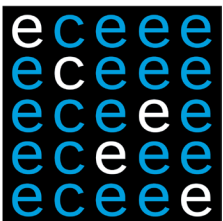
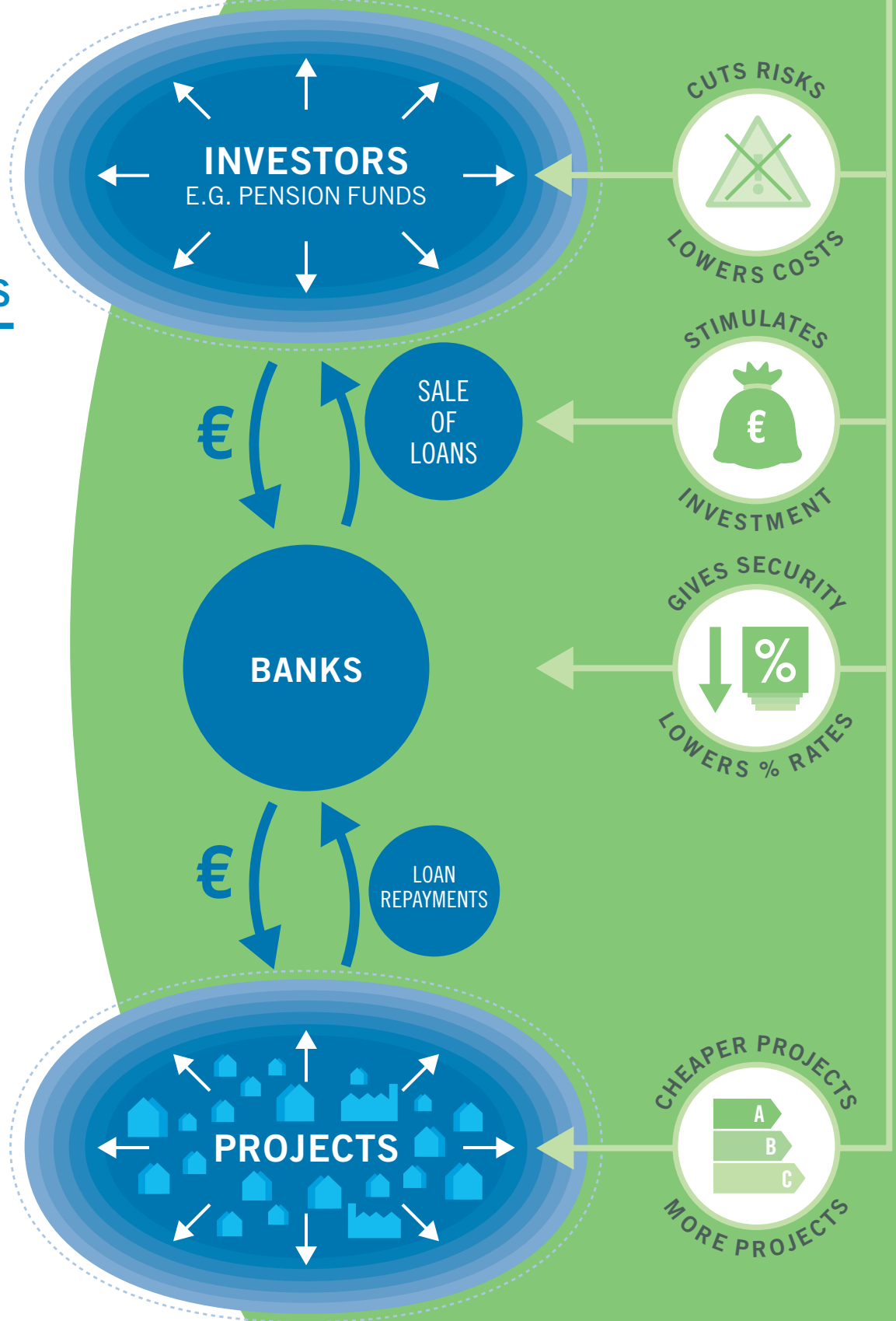


