

EBA/Op/2023/13

December 2023

Opinion of the European Banking Authority on green loans and mortgages

Introduction and legal basis

1. On 6 July 2021, the European Commission adopted a Communication ‘Strategy on Financing the Transition to a Sustainable Economy’ of July 2021¹ (Strategy). The Strategy aims to support the financing of the transition to a sustainable economy by proposing action in four areas: transition finance, inclusiveness, resilience and contribution of the financial system and global ambition. The Strategy was adopted as part of an ambitious and comprehensive package of measures to help improve the flow of funding towards financing the transition to a sustainable economy².
2. The Strategy announced the allocation of several tasks to the European Banking Authority (EBA). The tasks are allocated to the EBA in a next step through legal mandates in the Capital Requirements Regulation (CRR)³ and Capital Requirements Directive (CRD)⁴, and through calls for advice issued by the European Commission. Since the adoption of the Strategy, the EBA has been supporting the implementation of the tasks through the development of reports, opinions, guidelines and analyses. These are contributing to ensuring that the objectives of the Strategy are fulfilled.
3. The Strategy announced the European Commission’s intention to request for an opinion from the EBA on green retail lending. To this end, on 22 November 2022, the EBA received a call for advice⁵ (CfA) from the European Commission to provide an opinion on the definition and possible supporting tools for green loans and green mortgages targeting retail borrowers and small and medium-sized enterprises (SMEs).

¹ Communication from the Commission ‘Strategy for Financing the Transition to a Sustainable Economy’ (COM/2021/390 Final)

² In addition to the Communication, the package also includes Commission proposal for a standard for European green bonds and delegated act supplementing Article 8 of the Taxonomy Regulation.

³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 OJ L 176, 27.6.2013, p. 1–337).

⁴ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions (OJ L 176, 27.6.2013, p. 338–436).

⁵ European Commission – Request for advice to the EBA regarding green loans and mortgages ([link](#)). EBA Call for Advice on Green Loans and Mortgages ([link](#)).

4. In the CfA, the EBA is asked to carry out the following tasks:
 - provide an overview of the green loans market and existing market practices based on interactions with the industry and the supervisory community;
 - propose specific features for a voluntary EU definition of green loans based on the Taxonomy and its disclosure requirements;
 - identify and assess potential legislative and non-legislative measures to encourage and facilitate the uptake of green loans by retail borrowers based on the Taxonomy and stimulate the origination of such assets by credit institutions; and
 - assess the merits of further specifying loan origination process requirements for credit institutions with the aim, on the one hand, to facilitate the development of the green loans market and their origination, and on the other hand, to safeguard credibility and consumer protection in the green retail loan market, while ensuring usability and proportionality.
5. This Opinion, and the report attached to it, is the EBA's response to the European Commission's CfA on green loans and mortgages. In developing the response, the EBA has been guided by the general objectives and tasks set out in Article 1(5) of the EBA Regulation⁶, which is to contribute to a sound, effective and consistent level of regulation and supervision, preventing regulatory arbitrage and promoting equal conditions of competition, ensuring risks are properly regulated and supervised, and enhancing consumer protection.
6. The EBA competence to deliver an opinion is based on Article 16a (4) of Regulation (EU) No 1093/2010⁷, as the EBA may, upon request, provide technical advice to the European Commission on the topics related to its area of competence.
7. In accordance with Article 14(7) of the Rules of Procedure of the Board of Supervisors⁸, the Board of Supervisors has adopted this Opinion which is addressed to the European Commission.

⁶ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority) amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

⁷ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority) amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

⁸ Decision adopting the Rules of Procedure of the European Banking Authority Board of Supervisors of 22 January 2020 (EBA/DC/2020/307).

