ANNEX II TO EBA REPORT

IN RESPONSE TO THE CALL FOR ADVICE FROM THE EUROPEAN COMMISSION ON GREEN LOANS AND MORTGAGES

DECEMBER 2023 – EBA/REP/2023/38

EBA EUROPEAN BANKING AUTHORITY

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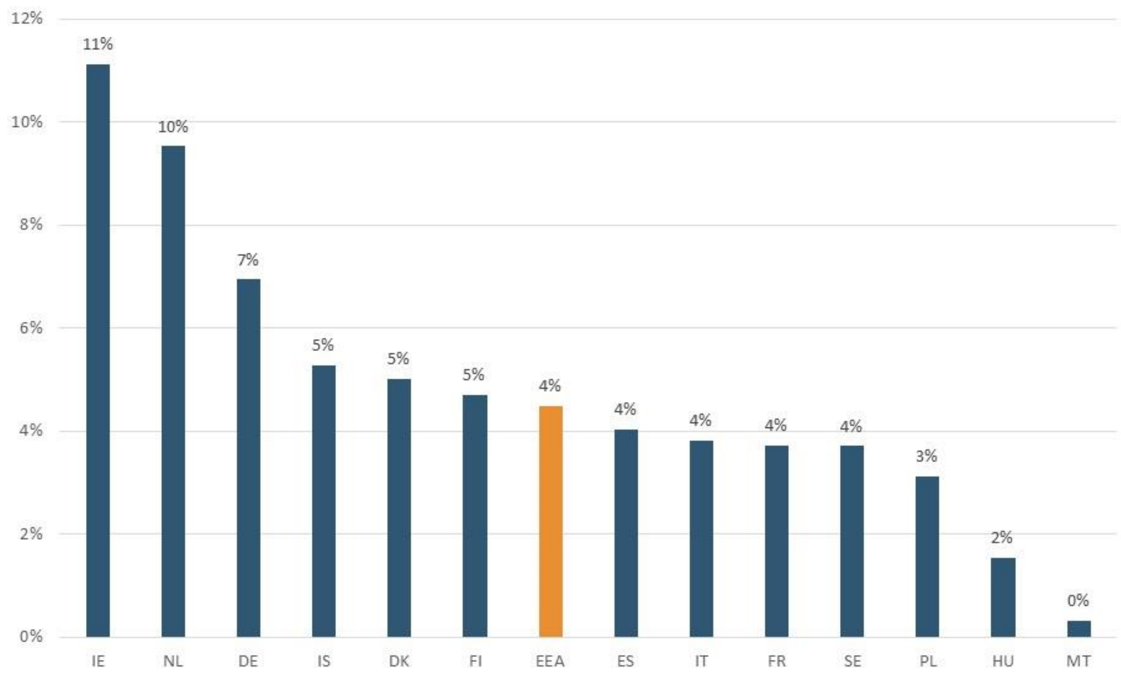

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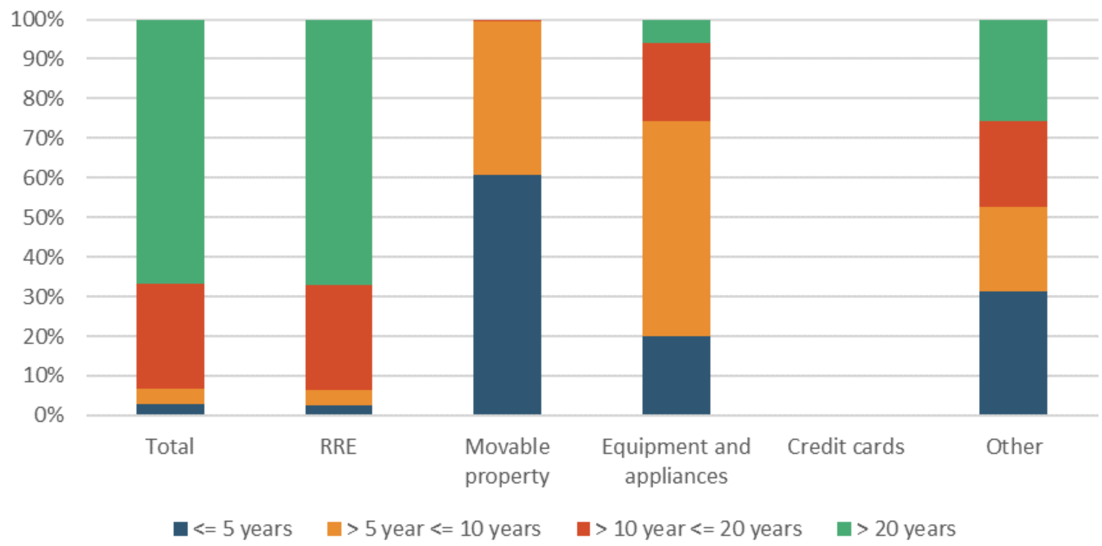

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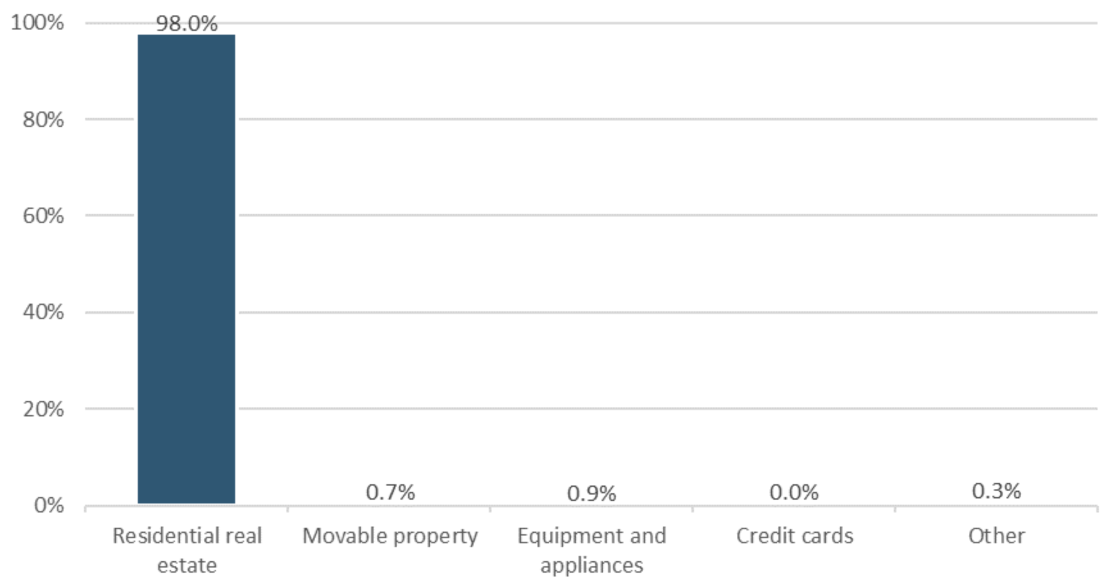

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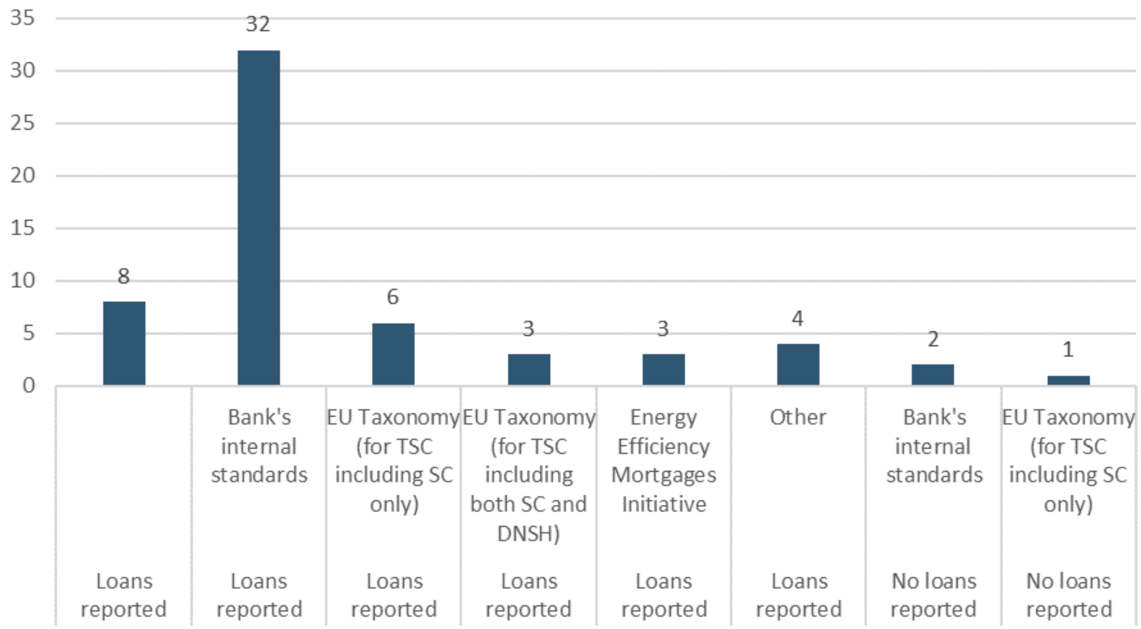

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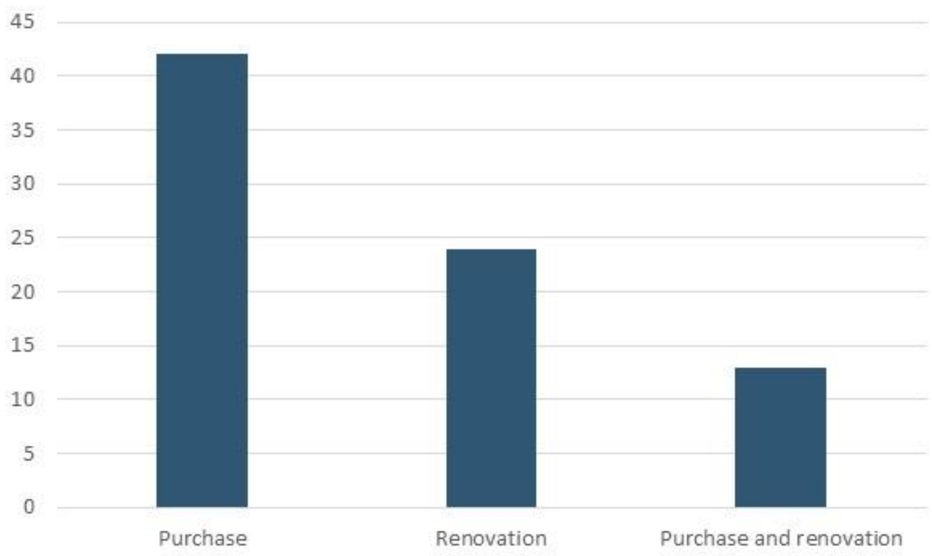

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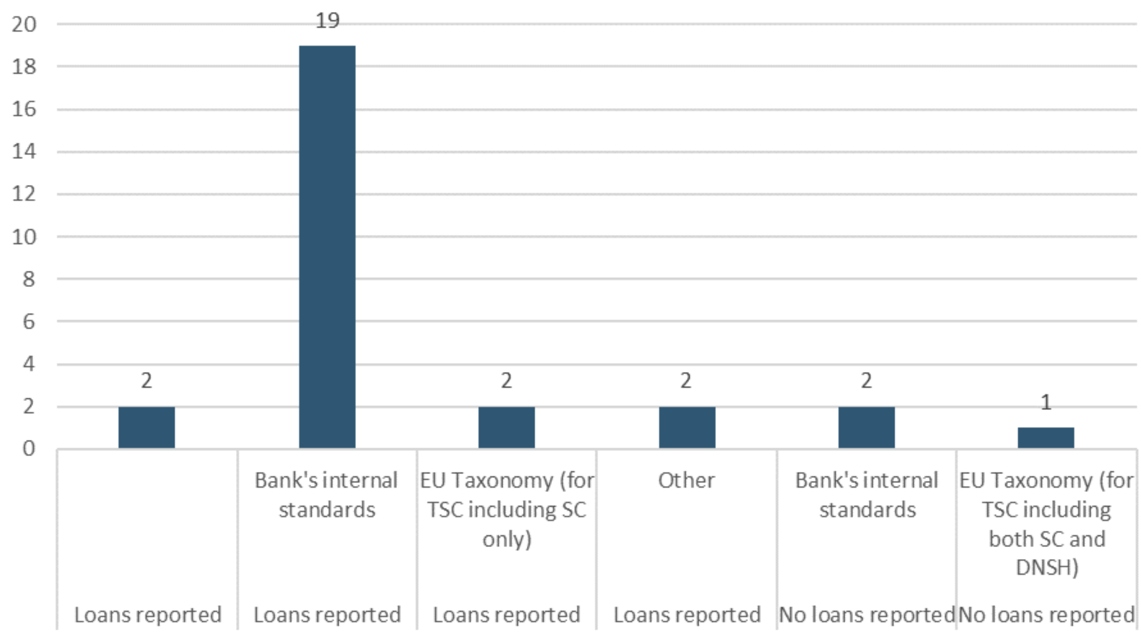

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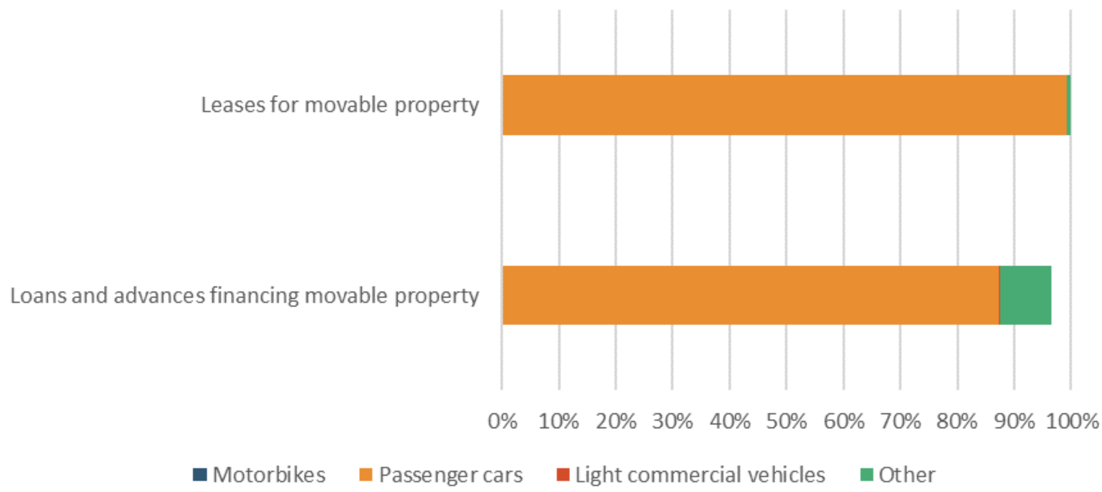

