

Call for advice to the European Banking Authority on green loans and mortgages

The EU laid the foundations of a sustainable finance framework under its 2018 Action Plan on Financing Sustainable Growth with the aim to increase the flow of private capital into sustainable investments.

In its ‘Strategy on Financing the Transition to a Sustainable Economy’ (the Strategy) of July 2021 the Commission outlined four policy areas in which further work is needed. One of the four policy areas is dedicated to a more inclusive sustainable finance framework, allowing households and Small and Medium Enterprises (SMEs) to access sustainable finance. In this respect, the Strategy highlighted the need to develop measures to support the uptake of sustainable financing by households and SMEs, for instance through green loans and mortgages¹.

Households and SMEs can play an important role in transforming the economy by accessing sustainable finance. For example, green loans can help households and SMEs improve the energy performance of their buildings, change towards environmentally-friendly heating sources for these buildings or switch to zero emission vehicles.

The market for green retail loans and mortgages is developing, based on a range of market practices, and credit institutions are starting to apply and test the EU Taxonomy as a basis for originating retail green loans, including mortgages.

The Strategy announced the Commission’s intention to request advice from the European Banking Authority (EBA) on green retail lending. The advice from the EBA should provide an overview of current market practices and the prevalence of green loans in the banking market, propose and consider the merits of an EU definition of green loans and mortgages, and consider measures to encourage the uptake or access to green finance by retail and SME borrowers. Further detail on these elements is provided in the below sections.

The EBA’s advice will allow the Commission to consider measures to encourage the development of the green loans and mortgages market.

The advice is requested to be delivered until 29 December 2023.

Background and context

The request to the EBA is based on and complements the ongoing work of the EU sustainable finance framework, in particular under the EU Taxonomy Regulation² and other related sustainable finance policies and tools such as the European Green Bond Standard proposal currently under negotiation.

The EU Taxonomy sets criteria for determining whether an economic activity qualifies as sustainable for the purposes of establishing what are sustainable investments. In particular,

¹ This action is distinct from the Strategy’s actions that aim to identify, price and reduce financial risks in the financial sector.

² 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 (Text with EEA relevance).

the Taxonomy criteria are the reference for screening investments to establish a Green Asset Ratio in the Taxonomy Disclosures Delegated Act. Likewise, the Commission proposal for a Regulation on European Green Bonds (EuGB)³, a voluntary standard for green bond issuers (including credit institutions), requires the full alignment of the use of proceeds with the EU Taxonomy.

The EU Taxonomy should therefore serve as one of the tools and reference points for credit institutions to define green loans, with Taxonomy criteria relevant from a retail lending perspective notably already included in the Climate Taxonomy Delegated Act adopted in June 2021⁴ and a forthcoming Delegated Act covering the four remaining environmental objectives.

To support the implementation of the EU Taxonomy and its usability, including for loan origination, the Commission will continue to provide guidance and legal interpretations with the support of the ESAs and the Platform on Sustainable Finance. While the Green Asset Ratio disclosure requirement currently does not include SME exposures in its numerator as specified in the Taxonomy Disclosures Delegated Act⁵, other retail loans, including mortgages, are covered by this disclosure requirement already. This creates a link between credit institutions originating and disclosing green loans based on the EU Taxonomy as part of the Green Asset Ratio. An assessment will be conducted by the Commission on whether and how to include SME exposures in the Taxonomy disclosures of credit institutions, as part of a review of the Taxonomy Disclosures Delegated Act until 2024. The review will be informed by studies commissioned by the European Commission⁶, dedicated to usability aspects as well as costs and benefits of reporting under the EU Taxonomy from a SME point of view. An impact assessment with regard to the costs and benefits of including SMEs in the reporting scope of credit institutions will also be conducted.

The advice should include considerations of other ongoing regulatory initiatives, such as the proposal for a Directive on Empowering Consumers for the Green Transition⁷, the Commission proposal repealing and replacing the Consumer Credit Directive (2008/48/EC) adopted in June 2021 and a proposed recast of the Energy Efficiency

³ Proposal for a Regulation of the European Parliament and of the Council on European green bonds, COM/2021/391 final

⁴ Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (Text with EEA relevance)

⁵ Article 7 of the Taxonomy Disclosures Delegated Act under Article 8 of the Taxonomy Regulation. (Commission Delegated Regulation (EU) 2021/2178)

⁶ One study will focus on usability of the Taxonomy criteria for potential reporting by SMEs, and a second study will focus on SME access to sustainable finance more broadly.

⁷ Under this proposal, it would be prohibited to advertise a retail loan to a consumer as a 'green loan', without providing a further specification of this generic environmental claim in clear and prominent terms on the same medium, unless excellent environmental performance can be demonstrated.