General comments

8. The EBA welcomes the opportunity to provide input to the European Commission's implementation of the Strategy.
9. The EBA has observed that with the implementation of effective policy and regulatory initiatives at the EU since the adoption of European Green Deal⁹ in 2020 and then the European Climate Law¹⁰ in 2021, credit institutions have started to consider climate-related risks in their risk assessment and management, and put their efforts into channelling required funding for the transition to a sustainable economy. However, green loans are still a small part of credit institutions' total assets and access to sustainable finance, and in particular to green loans, remains limited for retail borrowers and SMEs.
10. To this end, the Opinion delivers on the specific requests of the European Commission in the CfA and presents analyses and recommendations to provide input for future policy formulation to empower retail borrowers and SMEs to access sustainable finance opportunities.
11. The Opinion is based on and complements the ongoing work of the EU sustainable finance framework, in particular under the Taxonomy Regulation¹¹ and other related sustainable finance policies and tools such as the European Green Bond Standard¹².
12. The EBA observes that credit institutions' green loans to households and SMEs remain limited. In most cases, credit institutions' green loans to households finance the purchase of high energy performance buildings, while green loans to finance renovation of buildings with relatively lower level of energy efficiency performance is limited. Similarly, green loans for retail SMEs are on average marginal on credit institutions' balance sheets.
13. The analysis shows a lack of comparability and fragmentation in markets for green loans in the absence of guidance, as well as a common definition and rules. Credit institutions mostly rely on their internal standards and criteria. The European Union (EU) Taxonomy and related technical screening criteria are used by credit institutions where possible and, in most cases, are limited to the substantial contribution criteria of the environmental objective of climate change mitigation.
14. The EBA is of the opinion that the introduction of a common definition and rules on credit institutions' green lending in light of regulatory initiatives in the EU sustainable finance framework would provide clarity in markets both for credit institutions originating green loans

⁹ COM (2019) 640 final – Communication from the Commission – The European Green Deal ([link](#)).

¹⁰ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') ([link](#)).

¹¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13–43).

¹² Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds (OJ L 2023/2631, 30.11.2023).

and borrowers using the proceeds of these loans. As such, a common definition with standardised criteria would also ensure a level playing field for the credit institutions and adequate consumer protection for the borrowers involved.

15. The EBA advises the European Commission to introduce a voluntary green loan definition based on the EU Taxonomy. The EBA is of the opinion that such a definition should mirror the features of the framework implemented for green bonds under the European Green Bond Standard and be consistent with the Taxonomy disclosure requirements.
16. In the formulation of a green loan definition, the EBA also emphasises the need to recognise the actions taken by financial and non-financial market participants in order to improve the sustainability features of existing economic activities that perform poorly from an environmental perspective and minimise their environmental harm, so to contribute to environmental objectives of the EU. To this end, while a common definition of green loans can be based on the EU Taxonomy, it is important for the overall sustainable finance framework to recognise and accommodate market participants' efforts in contributing to the environmental objectives of the EU, without necessarily aligning with the technical screening criteria of the EU Taxonomy in the first place.
17. Accordingly, the EBA recommends that the European Commission consider options to provide additional guidance and effective tools such as a voluntary EU green label to support the market for green loans, consistent with other relevant developments, such as the recast Energy Efficiency Performance of Buildings Directive (EPBD)¹³. As part of such framework for green loans, simplified rules and proportionality in the application of the EU Taxonomy should be considered in order to facilitate the access to sustainable finance particularly for SMEs.
18. Furthermore, the EBA is of the view that, in the context of a market for green loans and mortgages, consumers should be provided with adequate advice on the procedures to follow and enhanced quality information at every stage of the contractual relationship with prospective borrowers, starting from the quality of information provided during marketing and advertising, as well as pre-contractual information.
19. To this end, the EBA also advises the European Commission to consider integrating the concept of green loans and mortgages in regulation such as the MCD, based on the advice presented in the Opinion.
20. It is also important for the European Standard Information Sheet (ESIS) as Annex II to the Mortgage Credit Directive (MCD)¹⁴ to include references to the sustainability features of the credit product, in particular to the Energy Performance Certificate (EPC) of residential immovable property securing the loan. Such an introduction would improve the adequateness

¹³ COM/2021/802 final - Proposal for a Directive of the European Parliament and of the Council on the energy performance of buildings (recast) ([link](#)).

¹⁴ Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 (OJ L 60, 28.2.2014, p. 34 – 85).

of the information provided already at pre-contractual phase to the prospective borrowers, for them to have a clearer understanding of the transaction and facilitate comparison among different (green) mortgage offers.

21. The EBA is of the opinion that such an initiative providing effective incentives for the uptake of green loans is one that is linked to certain conditions. As such, an EU green label for loans could be beneficial if it is identified, in addition to its green credentials, with loans providing certain incentives for borrowers (and lenders). For example, such a tool should be cost-effective and could be embedded in existing or future financial support schemes to reduce the cost of borrowing and incentivising the uptake of green loans especially for households and SMEs. Also, a loan with an EU green label should provide and be associated with necessary information and transparency for prospective borrowers, such as on long-term benefits of investing in energy-efficient solutions, documentation requirements and availability of certain financial support schemes for such an investment.

