



D 2.4 Report on the strategic evaluation of existing financial schemes

RenoHUB H2020 project

MAIN AUTHOR: AACM

DATE: 14/08/2020

PUBLIC

Project **RenoHUB**

“Integrated Services to Boost Energy Renovation in Hungarian Homes”

Grant Agreement no. 845652

LC-SC3-EE-2-2018-2019

Disclaimer excluding Agency responsibility for the information and views set out in this document lies entirely with the authors

This project has received funding from the European Union’s Horizon 2020 research and innovation programme under Grant Agreement No 845652.

Version 1.0, 14/08/2020



Document Factsheet

Project duration	From November 2019 to November 2022
Project website	http://renohub-h2020.eu/
Work Package	WP2 Baseline Research and Conceptual Design
Deliverable Number	D 2.4
Deliverable Name	Report on the strategic evaluation of existing financial schemes
Task Number	T 2.4
Task Name	Strategic evaluation of the existing financial schemes available on the market
Version	1.0
Main Author	Ms. Ildikó Adamecz-Raj (AACM)
Contributors	Dr. Dénes Bulkai (AACM)
Reviewers	AACM
Type of deliverable	Report
Dissemination level	Public

Table 1: Document Factsheet

Document History

Version	Date	Main modification	Entity
1.0	14/08/2020	Final draft	AACM

Table 2: Document History

TABLE OF CONTENT

1. Introduction.....	4
2. Initiatives by the Central Bank of Hungary (MNB).....	5
2.1. <i>Description of the programme.....</i>	5
2.2. <i>Opinions on the programme.....</i>	6
3. MFB Residential Energy Efficiency Loan Programme.....	7
3.1. <i>Description of the facility.....</i>	7
3.2. <i>Experience relating to the facility.....</i>	8
4. Identified problems in the practice of the banks.....	8
5. Lessons learnt for the RenoHUb project.....	9
Annex A – Questionnaire (in Hungarian)	10

Report on the loan products available for financing energy efficiency investments on the Hungarian market in 2020

1. Introduction

This report has been prepared in the third quarter of 2020 therefore it reflects the conditions and market situation prevailing in the Hungarian market in that period.

In Hungary, the building stock is responsible for nearly 40 per cent of national final energy consumption. At the same time, the technical and thermo-technical condition of a large part of constructions is obsolete, and therefore large amounts of energy could be saved by reducing the energy consumption of buildings.

The approximately 4.4 million households present in Hungary are the biggest aggregated energy consumer, representing 34% of the total final energy consumption, followed by transport and industry (about 25% both). The Hungarian residential sector well exceeds the EU average in final energy consumption.

Based on realistic estimates a complex energy refurbishment of the Hungarian residential building stock offers at least 40-50% global reduction in their energy use. The potential of home energy efficiency retrofit market is immense, the cumulative investment need within the next 5 years is estimated at over 1,200 billion HUF (about 4 billion EUR). Whilst some notable progress can be recorded with regards to the energy efficiency renovation of multi-family buildings, especially for those buildings constructed from pre-fabricated reinforced concrete panels typically between 1960s and 1980s, the energy refurbishment of the single-family buildings is substantially lagging behind, albeit the ratio of single-family buildings is above 95% of the residential building stock which is in European comparison very high.

Therefore, the energy retrofit of single-family buildings is an imperative. However, the comprehensive renovation of the residential sector is clearly far beyond the financing capacities of the public sector. It is assumed that the principles for low carbon finance by public sources will substantially change in the 2021-2027 programming period, and there is a need for a complete change of mindset in order to phase-in market driven solutions in energy efficiency finance in the residential sector.

This report is based on desk research made between February and June 2020 and on interviews conducted with the representatives OTP Bank, Fundamenta Bausparkasse and, at a meeting organised by the Hungarian Banking Association, with representatives of several commercial banks and MFB in March 2020.

In December 2019, the **Central Bank of Hungary** announced the introduction of the **Green Preferential Capital Requirement Programme**, for credit institutions to support the growth of green financial products and to improve the energy efficiency of the Hungarian building stock.

From the perspective of financing energy efficiency investments, renovations & deep renovations in residential buildings (residential family houses, condominiums and multi-apartment houses) there is only **one targeted credit line available** in Hungary at the moment, **financed by MFB** (the Hungarian Development Bank) and offered by a number of the commercial banks.

2. Initiatives by the Central Bank of Hungary (MNB)

2.1. Description of the programme

The Central Bank of Hungary has launched its Green Program early 2019 to mitigate the risks associated with climate change and other environmental problems, to expand green financial services in Hungary, to widen the related knowledge base in Hungary and abroad, and to reduce financial market participants' and its own ecological footprint. The Program consists of three pillars: the various initiatives include elements about

- (i) the financial sector;
- (ii) the development of the MNB's social and international relations; and
- (iii) the further greening of its own day-to-day operations.

From the point of view of this paper the initiatives for the financial sector are relevant which will be discussed hereafter.

