



PRESS RELEASE

## **Energy Efficient Mortgages Initiative (EEMI): EeDaPP confirms negative correlation between energy efficiency and risk**

Brussels, 31 August 2020 - For immediate release

Today, the Horizon 2020 [Energy Efficient Data Protocol & Portal \(EeDaPP\)](#) Project has published the final report on the correlation between energy efficiency and credit risk ([link](#)). The Report's econometric analysis demonstrates a negative and significant correlation between the buildings' energy efficiency and the probability of mortgage default, potentially paving the way for new policy considerations in relation to energy efficient mortgages (EEM).

The underlying assumption of the [Energy Efficient Mortgage Initiative \(EEMI\)](#), which brings together the EeMAP, EeDaPP and EeMMIP projects, is that energy efficient mortgages represent several advantages for lending institutions, borrowers and policymakers. Namely, they are believed to reduce the owners' payment disruption risk, increase property value and, as a result, reduce credit risk for banks and financial institutions.

The EEMI has a threefold objective: first, to propose a private initiative promoting energy efficiency investments in buildings; second, to create a standardised EEM to facilitate the acquisition of energy efficient (EE) properties and the renovation of those not aligned with EE norms; and third, to evaluate the availability of EE mortgage asset data across EU Member States, and to gather large scale datasets to investigate the link between buildings' energy efficiency features, their market value, and the loans' probability of default (PD) and loss-given-default (LGD).

The econometric evaluation provided in the Report published today focuses on the specific case of Italy. According to the associated portfolio analysis, the percentage of more energy efficient mortgages has been increasing over the last decade, while less efficient properties are predominantly affected by default.

The econometric evaluations highlight a negative correlation between EE and the owners' probability of default, thus confirming that EE investments tend to improve owners'/borrowers' solvency. Additionally, the results indicate that the degree of energy efficiency also matters, i.e., more energy efficient buildings are associated with relatively lower risk of default. Once again, these findings highlight the role of energy efficiency in reducing the default probability of a borrower.

The selection of the portfolio analysed was based on approximately 470,000 real estate valuations. After a data cleaning exercise, the total number of mortgages analysed was 72,980.

Against this background, the [European Mortgage Federation – European Covered Bond Council \(EMF-ECBC\)](#) is leading efforts to establish an EEM Label which will not only facilitate further data collection to substantiate this correlation on an ongoing basis, but which will also secure quality and transparency for market stakeholders in the gathering, processing and disclosure of EEM data, stimulating market development.



**Luca Bertalot**, EeDaPP Coordinator and EMF-ECBC Secretary General commented:

*“With a view to scaling up the business case for energy efficient mortgages, we believe these results are of great significance in relation to the current policy agenda given their relevance for key files including the EU Green Deal, the Renewed EU Action Plan on Sustainable Finance and the implementation of Basel III into EU legislation.”*

**Monica Billio**, Professor (Full) of Ca' Foscari University, Venice, commented:

*“After two years of data collection and market analysis, the EeDaPP project is fundamentally shifting the energy efficiency financing debate towards an accurate analysis of correlation between credit risk and building energy performance, offering a solid quantitative basis for future policy reflections.”*

**Daniele Vergari**, CRIF, commented:

*“By uncovering the correlation between collateral’s environmental impact and credit risk, EeDaPP has introduced a new ‘green’ paradigm shift into credit risk management: not only collateral value, but also collateral’s energy performance proves to be a key determinant of risk providing further aid to the ecological transition.”*

**Murray Birt**, Senior ESG Strategist, DWS and Member of the EFIG Steering Committee, commented:

*“This report shows that people with more energy efficient homes and lower energy bills, can better afford their mortgage payments, reducing financial risk for banks and investors. There is great potential to use this analysis and other reports being assembled by the EU Energy Efficiency Financial Institutions Group (EFFIG) to inform future bank regulatory considerations for energy efficiency, potentially creating an extra incentive to scale up the renovation of buildings. With 18 jobs created for every €1m invested in green building retrofits (BPIE 2020), this report should be considered as part of governments’ efforts to create green economic stimulus.”*

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#### **Notes to the Editor:**

##### **About the Energy Efficient Mortgage (EEM) Initiative**

The [Energy Efficient Mortgages \(EEM\) Initiative](#) consists of:

- The [Energy Efficient Mortgages Action Plan \(EeMAP\) Initiative](#)
- The [Energy Efficiency Data Protocol & Portal \(EeDaPP\) Initiative](#)
- [The Energy Efficient Mortgages Implementation Plan \(EeMMIP\)](#)

The **Energy Efficient Mortgages Action Plan (EeMAP) Initiative** – led by the [European Mortgage Federation-European Covered Bond Council](#) (EMF-ECBC), [Ca’ Foscari University of Venice](#), [RICS](#), the [Europe Regional Network of the World Green Building Council](#), [E.ON](#) and [SAFE Goethe University Frankfurt](#)– aims to create an energy efficient mortgage through which homebuyers are incentivised to improve the energy efficiency of their building or acquire an already energy efficient property by way of favourable conditions linked to the mortgage.



The cornerstone of the initiative is the assumption that energy efficiency has a risk mitigation effect for banks as a result of the impact on a borrower's ability to service his/her loan and on the value of the property, a correlation which the EeMAP Initiative will seek to substantiate.

The **Energy Efficiency Data Protocol and Portal (EeDaPP) Initiative** – led by [European Mortgage Federation-European Covered Bond Council](#) (EMF-ECBC), [Ca' Foscari University of Venice](#), [CRIF](#), [European DataWarehouse](#), [Hypoport](#), [SAFE Goethe University Frankfurt](#) and [TXS](#) - aims to design and deliver a market-led protocol, which will enable the large-scale recording of data relating to energy efficient mortgage assets, via a standardised reporting template. The data will be accessed by way of a common, centralised portal, allowing for continuous tracking of the performance of the energy efficient mortgage assets, thereby also facilitating the earmarking of such assets for the purposes of energy efficient bond issuance.

The **Energy Efficient Mortgages Implementation Plan (EeMMIP)** – led by [European Mortgage Federation-European Covered Bond Council](#) (EMF-ECBC), [Ca' Foscari University of Venice](#), [CRIF](#), [E.ON](#), [Scottish Government](#), [Autonomous Province of Trento](#) & [Copenhagen Economics](#) is due to launch in September 2020. The Project is intended to build on efforts so far to deliver an **integrated market in energy efficient mortgages and a blueprint for established and emerging markets around the globe**. EeMMIP will therefore deliver: (1) an analysis of the current market systems relevant to the development of an EEM market and the establishment of market demonstrators to support the demonstration of the end-to-end customer journey and EEM life-cycle, (2) an EEM Label to support recognition of and confidence in EEM and facilitate access to quality information for market participants, (3) guidance for the inclusion of energy efficiency in credit risk assessments for lending institutions and supervisors and policy recommendations for the prudential framework in line with the principle of risk sensitivity and promote a well-functioning banking market and finally (4) institutional cooperation.

The **Energy Efficiency Financial Institutions Group (EEFIG)** was established in 2013 by the European Commission Directorate-General for Energy (DG Energy) and United Nations Environment Program Finance Initiative (UNEP FI). It created an open dialogue and work platform for public and private financial institutions, industry representatives and sector experts to identify the barriers to the long-term financing for energy efficiency and propose policy and market solutions to them. [DWS](#) and the EMF-ECBC are members of the EEFIG Steering Committee.



*The EeMAP, EeDaPP, EeMMIP projects have received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No. 746205, No. 784979 and No. 894117 respectively.*