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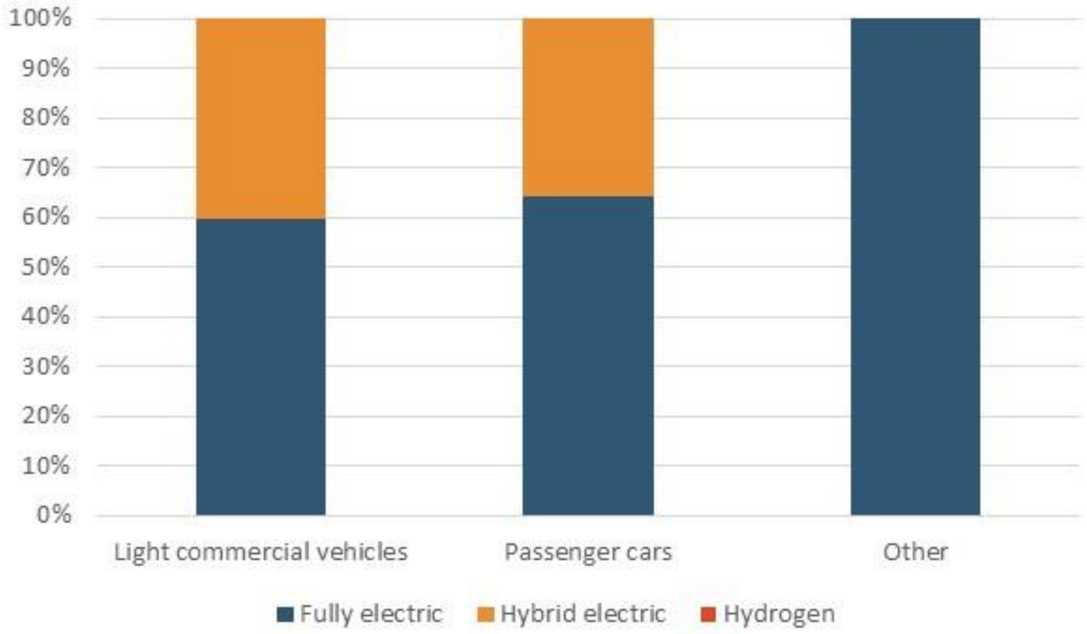

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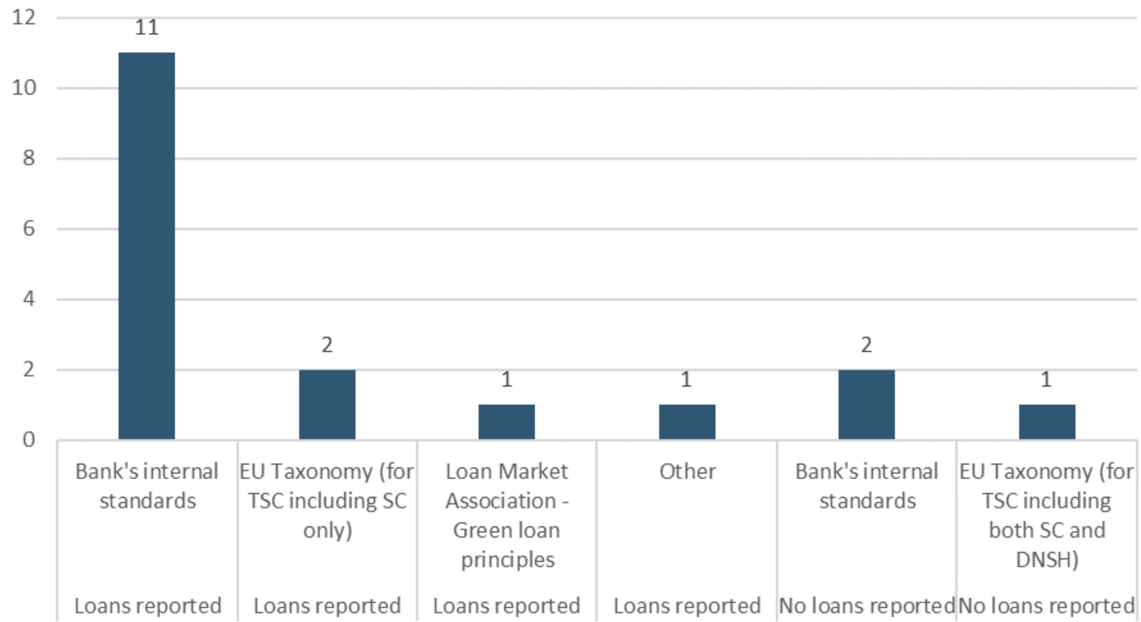

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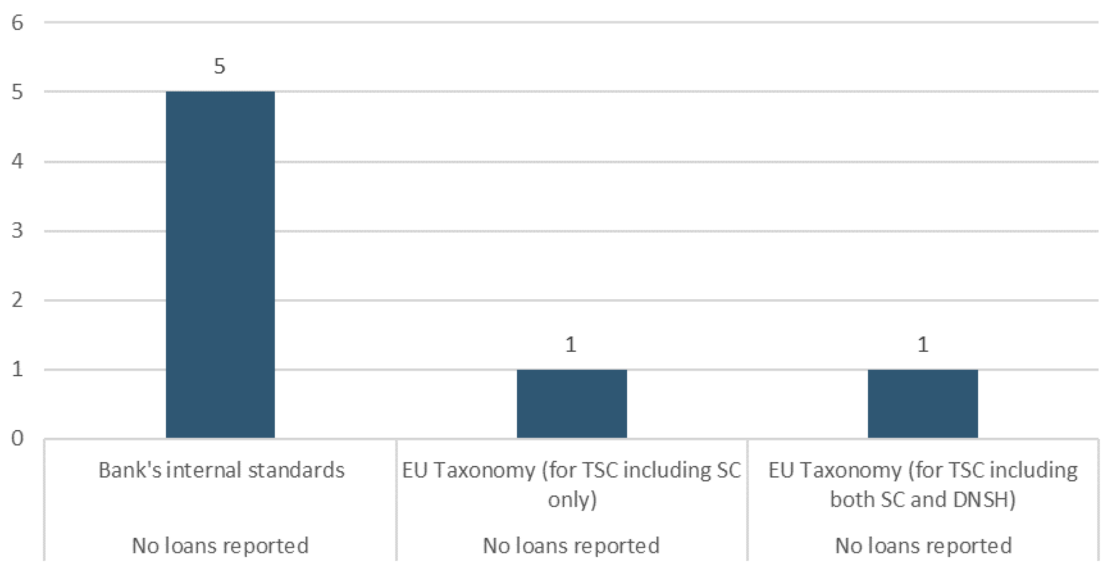

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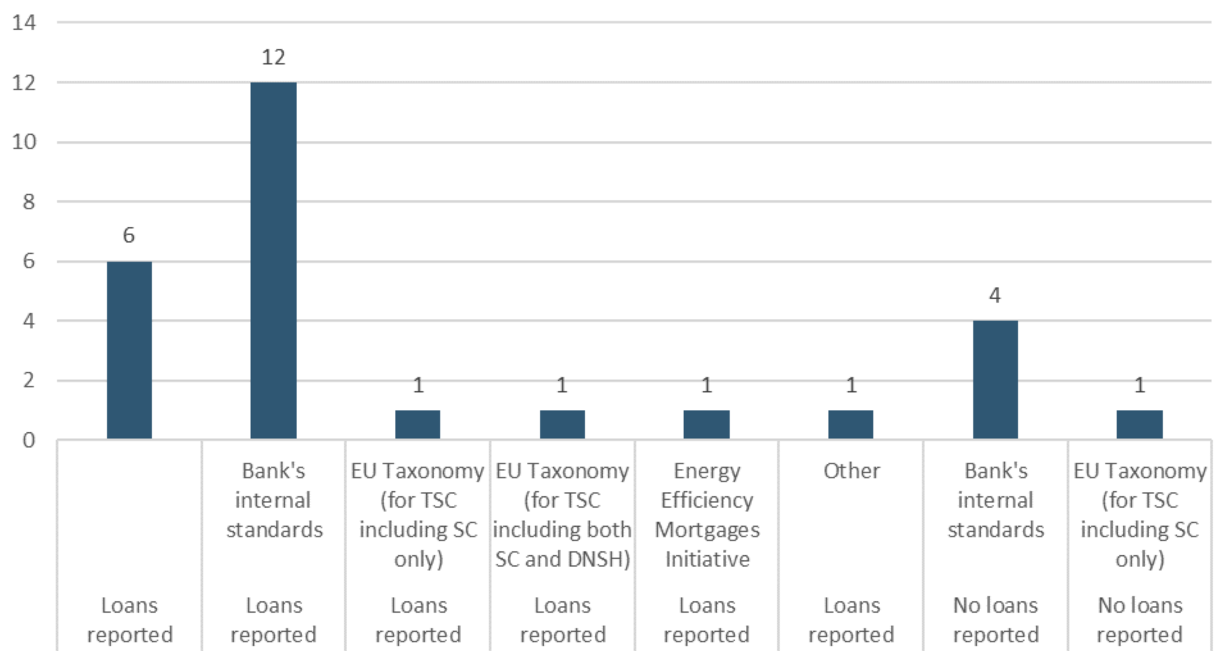

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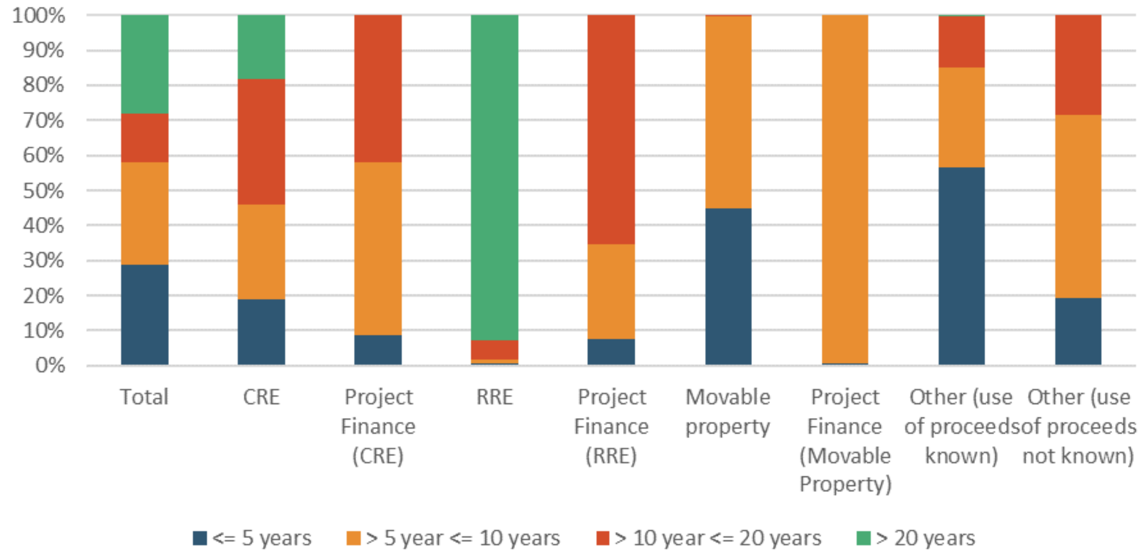

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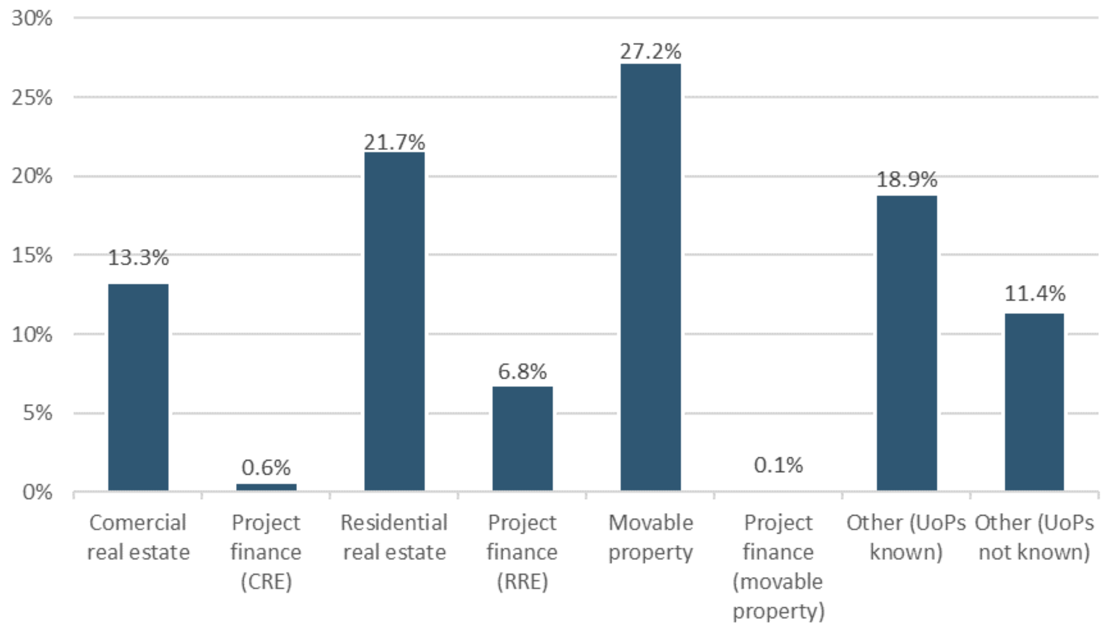