Directive⁸ and the Energy Performance of Buildings Directive⁹ in December 2021 which are now being discussed by the co-legislators¹⁰. Moreover, the Commission is conducting a review of the Mortgage Credit Directive (2014/17/EU). The advice could build on and should be consistent with the work carried out for the call for advice to the ESAs on the monitoring of greenwashing risks launched on 24 May 2022.

Finally, the request complements the call for advice on the review of the Mortgages Credit Directive (MCD) sent to the EBA on 21 December 2021 which already included a specific question on possible ways to encourage the uptake of green mortgages at EU level, and on whether climate-change related risks to properties used to secure loans should be taken into consideration in credit institutions' credit worthiness assessment when offering mortgage loans. The EBA's opinion was received on 23 June 2022 and informed that the advice related to green mortgages in the context of the MCD review would be incorporated in this mandate on green retail loans and mortgages more generally.

This Call for Advice is not aiming at and should not overlap with the current Capital Requirements Regulation (CRR) mandate (Article 501c) for the EBA to report a range of options for integrating environmental, social and governance factors in the prudential treatment of exposures, and the potential short, medium and long-term effects on financial stability and bank lending in the Union of such dedicated prudential treatment of exposures related to environmental, social and governance factors across assets and activities. According to the 2021 banking package proposal¹¹, EBA is expected to submit the latter report to the European Parliament, to the Council and to the Commission by 28 June 2023.

Scope of the request

The advice should cover the most relevant types of green loans originated by credit institutions in the EU, including loans with environmental sustainability features, green mortgages and, where applicable, loans based on the Taxonomy and its six environmental objectives¹². To reflect the emphasis on inclusiveness, the advice should focus on loans directed at retail borrowers, such as households and SMEs. For the purpose of this request,

⁸ COM(2021) 558 final - Proposal for a Directive of the European Parliament and of the Council on energy efficiency (recast)

⁹ COM(2021) 802 final - Proposal for a Directive of the European Parliament and of the Council on the energy performance of buildings (recast)

¹⁰ The Commission proposals to revise the Energy Efficiency Directive and the Energy Performance of Buildings Directive envisage to request Member States to promote the roll-out of energy efficiency lending products, such as green loans and green mortgages. The goal is that Member States create conditions for energy efficiency lending products to be offered widely and in a non-discriminatory manner by financial institutions and are visible and accessible to consumers. See also relevant reports of the Energy Efficiency Financial Institutions Group available through <https://data.europa.eu/doi/10.2833/532126>.

¹¹ [Banking Package 2021 \(europa.eu\)](https://europa.eu/banking-package-2021).

¹² Climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, the protection and restoration of biodiversity and ecosystems

green retail loans therefore include green mortgages and other loans with environmental sustainability features to both households and SMEs.

Emphasis should be placed on new green loans' origination, but considerations should be included on how already originated loans could later become part of the green asset stock of a credit institution disclosed under the Green Asset Ratio of the Taxonomy Disclosure Delegated Act, and in line with this Delegated Act's provision on SMEs.

The advice should include regulatory and legislative measures, for instance related to establishing an EU definition of green loans based on the Taxonomy, the loan origination process, pre-contractual information and advice to the borrower, necessary information by the credit institution, advertising, product governance and consumer protection. The advice could also cover other non-regulatory measures such as those improving the provision of information, training tools, access to data or technical guidance. They should be supported by an assessment of the related administrative burdens and benefits of the measures for borrowers and lenders.

Where the EBA's advice contains aspects related to increasing the usability of the Taxonomy, the EBA should take into account existing and forthcoming Commission guidance and Commission studies on Taxonomy usability aspects, to avoid a duplication of work related to the usability of the Taxonomy.

The Commission reserves the right to finetune the mandate under this request before Q1 2023, for instance to reflect relevant input and advice received through Commission studies and reports in the meantime.

Overview of existing market practices

The EBA is requested to provide an overview of the green loans market and existing market practices based on interactions with the industry and the supervisory community. The overview should focus on relevant green loan market segments, including segments in which retail borrowers and SMEs are most active and where they might benefit from gaining access to green loans. While emphasis should be placed on green loans based on the Taxonomy, the overview should include all standards and classifications in use for green loans in the market and include the types of products on offer in the market, including existing labels. The overview should encompass public schemes in place to define and/or encourage green loans and mortgages in Member States.

The overview should describe and compare the most commonly used methods to qualify a loan as green and assess, where possible, these methods in terms of their credibility both in terms of market confidence and level of environmental ambition of the green retail loans they generate. The overview should differentiate between loans related to the environmental objectives under the Taxonomy and main green loan product categories, such as energy efficiency lending products, renewable energy lending products, car and mobility-related lending products as well as loan products not related to climate objectives. The overview should also cover the identification of these loans in the current classification of credit institutions of exposure classes in the standardised and internal ratings-based approach.

