover a range of green projects (e.g. the purchase of an electric car, green home renovations and purchases).
- **Higher subsidies**, such as 100% grants, or grants coupled with zero or very low interest loans, **should be available to vulnerable consumers**, which should also cover **up-front costs of energy audits and technical assistance**. EU funding could be directed to public bodies in that respect.
- Measures should also be envisaged in the **field of taxation**. For example, the transaction tax, when homeowners sell/buy their property, could be lowered when deep retrofit is implemented. On-tax financing measures should also be promoted. Taxation measures should also phase out any advantages previously granted to fossil-fuel investments.

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