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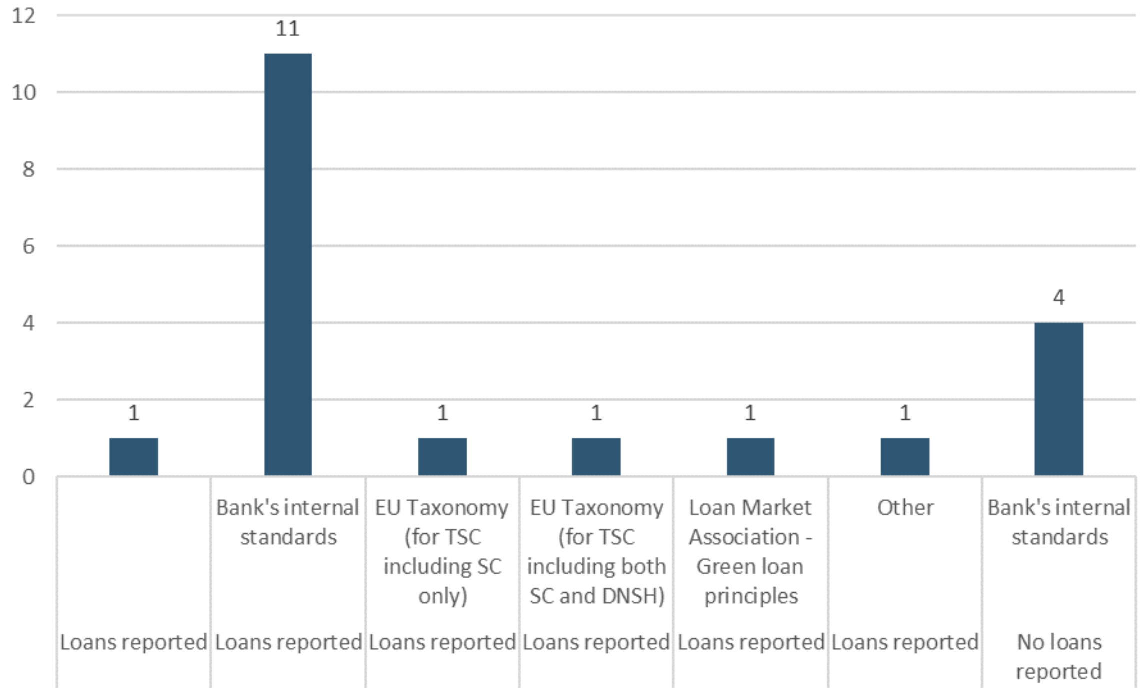

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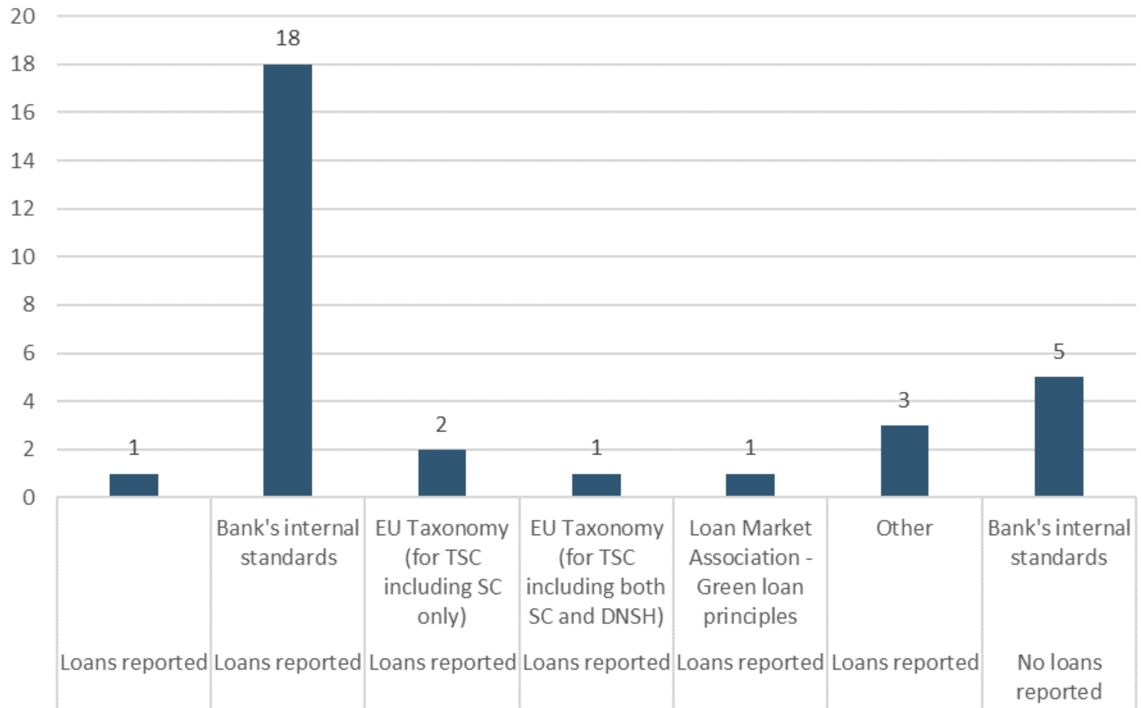

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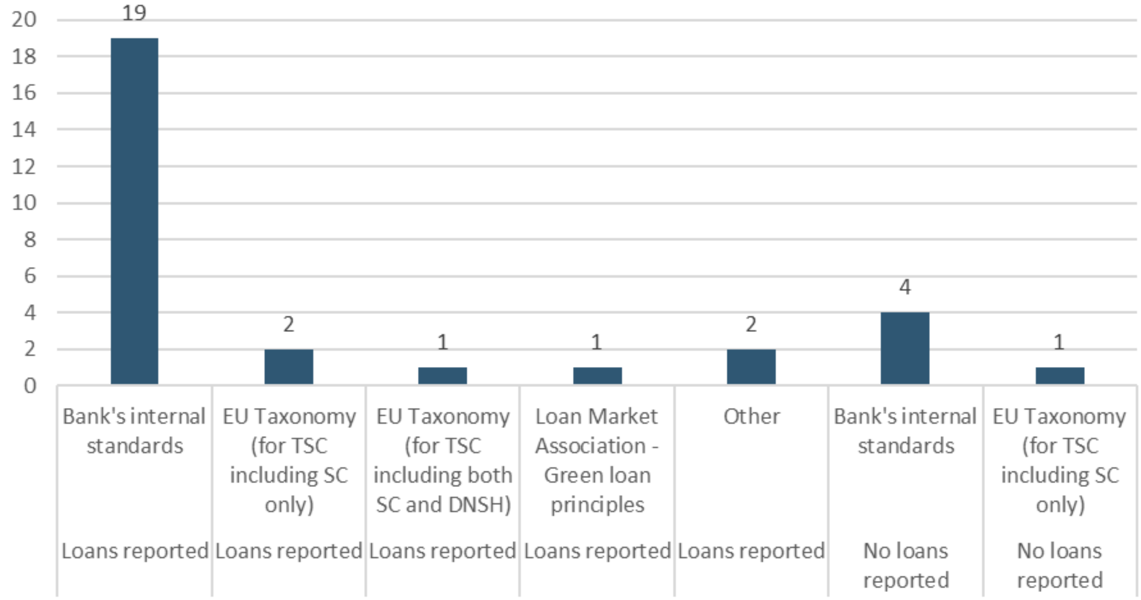

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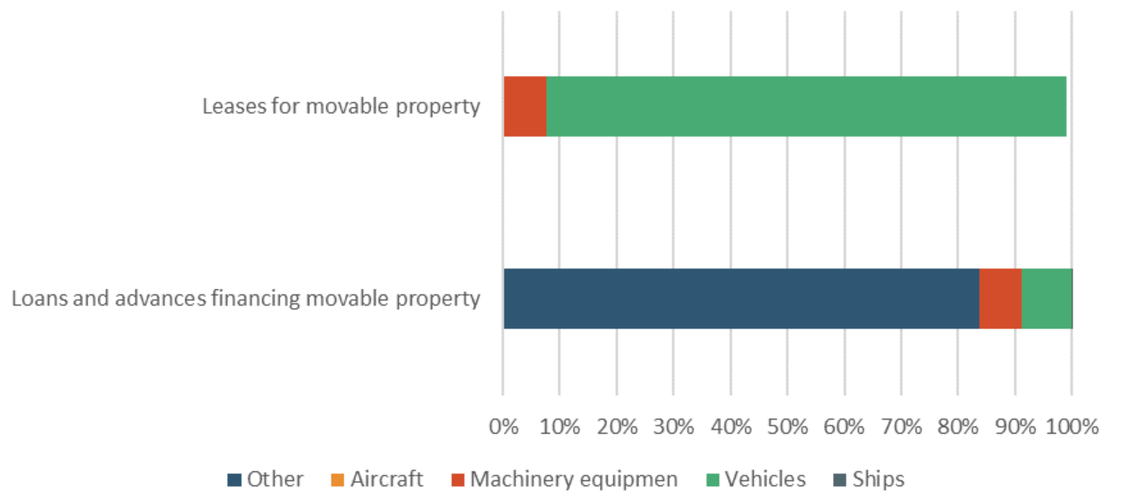

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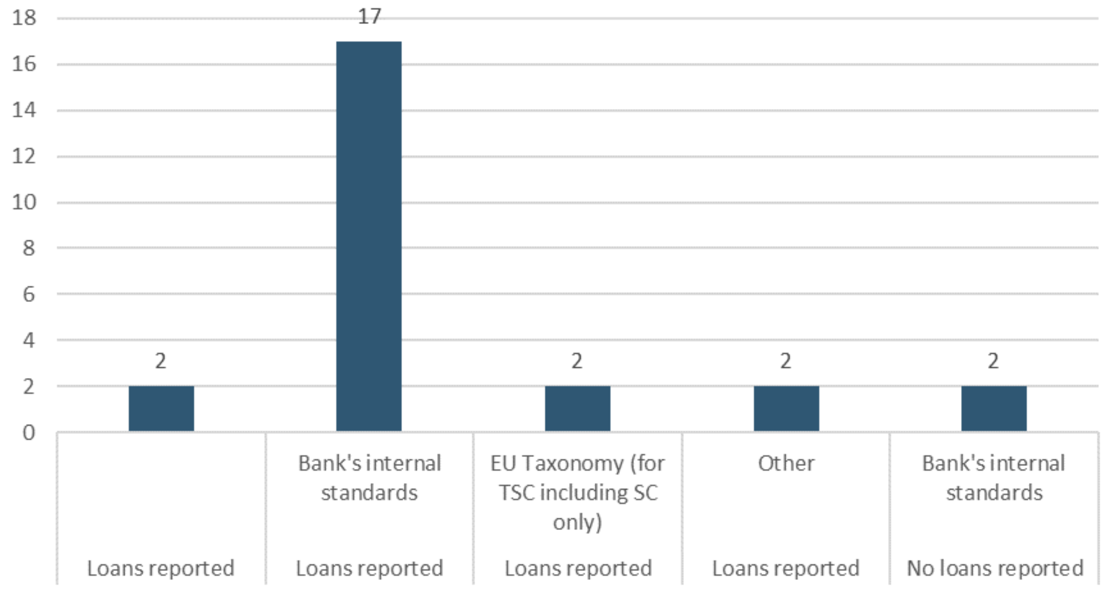

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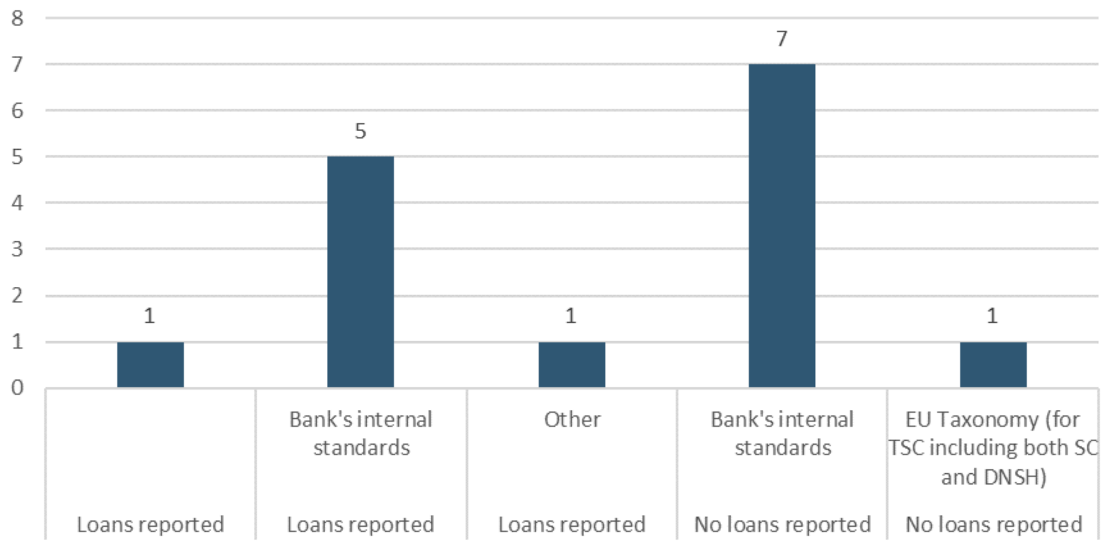

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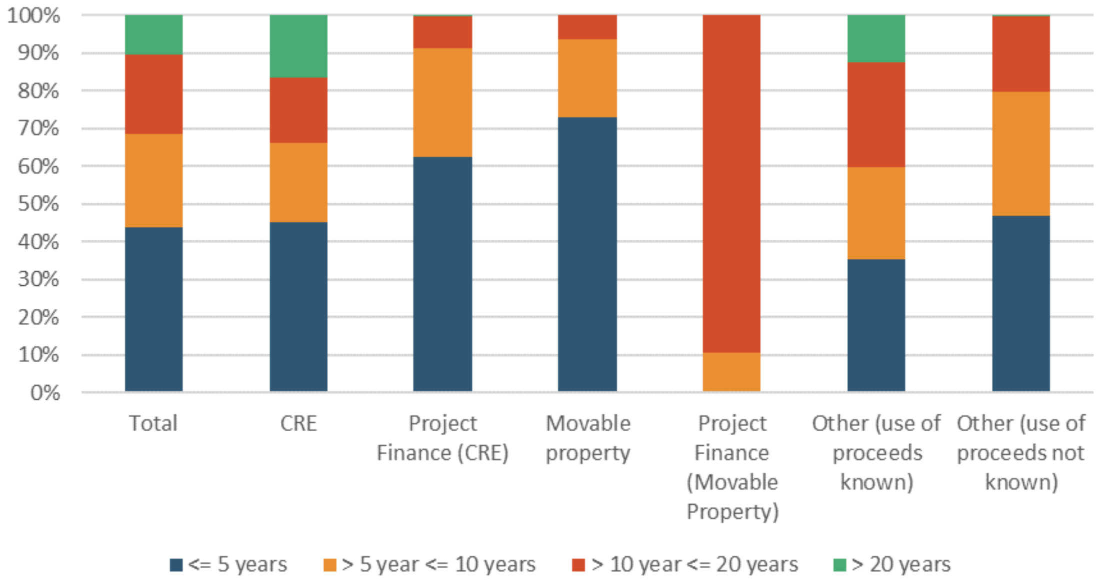