The overview should compare the methods that are used to identify green loans and compare market-based methods with sustainability definitions in the Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR). The greenness of green loans should be considered for the environmentally sustainable economic activities, for instance on the basis of existing technical screening criteria of the EU Taxonomy¹³. It should also be considered, where relevant, for economic activities, and market uses where the Taxonomy does not provide relevant criteria or where other market-based standards are being used.

The overview should be complemented by detailing existing market practices to encourage and incentivise the origination of green loans by credit institutions as well as the uptake of such loans by retail borrowers and SMEs. This should be accompanied by an assessment of the opportunities (e.g. favourable interest rates and other conditions) and risks for retail and SME clients of taking out a green loan (e.g. the risk of not achieving the sustainability promises made) versus a non-green retail loan and the potential administrative costs and benefits for credit institutions to offer such loans.

The overview should, where possible, include and compare the retail and SME segments with other green loan market segments not generally in the scope of the request, such as corporate green loans, highlighting the differences in the size and potential of those segments and the products offered compared to retail and SME market segments.

The market overview should include an overview of potential market gaps (e.g. a lack of bank financing in specific areas such as renewable energy, energy efficiency, energy renovations¹⁴, sustainable building materials, etc.) and regulatory barriers and other obstacles to the optimal development of a green retail loan market. This should be complemented by suggestions on how to address such obstacles and what might incentivise lenders and borrowers to engage with credible green as opposed to non-green retail loans.

Where relevant, this could include examples or use cases, on how green loans can be integrated into the financing value chain of credit institutions, for instance how they can be linked with green financing instruments issued by credit institutions.

Green loan definition based on the Taxonomy

The EBA is invited to propose specific features for a voluntary EU definition of green loans based on the Taxonomy and its disclosure requirements. In particular, this definition should include:

- The key features and process requirements for originating such loans and assessing and monitoring their alignment with the Taxonomy criteria, considering existing transparency and verification requirements under the Taxonomy Disclosures

¹³ Please note that currently the Taxonomy contains only criteria related to substantial contribution to climate objectives, with criteria being developed for substantial contribution to the remaining environmental objectives.

¹⁴ Including insulation works and the roll-out of renewable energy for buildings.

Delegated Act, including disclosures on the Green Asset Ratio, and the European Green Bond Standard proposal.

- How Taxonomy-alignment can best be assessed for different loan types and use cases for the purposes of loan origination.
- The treatment of existing green loans in the context of the progressive tightening of the Taxonomy technical screening criteria, as well as general data availability considerations for the stock of loans.
- Considerations on how the underlying collateral of green mortgages and loans should be assessed and viewed from a sustainability point of view with the aim of ensuring both the usability and the credibility of the degree of greenness of the mortgages and loans based on the greenness of their collateral.

The EBA should also assess the merits of formulating and propagating such a definition, including by taking into account the benefits for users of relevant EU legislation, and the related (or rather expected) cost impacts, possible market and systemic risks that could arise as well as anticipated market uptake.

Measures to encourage and facilitate the uptake of green loans while ensuring the protection of retail borrowers

The EBA is requested to 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. For instance, this could include measures to enhance the comparability, reliability and transparency of green retail loan activities by credit institutions.

The suggestions should take into consideration the various types of lending products or clients from both a borrower and lending perspective and could rely on use cases from lending activities by credit institutions within and outside the EU.

While encouraging the uptake of green loans by retail borrowers, the measures should also ensure consumers are protected against potential risks or include suggestions on how to mitigate such risks. Moreover, specific measures should be considered that can benefit SMEs in gaining access to green loans taking into account the specific benefits and risks for SMEs.

As part of this, the EBA is invited to consider the merits of a green loan label based on an EU definition for green loans based on the Taxonomy. The EBA should explicitly consider how to keep costs of such a label minimal to encourage its uptake, while sufficiently preventing greenwashing.

Green loan origination process

The EBA is requested to assess the merits of further specifying loan origination process requirements for credit institutions with the aim to, on the one hand, 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. The requirements should also be addressed to green loans not based on Taxonomy criteria, in particular in cases where Taxonomy criteria do not yet exist or are still being developed¹⁵ or where market-based standards are the preferred choice of market practices.

This should include considerations of adequate and proportionate transparency and verification safeguards for different types of green loans, and when applicable the greenness of their collaterals, as well as respective borrowers as part of the loan origination process¹⁶.

While emphasis should be placed on loan origination requirements for all types of green loans, it should be considered whether the loan origination requirements should be specified with certain aspects related to the origination of green loans based on the Taxonomy.

¹⁵ Such green loans should still be able to demonstrate alignment with the objectives, safeguards and principles of the European Green Deal, e.g. as defined in the Taxonomy Regulation.

¹⁶ It should be noted that the assessment of households' creditworthiness should always be conducted in the interest of the households to avoid inducing undue hardship and over-indebtedness.