Specific comments

Common definition for green loans

22. The EBA sees the need for a clarification of what constitutes an economic activity financed by a green loan and setting out an EU definition for green loans.
23. Such definition for green loans should leverage, as much as possible, current market practices and industry standards that are in line with the EU's environmental objectives where the determinant element of a green loan is the utilisation of loan proceeds.
24. In the formulation of a green loan definition, the EBA sees the benefit in linking the economic activities, where the green loan proceeds are allocated, to the EU Taxonomy technical screening criteria.
25. While the EU green loan definition should be based on the EU Taxonomy, at the current stage of the transition and until markets reach a certain level of maturity, the policy initiative should also take into account market participants' efforts that contribute to environmental objectives based on available market standards, other than those specified in the EU Taxonomy.

Green loan label

26. The EBA is of the opinion that the European Commission should consider various options to support markets for green loans with dedicated evidence-based assessment and cost-benefit analysis. These options should include at a minimum:
 - a. a recommendation to formulate a conceptual framework on green loans without introducing a specific green label, but based on the green loan definition, in order to provide a foundation for green loan agreement including process and transparency

rules between credit institution (or lender that is not a credit institution) and prospective borrower; or

- b. a legislative initiative to introduce a voluntary label for EU green loans encompassing the definition of a green loan based on the EU Taxonomy and related process requirements, similar to the one proposed for EU green bonds, which credit institutions (and other lenders that are not credit institutions) should follow, if they decide to obtain such a label voluntarily.
27. A green label based on the above-mentioned legislative initiative could follow a tiered approach including two tiers. The first tier would categorise loans, the proceeds of which are allocated to economic activities in line with the EU Taxonomy and its technical screening criteria, at the point of origination of these loans. The second tier would cover loans where the proceeds are not aligned with the technical screening criteria of the EU Taxonomy at the point of origination, but allocated to an economic activity with a dedicated transition purpose¹⁵ and towards the environmental objectives of the Taxonomy Regulation, for example as formulated in Commission Recommendation (EU) 2023/1425. Such a solution including a second tier could be time-limited and subject to review until the markets reach a certain level of maturity and the data availability and quality improve.
 28. For an effective initiative, the policy framework should investigate the recognition and incorporation of such an EU label in existing or future financial public schemes for green loans in the EU.
 29. In addition to the proceeds-based approach for green loans, the policy framework could further investigate a transition-specific approach with a focus on other general-purpose loans as part of transition finance such as sustainability-linked loans.
 30. Subject to the European Commission's request, the EBA could repeat a similar industry survey to assess market developments on green loans and mortgages. The findings of the industry survey could support the European Commission in future policy formulation.
 31. Subject to the European Commission's request, the EBA could carry out an ex-post evaluation and monitoring of the policy intervention, e.g. in the form of introducing a common label for green loans and mortgages. The findings of the industry survey could support the European Commission in future policy formulation.

Integration of green mortgages in MCD

32. The EBA recommends that, as part of its review, the MCD integrate the concept of green mortgages, e.g. its key sustainability features such as energy performance, consistent with the overall policy framework on sustainable finance.

¹⁵ Such as loans to upgrade assets or make new investments that will enable low carbon production or significantly improved environmental performance.

33. In the review of the MCD, the EBA recommends the introduction of the information related to the sustainability features of residential immovable property securing the loan. This should include, at a minimum, the EPC of the asset in order to establish, where applicable, a potential link between the EPC and the financial terms of the offer, as part of Annex II of that Directive.
34. In the review of the MCD, the EBA recommends further considerations to include additional requirements for staff on competence and knowledge related to green mortgages in Annex III of that Directive.
35. Subject to the European Commission's request and as part of the future review of the recast Consumer Credit Directive (CCD)¹⁶, the EBA may assess credit institutions' and potentially other non-bank lenders' green loans in the context of this Directive and propose further considerations for the integration of sustainability features in its scope.

More detailed advice and the specific background are set out in the report attached to this Opinion.

This Opinion will be published on the EBA's website.

Done at Paris, 15 December 2023

[signed]

José Manuel Campa
Chairperson
For the Board of Supervisors

¹⁶ According to Article 46(1) (c) of the recast CCD.