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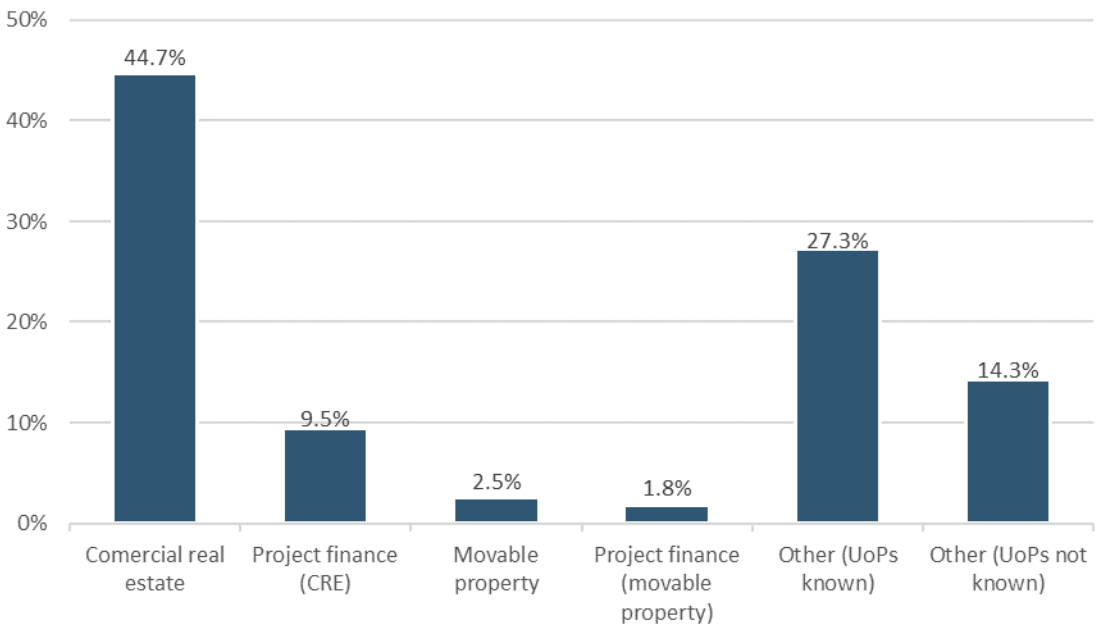

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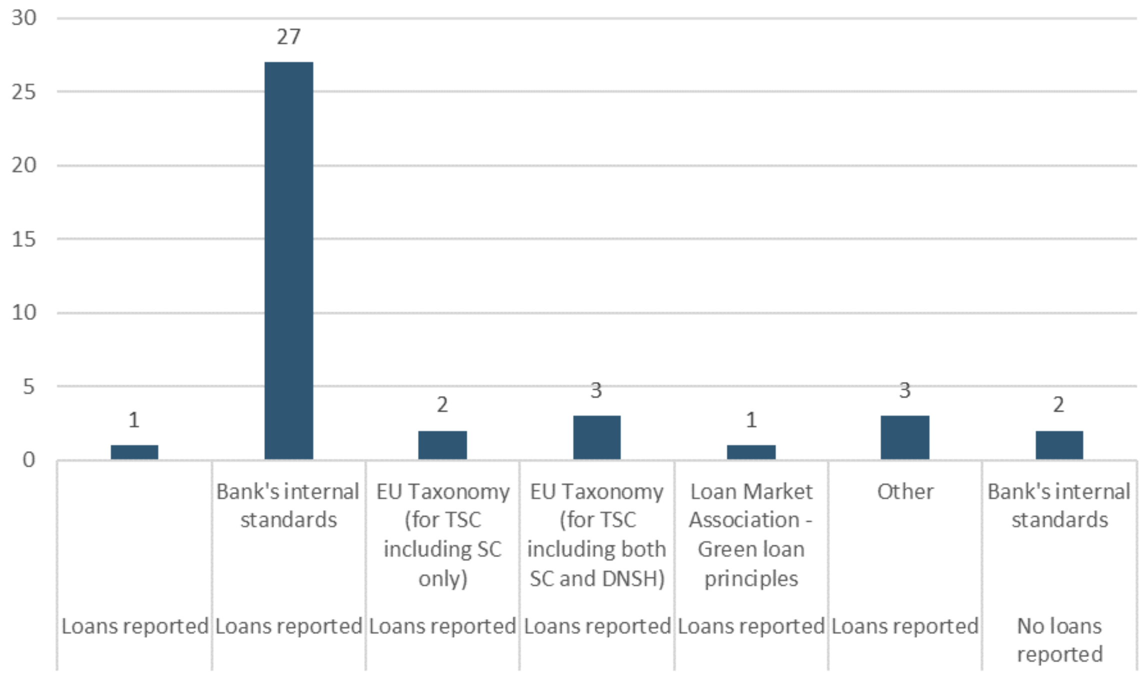

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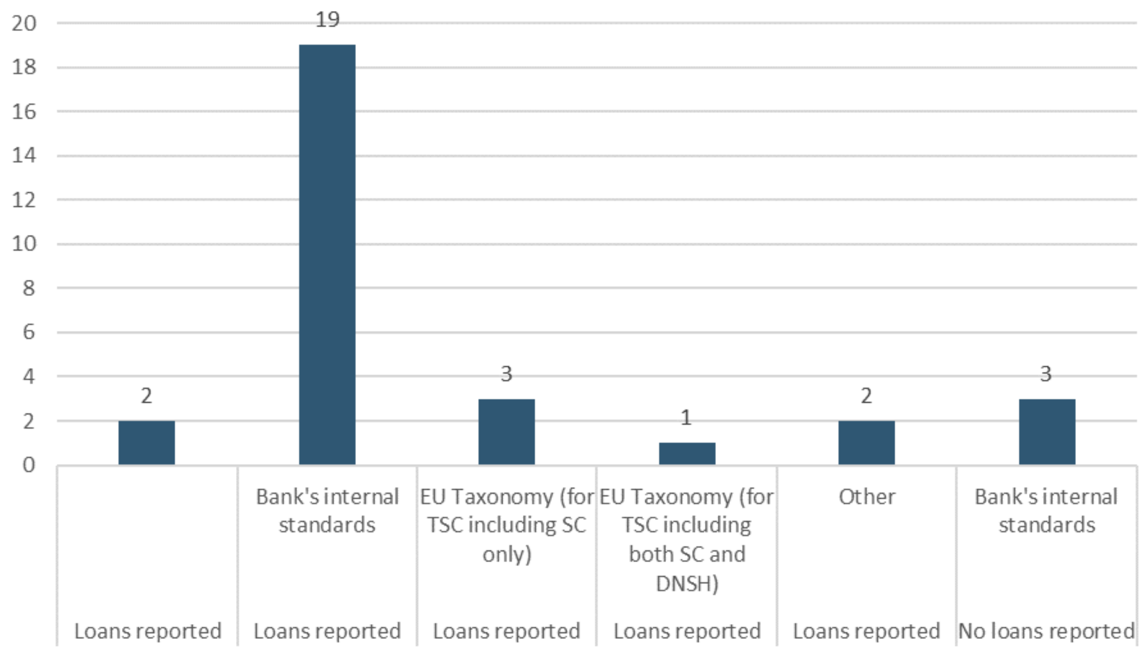

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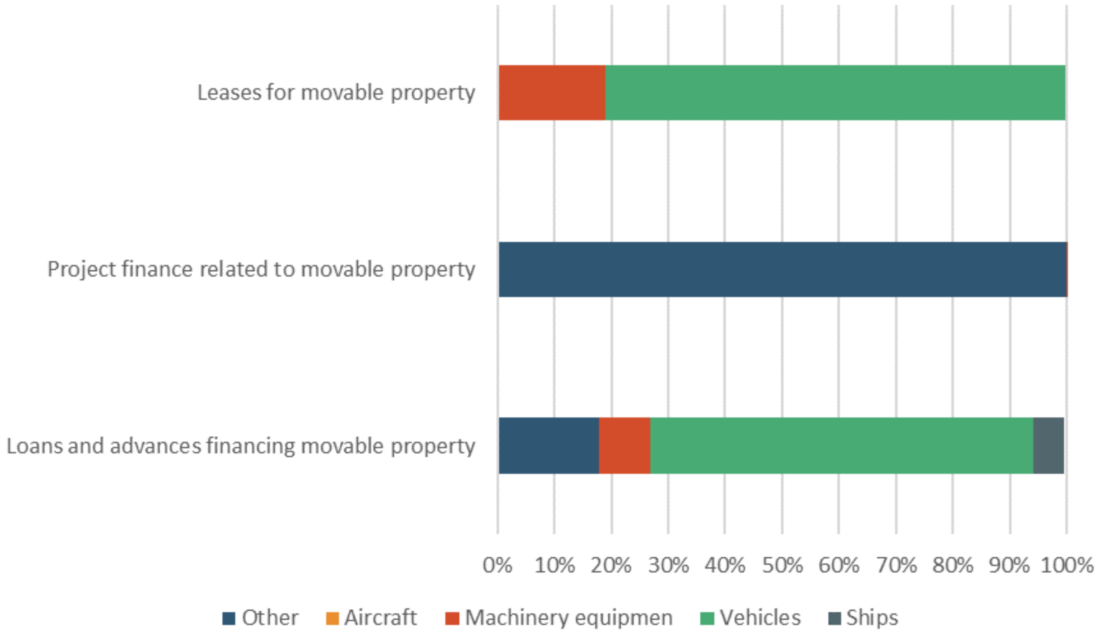

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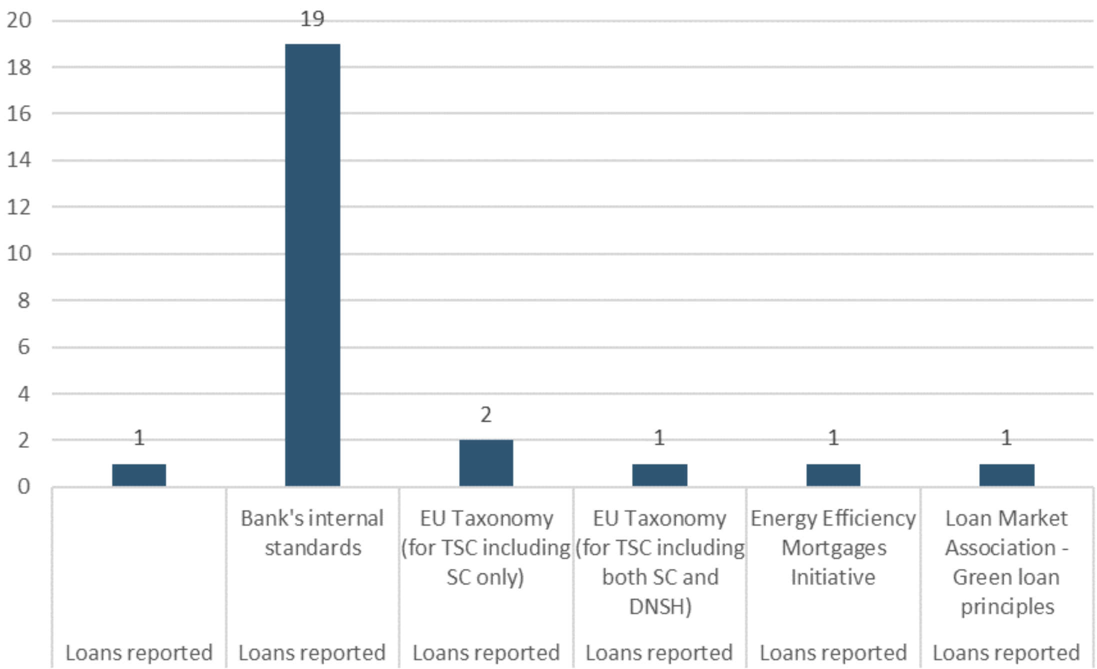

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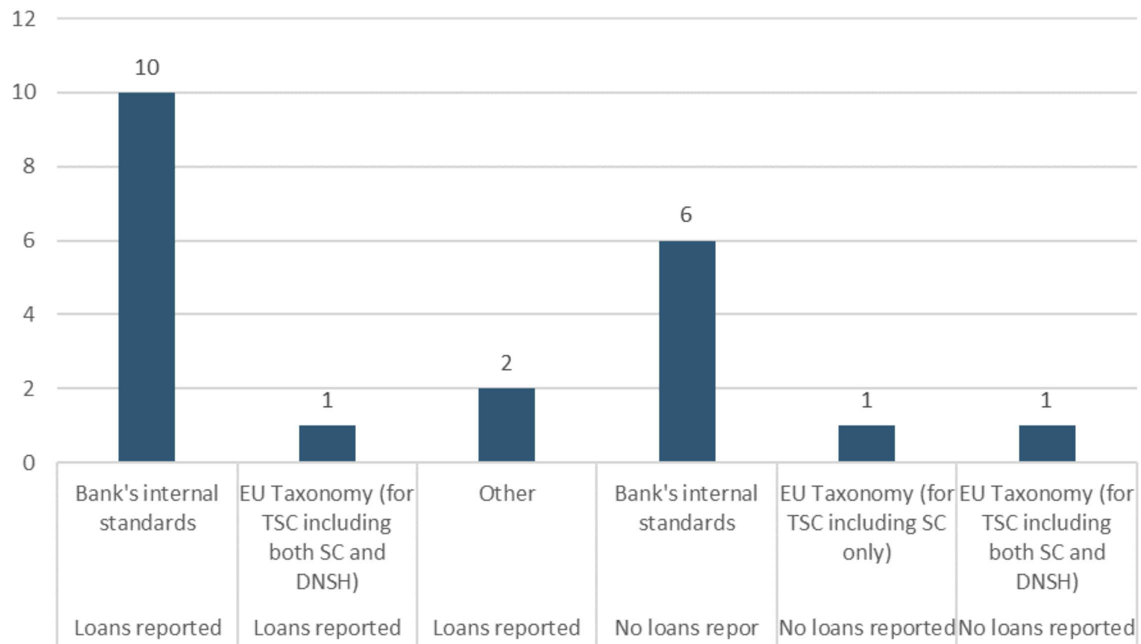