HOW TO FINANCE ENERGY EFFICIENCY

BOOST WITH AMBITIOUS BINDING LEGISLATION

HOW IT WORKS

Banks lend money to businesses and home owners. Then the banks aggregate the loans and sell them on to pension funds and other investors. This gives the banks capital for new projects, and the investors steady long-term revenues.





european
council for an
energy efficient
economy

More information

How it works:

Banks lend trillions of euros every year to homeowners and businesses. Typically, the bank will hold on to a loan for a couple of years - making money on the interest in the process - then group some loans together and sell them all on to institutional investors like pension funds. The bank receives an agent's fee when arranging the loan with the homeowners, and another fee from the pension fund. Put simply, the bank is the middleman in a win-win system: at one end of the spectrum, homeowners and businesses get the capital they need for their projects. At the other, pension funds purchase a long term source of revenue (the 5, 10, 15 or 20 years' duration of the repayments on the loans).

Energy efficiency improvements are often a by-product of this process, but it's in everybody's interest to make them specific and systematic (more details in this briefing by the European Mortgage Federation: <http://goo.gl/zVVQAI>). Green mortgages - that is, loans to fund the purchase of a property and make it more energy efficient - mean lower energy bills and higher property value. This lowers the risk for the bank, because there is less chance of the homeowner or business defaulting on the loan, and even if they do, the value of the property is higher. As a result, the bank can offer lower interest rates. At the same time, it is easier for the bank to sell on the loans to pension funds and other big investors. Why? Pension funds have what's known as a fiduciary duty to their pension holders: they must not lose their money. Therefore the safer the loans, the easier it is for the pension fund to justify the purchase to its financial regulators in its annual reporting, a process which can run to tens of thousands of pages. If the pension fund cannot justify the investment, it will place its capital in other areas, or in other countries.

What is the impact of ambitious, binding energy efficiency legislation?

It drives forward energy saving: just taking the EU 2030 efficiency target from 27% up to 30% stimulates savings equivalent to the annual energy use of Belgium. The 40% target recommended by the European Parliament translates into millions of extra buildings renovated and thousands of businesses becoming more efficient.

What's more, since the financial crisis (triggered by banks contracting un-repayable loans, then selling them on to other banks and investors) banks are reluctant to create demand for their products. Instead, they want to react to the demand created by EU and national legislation.

Binding legislation reduces risk and gives a long-term vision and perspective. Take the case of ING in the Netherlands. The bank's property estate division has loans on roughly 30,000 commercial buildings. At present, only about 20% of these buildings are in the A-C energy efficiency category. However, ING recently commissioned analysis which showed that the more efficient buildings were worth on average 10% more, and generated about 10% more rental income. In short, these buildings were better and safer investments. ING was therefore well-placed when the Dutch government passed legislation saying that commercial buildings cannot be leased after 2023 unless they are in the A-C efficiency category (and no less than A class after 2030). Because the bank understood that efficient buildings were lower risk, it was able to offer its clients 100% financing at lower-than-average interest rates to bring its entire building portfolio - 30,000 commercial buildings - up to A-C standard.

Binding legislation means more business for investors: for a high risk investment, banks and pension funds have to hold back high reserves of capital (it's one of the safeguards built into the financial system in the wake of the crisis). But regulators don't require so much capital to be held in reserve for safe investments. This means the bank or fund can use a higher share of its capital, and therefore make more money, which is its *raison d'être*. **The key point is that risk carries a cost, and binding energy efficiency legislation reduces that cost** (just as the Paris climate agreement is increasing the risks and costs of fossil fuel investments).

Are investors calling for ambitious legislation? Yes! The Institutional Investors Group on Climate Change (IIGCC) is a group of over 130 pension funds representing 18 trillion euros (by comparison, the EU's GDP is about €14.5 trillion). The IIGCC is calling for a binding EU-wide energy efficiency target of a least 30% by 2030 and an annual energy savings target of more than 1.5%.

- eceee is Europe's largest membership-based, non-profit energy efficiency NGO
- We welcomes both individuals and organisations
- Focus on end-use energy efficiency
- Evidence-based information and analysis
- Five-day eceee Summer Study every odd year
- Arranges seminars and workshops
- News service on efficiency and climate