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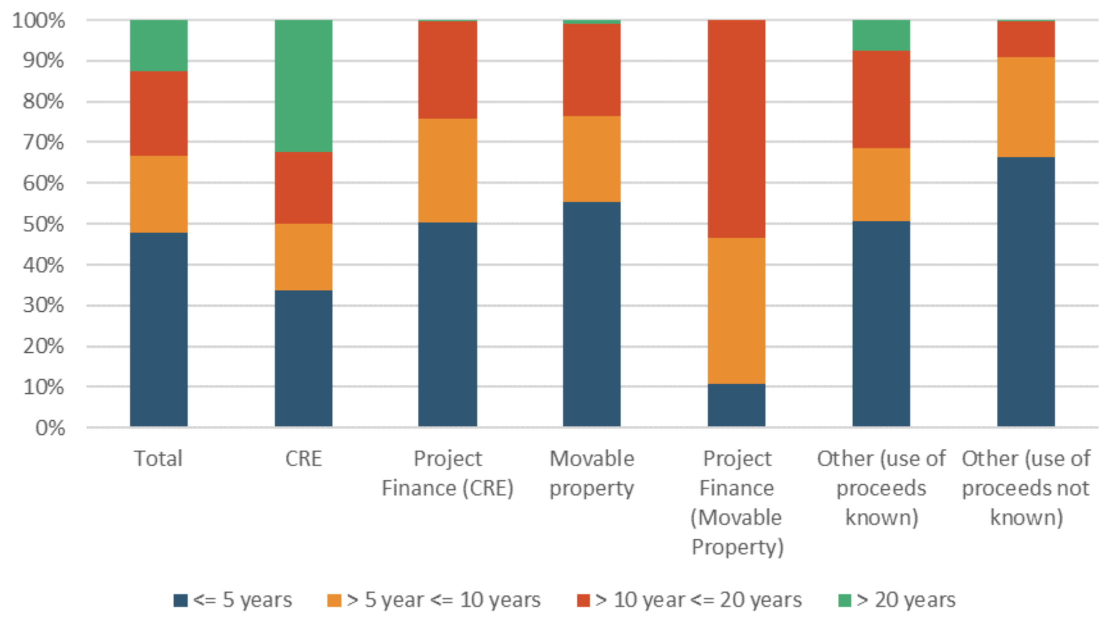

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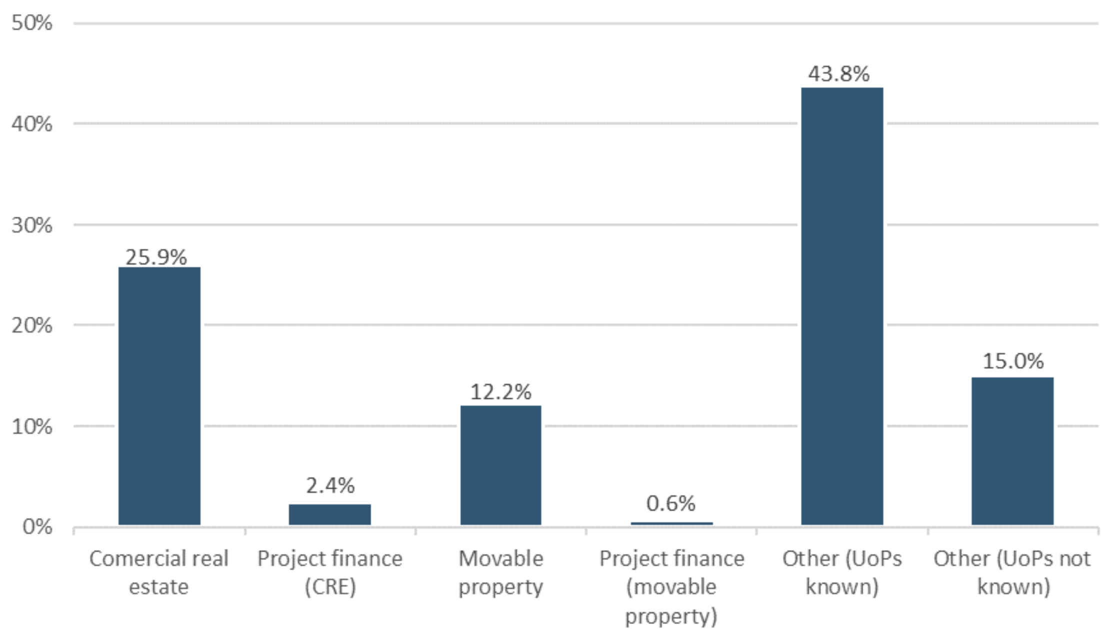

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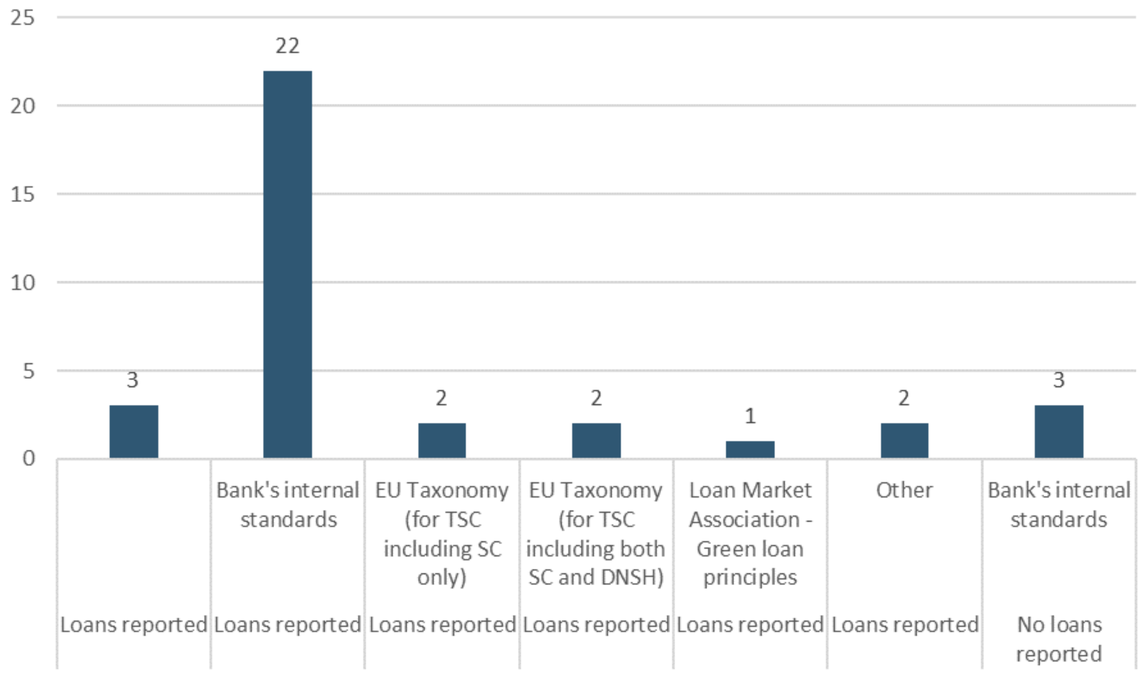

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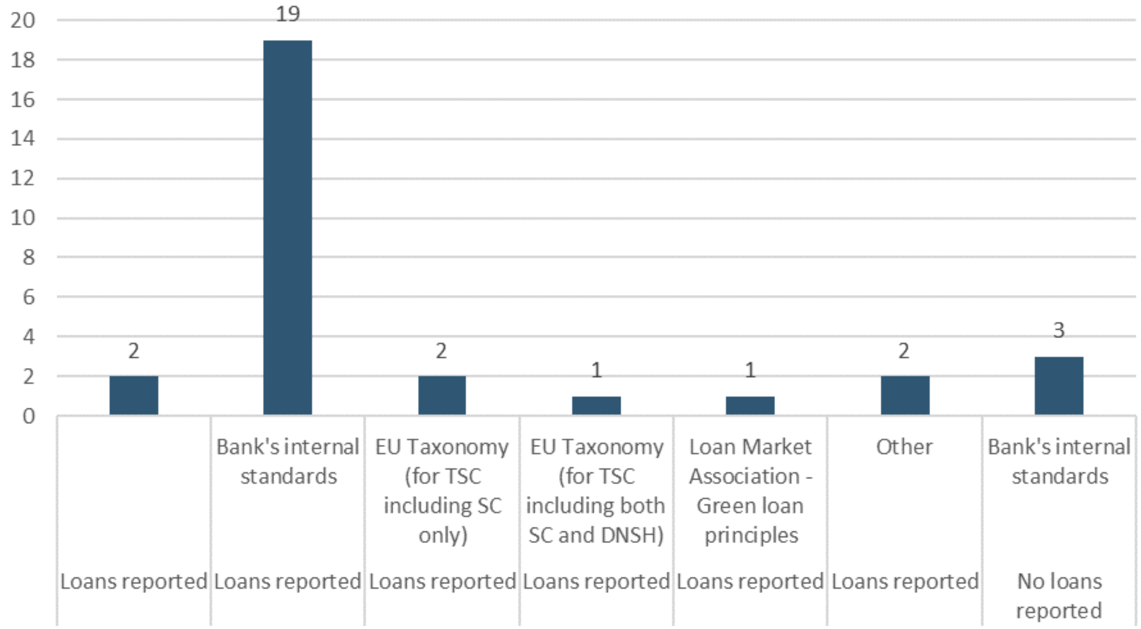

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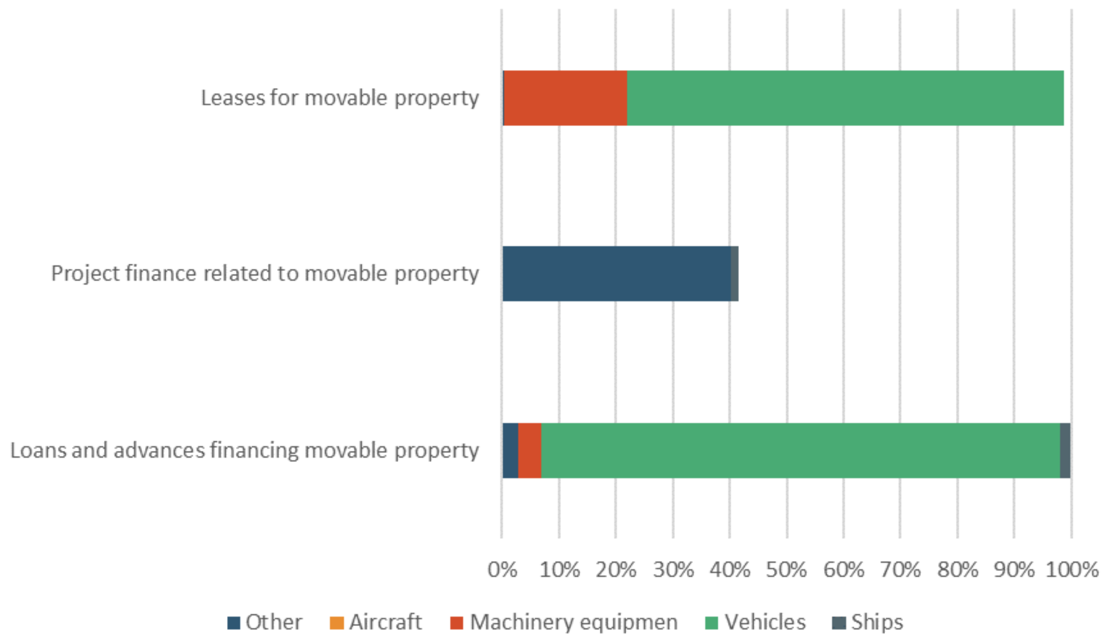

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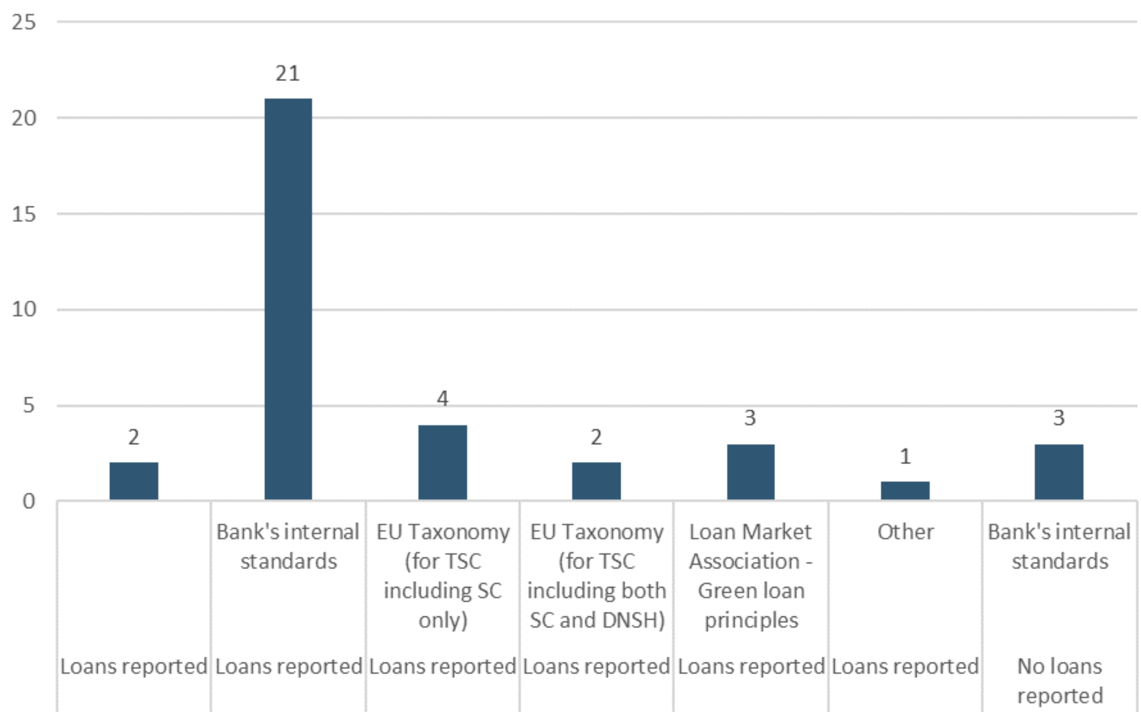

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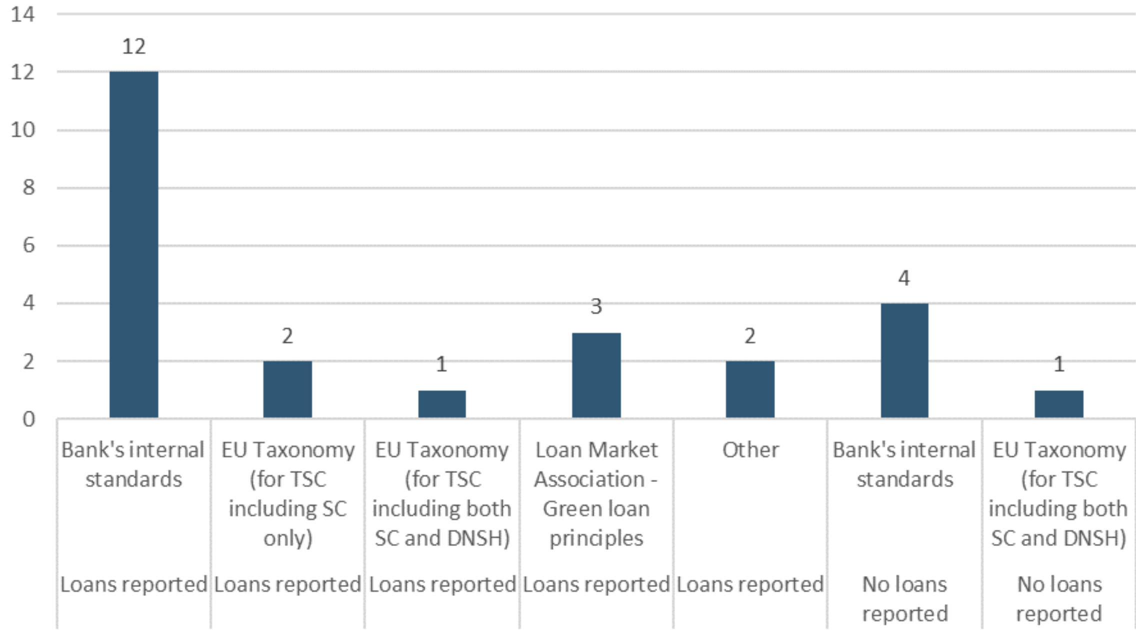

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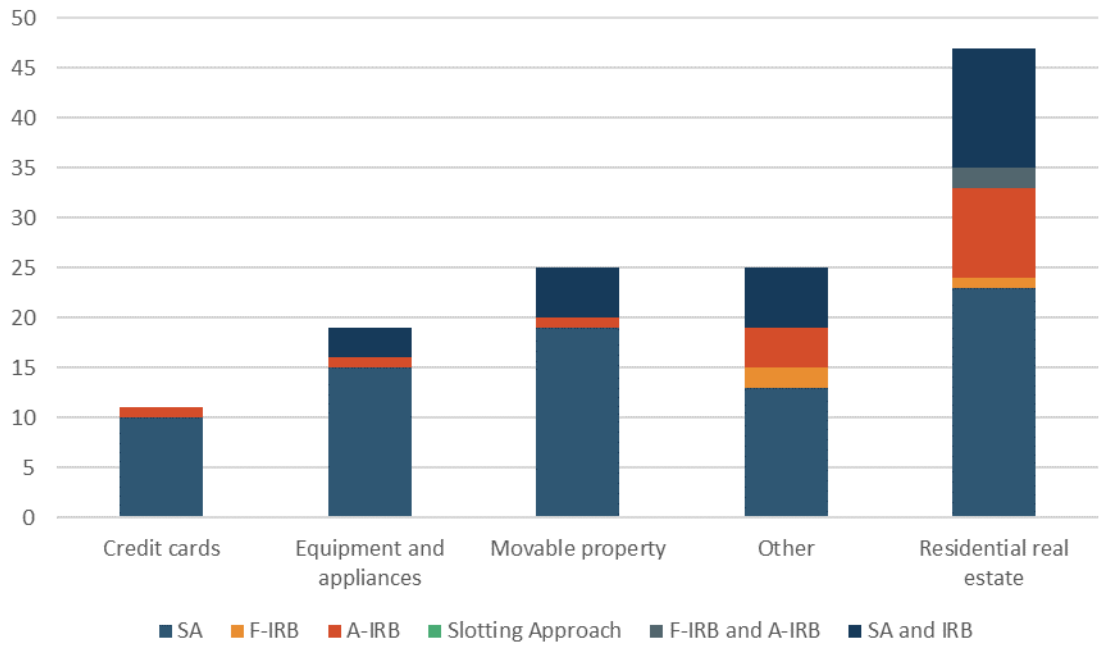

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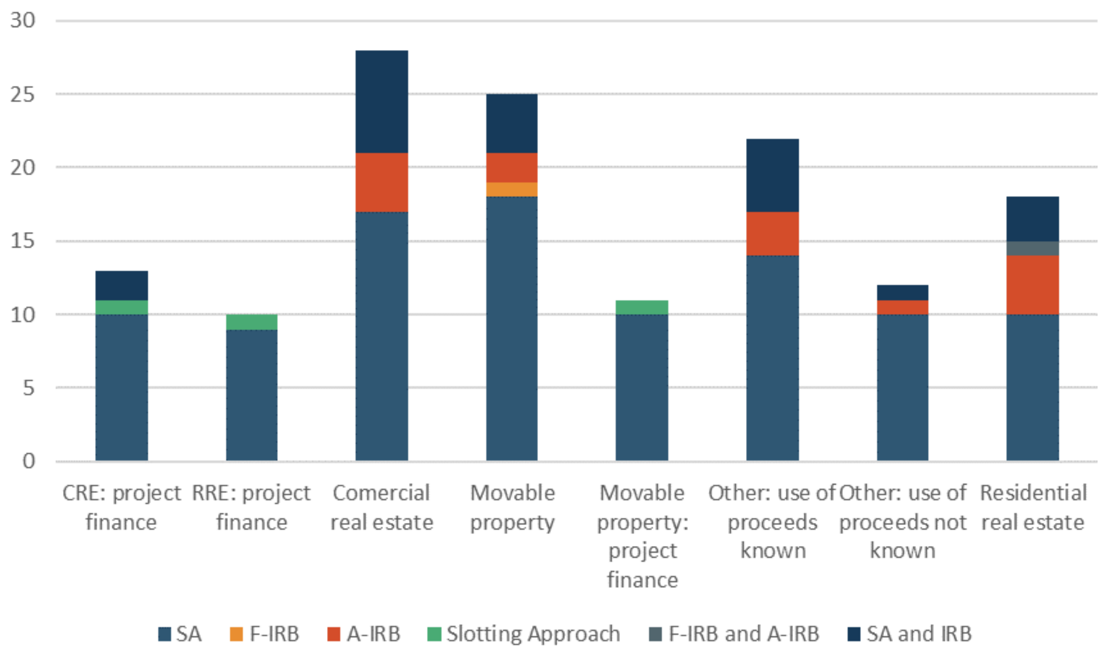

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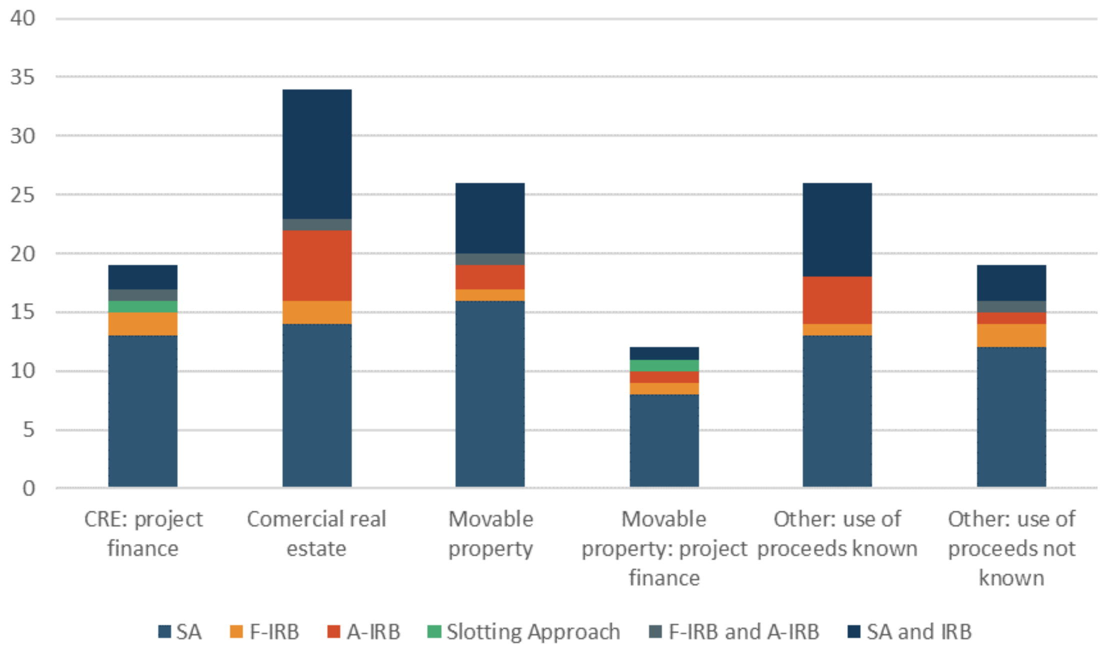

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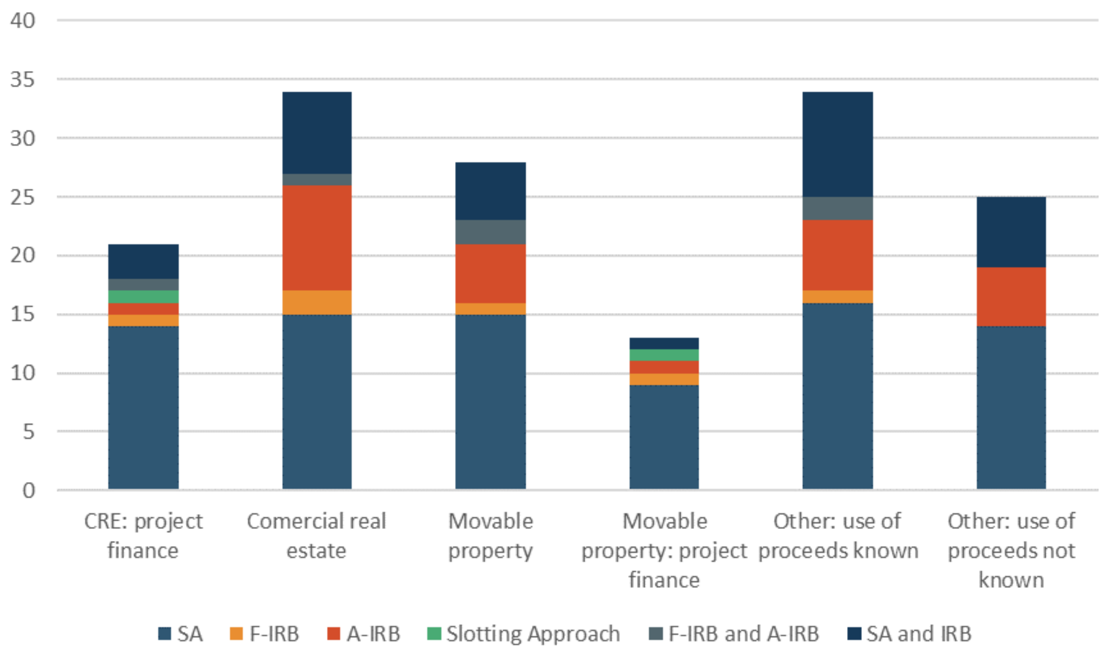

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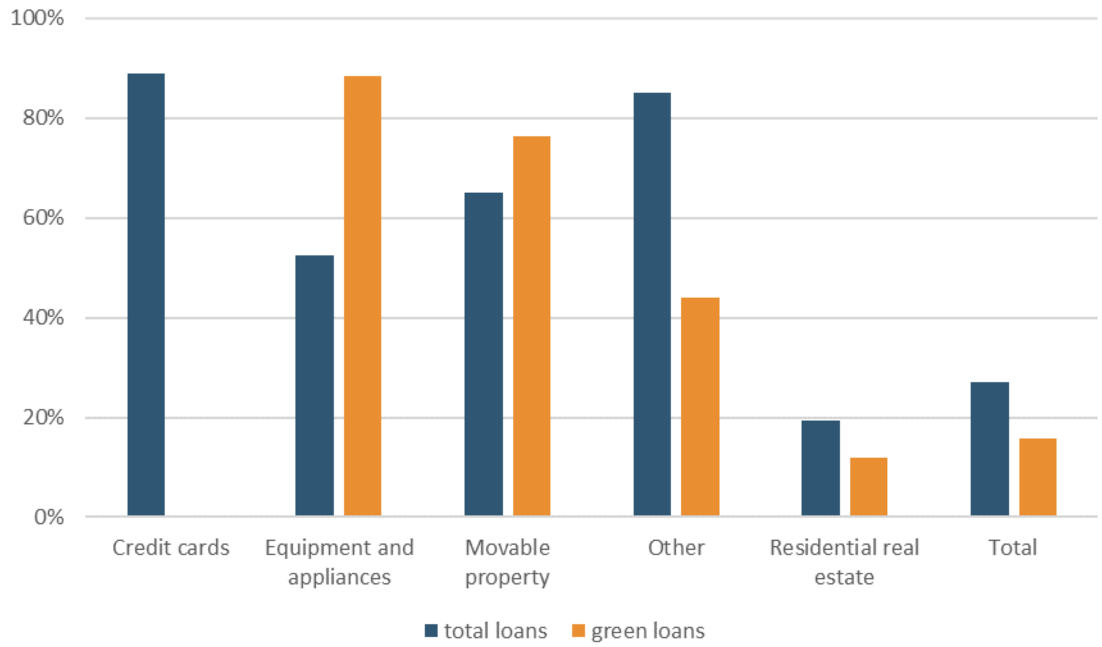

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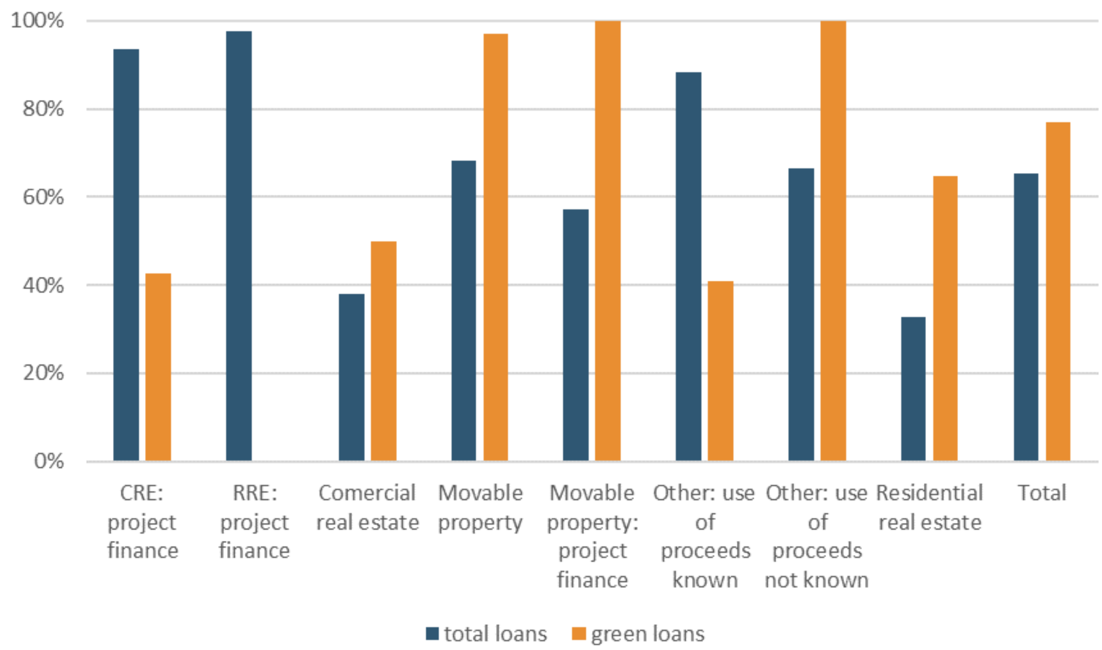

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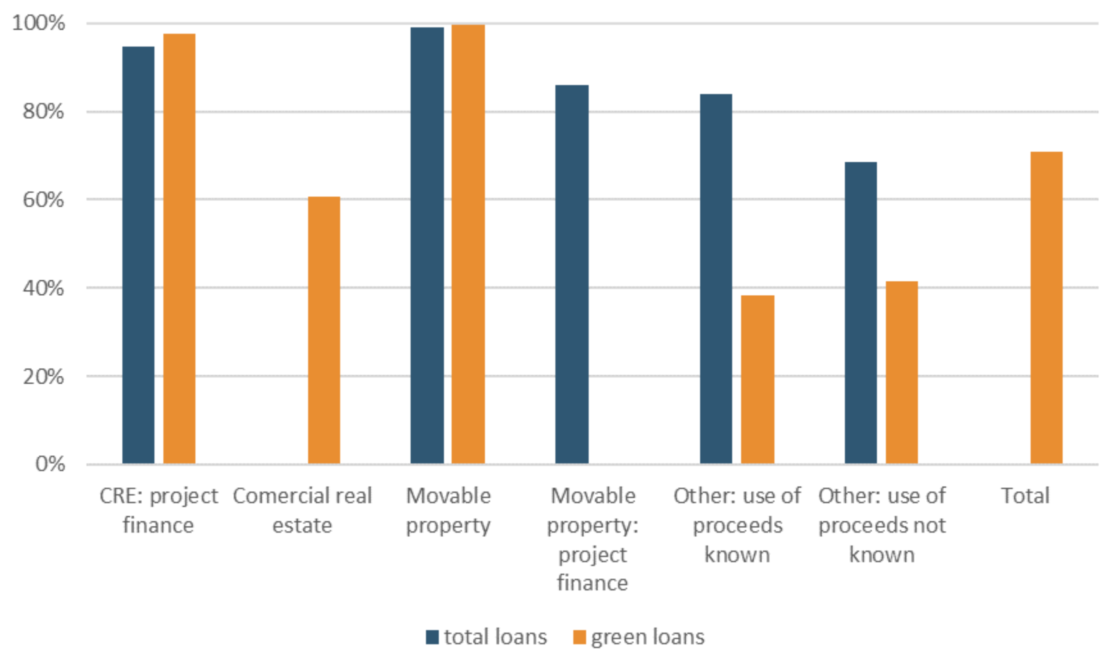

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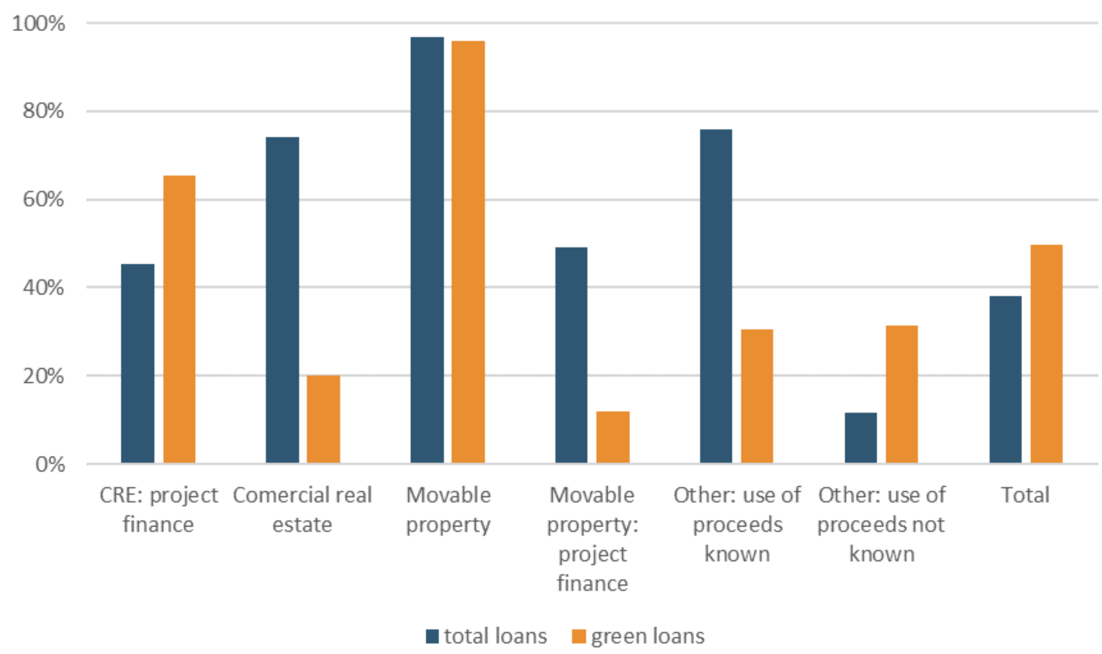

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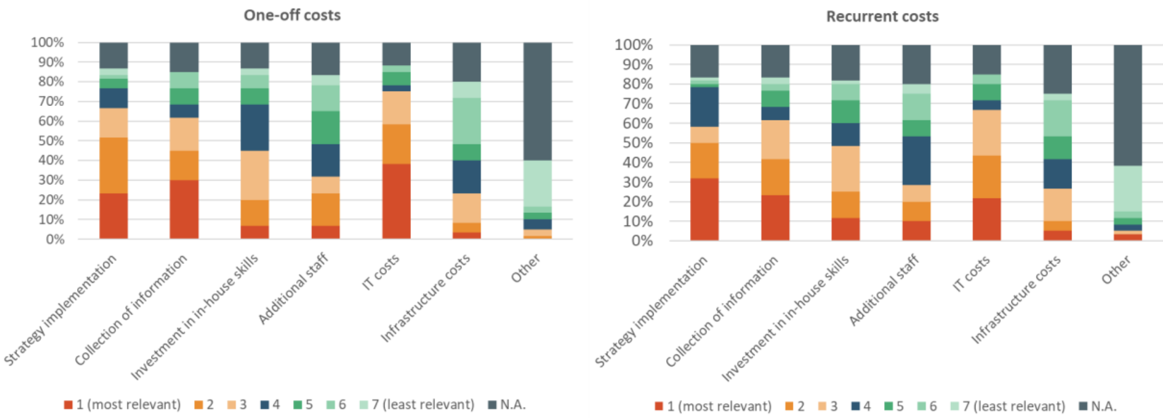

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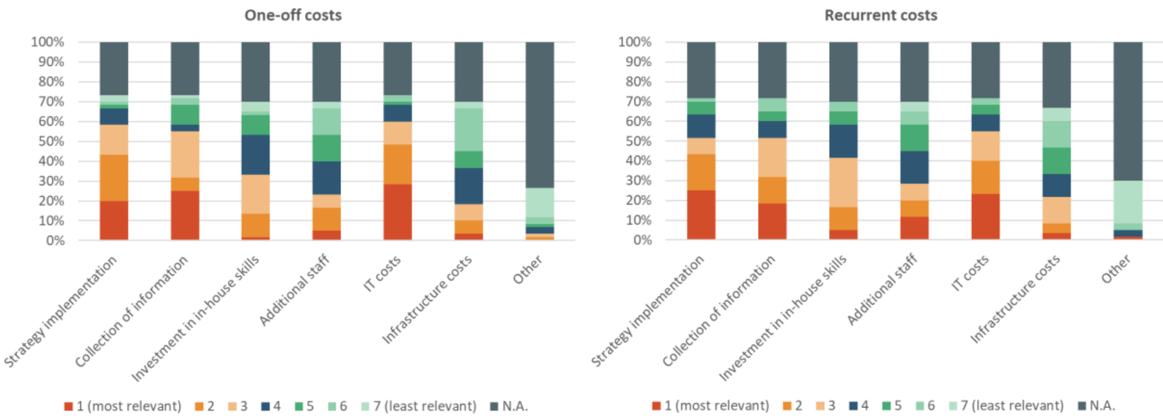

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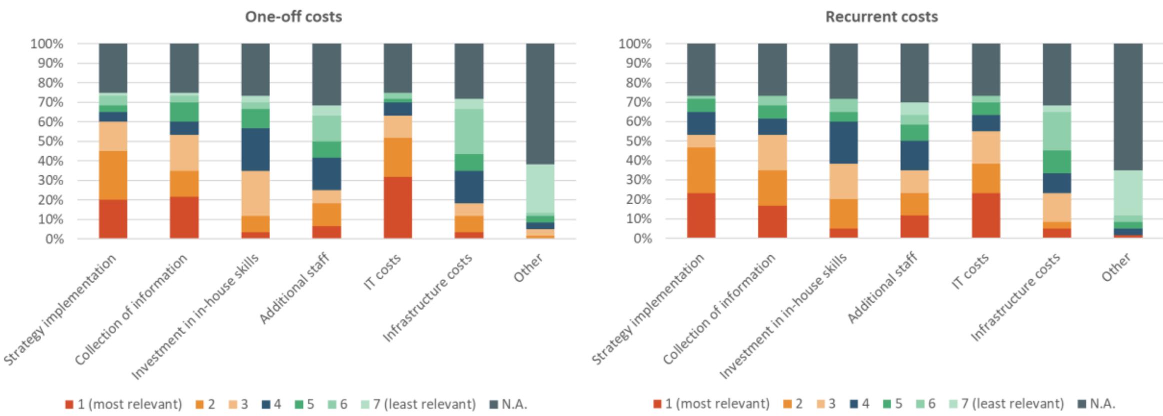

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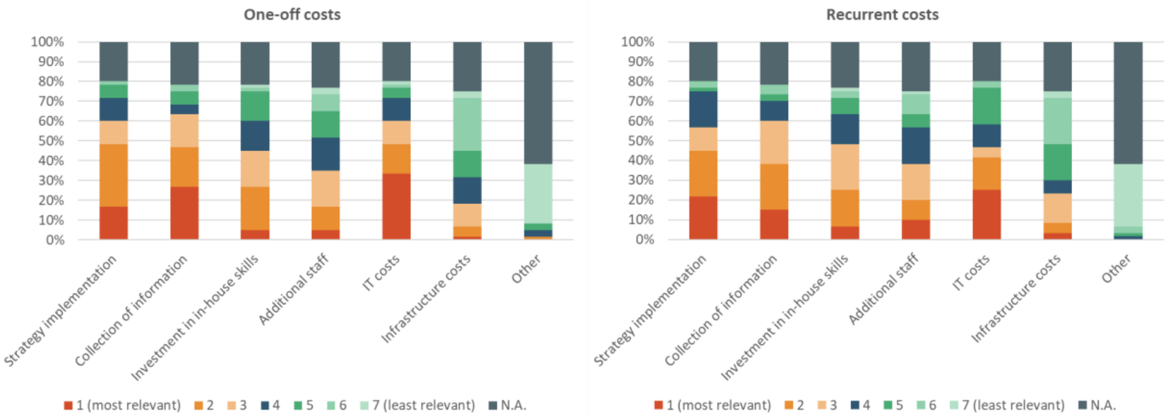

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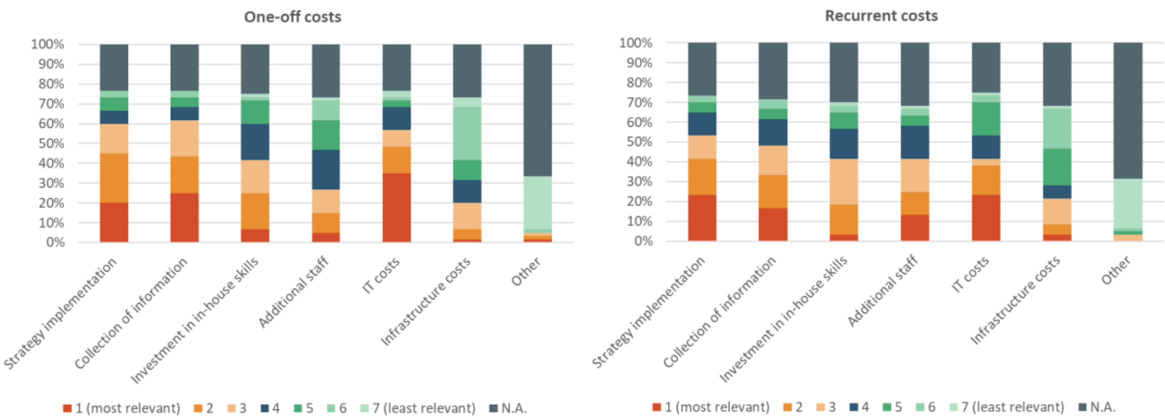

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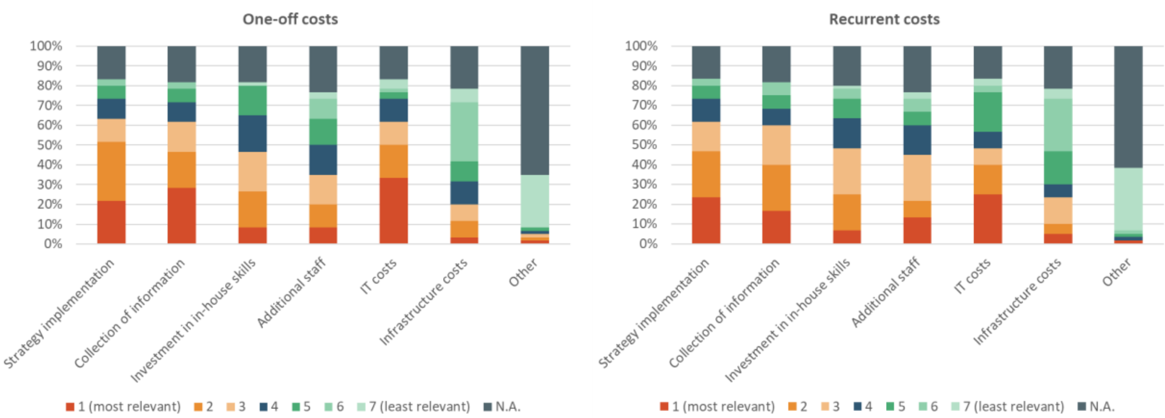

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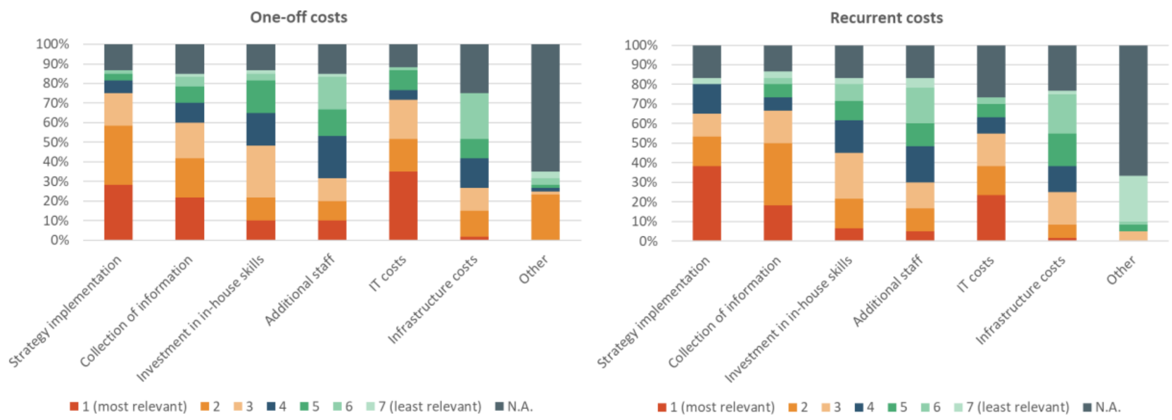

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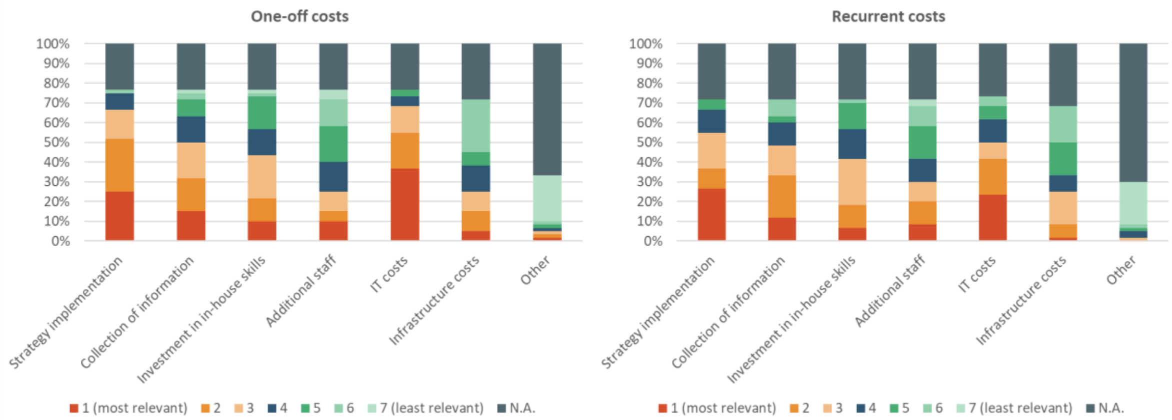

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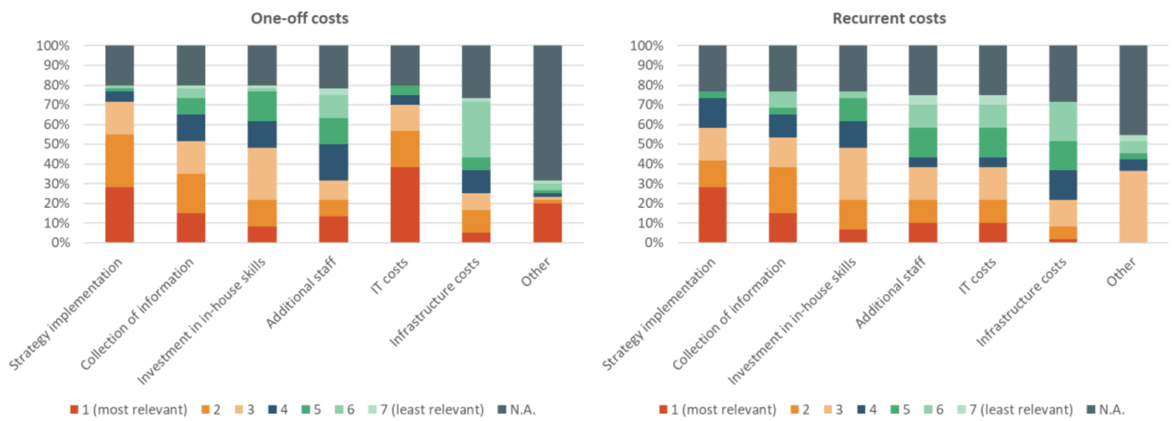

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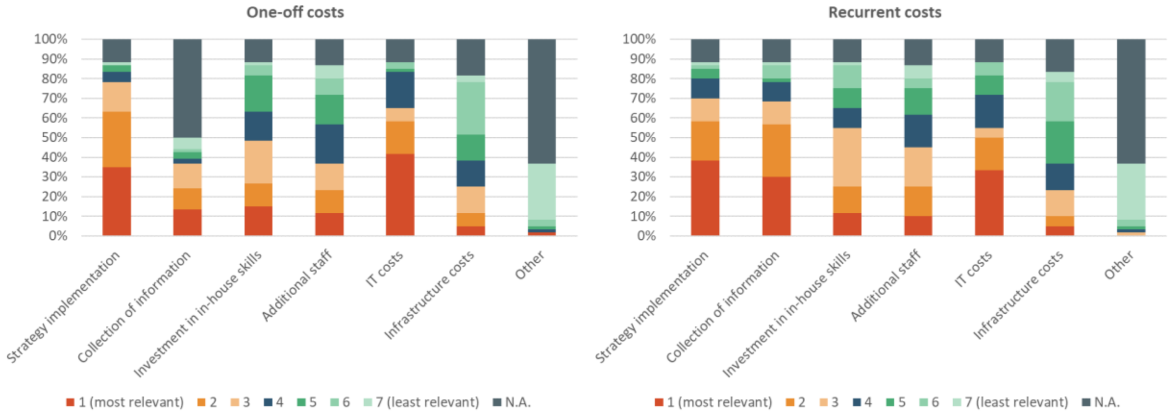

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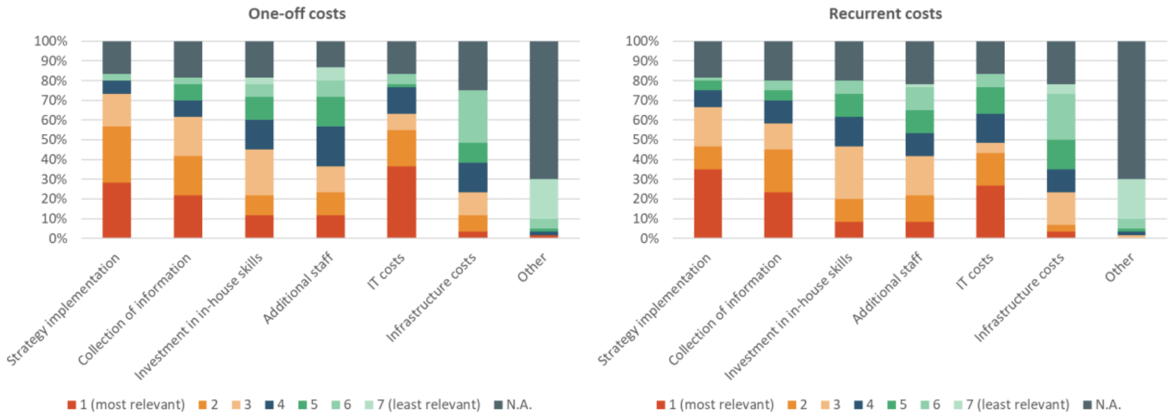

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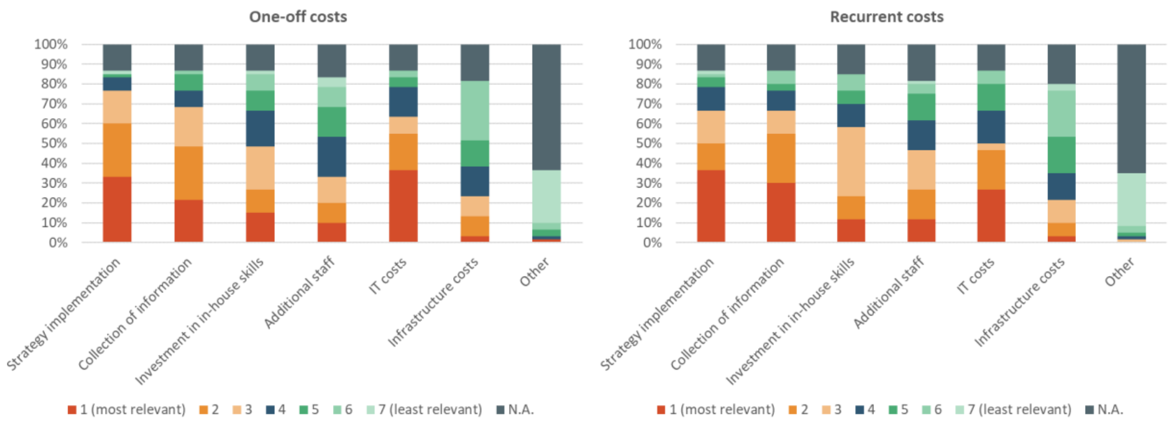

Question 5 Please provide further comments on the costs associated with green lending to households per loan type. (Free text) and Question 11 Please provide further comments on the costs associated with green lending to SMEs per loan type. (Free text)

While the costs associated with green lending towards households and those associated with green lending towards SMEs are investigated in different questions of the survey (Question 5 and Question 11, respectively), the responses reveal that credit institutions tend to differentiate green loans primarily by the specific features of the economic activities that these loans are financing rather than the type of borrower.

One-off and recurrent costs associated with setting up a green loan origination and monitoring process are reported to be non-negligible compared to those associated with non-green loans. Only few credit institutions consider these costs as relatively marginal.

Overall, credit institutions state that, in the absence of standardised processes, green loans are costly since they require ad-hoc evaluation and assessment of the green features of the asset or of the economic activity financed by the green loan.

Few credit institutions expect one-off and recurrent costs to increase for lending products as the regulatory framework evolves towards more stringent and granular technical requirements to identify sustainable economic activities. The same argument is also presented by other credit institutions regarding the applicability of the EU Taxonomy DNSH technical screening criteria. One credit institution considers the standardisation of green lending products (e.g., mortgages based on EPC labels) as an effective tool to reduce overall costs and integrate green lending in the existing internal origination and monitoring processes, thus supporting the issuance of green loans.

Credit institutions mainly refer to the following one-off costs for the origination and monitoring of green loans: designing the process, implementation and updating of the internal green finance framework, collection of information on the economic activity, setting up of an IT infrastructure, additional recruitment (including both recruitment of internal staff and external consultants), development of in-house expertise to screen the technical features of sustainable/green assets and activities, marketing of green lending products.

Credit institutions mainly refer to the following recurring costs: access to external databases and maintenance of in-house databases, additional recruitment (including external consultants, technical advisors and technical experts for due diligence), maintenance of IT systems and digital tools.

Question 14 Please provide further comments on the benefits associated with green lending for credit institutions. (Free text)

In addition to the options presented in question 13 of the questionnaire (see Figure 20 in the Report), credit institutions state that green loans have benefits for both institutions and borrowers.

Green loans help with established standardised rules for borrowers, e.g., manufacturers and sellers to report the parameters of products such aa cars, production equipment. This allows clear and quick path for identification of economic activities financed and build reporting database on certain metrics such as energy consumption and environmental impact. Similarly, it helps credit institutions in standardisation and digitalisation of processes for certain products such as cars.

It is also argued that green loans help credit institutions improve their risk profile by mitigating climate change-related and other environmental risks, improve the energy performance of mortgage / real estate portfolio, improve competitiveness, e.g., favourable margins and possibility of benefiting from financial support such as financial subsidies and guarantees, helping in issuing green bonds, creating business opportunities.

Similarly, credit institutions also mention that green loans have some benefits for their clients as they help them meet their (emission reduction or wider sustainability) strategies. Green lending can further establish a constructive dialogue between institutions and their clients on their activities in relation to climate change and sustainability and reaching environmental targets.

Few institutions emphasised that while green loans are important and support the transition, their role is limited. In markets, green loans are not as substantial as other products with a focus on transition such as sustainability-linked loans.

Question 24 Please elaborate on the potential benefits of a common EU green loan label for credit institutions. (Free text)

Credit institutions further elaborated on the benefits of a common EU label for green loans on following the options presented in question 23 of the questionnaire (see Figure 38 in Annex I of the Report).

Credit institutions recognise the potential benefits of a voluntary green loan label. Increasing the level of harmonisation, consistency and comparability, increasing transparency, accountability and level-playing field, mitigating the room for and risk of greenwashing, increasing market confidence and consumer protection, reducing cost of issuing loans, reducing due diligence cost are mentioned by various institutions. Some stated that they would be in favour of a pragmatic solution that simplifies the process and supports the markets. From this point of view, few institutions also expressed the potential benefits of such initiative especially for consumer loans and mortgages when supported by a harmonised energy efficiency rating regime, e.g., EPC, and related infrastructure such as an EU-level (or country-level) public register.

While institutions mention these potential benefits, some also emphasised that such initiative should not bring additional complex (regulatory) requirements into the framework and market, such as processes and reporting, and impose constraints on product offering. One institution highlighted the challenges related to the applicability of the Taxonomy screening criteria (especially the DNSH) and how these requirements can unintentionally exclude certain borrowers from the market. Also, another institution argued that for such initiative it should be ensured that the benefits outweigh the costs.

Some institutions highlighted that a common EU green loan label initiative should be designed in a way with a high degree of usability, clarity, and some degree of flexibility otherwise it risks having the opposite effect and be the cause of increased financial cost eventually for consumers. For this reason, it is mentioned that such initiative should be based on existing requirements and rules. The initiative should also take into account and complement industry standards that are widely used in markets. Some institutions also emphasised the need to recognise the importance of transition finance and related general-purpose loans in addition to proceeds-based green loans and added that supporting the market should go beyond the introduction of a green loan label, adding, for example, financial support.

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