The initiatives in the financial sector include the analysis of ecological and financial risks, greening of financial services, mobilizing additional funds into green investments, steps related to green bonds, initiating greener operations of financial institutions.

In 2019, MNB joined the Energy Efficient Mortgage Initiative's advisory board and intends to launch a domestic platform among Hungarian banks, with the same purpose as that of the international initiative. Based on the data of the participating banks, the aim is to build a comprehensive credit risk database as well, which will provide a good basis for assessing the lower risks of energy efficient mortgages, and therefore, the reduction of the capital requirement applying to them.

In December 2019, MNB announced the introduction of the **Green Preferential Capital Requirement Programme**, for credit institutions to support the growth of green financial products and to improve the energy efficiency of the Hungarian building stock. The preferential regulatory treatment will be available for green housing loans granted between 1 January 2020 and 31 December 2023. A consultation with the banking sector will also be launched on the possibilities of introducing green covered bonds in Hungary.

In their lending activities, banks typically do not take the energetic characteristics of buildings into consideration, although the average overhead costs of energy efficient (green) properties are considerably lower. Consequently, consumers taking out a green loan have a higher disposable income available for monthly repayments, and more favourable energetic properties may improve the ability of the given property to retain its value. For this reason, green housing mortgages can have lower risks than similar but not energy efficient loan products. Lower risk in turn could be realised in the pricing of products and the capital requirements on this type of loan transactions.

In Hungary, the volume of green financial products is still low despite of their favourable characteristics. The MNB's aim is to ensure that the systematic collection of energy efficiency data related to loan transactions be adopted as a standard in the domestic banking sector and that such data are incorporated into risk analysis and management models.

Under the **Green Preferential Capital Requirement Programme**, taking effect from January, 2020, **credit institutions may receive a capital requirement deduction (Discount) on loans serving energy efficient home purposes and consumers may receive an interest rate subsidy**. Credit institutions may have access to the capital requirement deduction for a four-year transitional period. The MNB will decide on the continuation of the Programme after the period ends.

Credit institutions established in Hungary (Beneficiaries) are eligible for the Discount. The Discount base is the gross exposure (on and off balance sheet) of the below defined Energy efficient mortgages and personal loans disbursed over the Duration to private persons for the purpose of the purchase, construction or modernisation of residential buildings, or to condominiums or housing associations for the purpose of the modernisation of residential buildings (jointly referred to as Loan Objective), calculated on the basis of the volume of performing loans registered at the end of each calendar year within the Duration. The Discount is also available over periods shorter than the Duration, within the Duration. The preferential green capital requirement treatment for housing loans is available only in respect of loans on which the credit institution offers an interest rate discount of at least 0.3 percentage points (Green Interest Rate Discount) over the entire duration of the loan. The Green Interest Rate Discount can also be granted by announcing a separate product or modality, where the amount of the Green Interest Rate Discount needs to be granted in comparison to the credit institution's other products or modalities. From the aspect of being eligible for the Discount, those loans shall be regarded Energy efficient, which are aimed at the purchase or construction of residential buildings with energy performance rating 'BB' or higher, or which are aimed at the implementation of one or more of the Building Renovation Measures on residential buildings (even rated lower than 'BB'), included in the conditions of the programme.

The level of the Discount derived from the Discount base is 5% for 'BB' energy performance rating and 7% for 'AA' energy performance rating in the case of purchase or construction, and uniformly 5% for Building Renovation Measures. The maximum level of the Discount per segment (residential mortgages, home equity loans, personal loans) is the sum of the SREP¹ capital requirement for the transactions affected by the Discount, determined during the ICAAP² review. The total amount of the Discount may not exceed 1% of the credit institution's total risk exposure amount (TREA).

The eligibility of the Discount is also subject to meeting the criteria set in the programme. In order to qualify for the Discount, the credit institution must send the MNB the product prospectuses, announcements, business rules or other documents specifying the eligibility criteria for the Green Interest Rate Discount prior to its entry into force, or at the latest within 15 days of it entering into force.

<https://www.mnb.hu/letoltes/green-retail-lending-in-hungary.pdf>
<https://www.mnb.hu/greenfinance/english>

2.2. Opinions on the programme

As the program is still new, there is not much experience to be shared, up to now.

Most of the commercial banks find this program useful and plan to make use of it in their lending activities. For example, OTP Bank plans to participate in it and will recommend an alternative package to consider for MNB: according to OTP the programme should be made available also as an add on to existing products of the bank, rather than only for new products (e.g. applied to fixed interest bearing loans or fixed interest period loans where the loan objective would be renovation or energy efficiency investment and the green interest discount would be connected to this goal, i.e. if the loan objective is implemented (subject to controls and reporting) the bank would give the discount on capital requirement in the form of a discount on interest (30 basis points). Applying the Discount on existing products of the bank could make the introduction of the programme quicker than with designing and

¹ Supervisory Review and Evaluation Process

² Internal Capital Adequacy Assessment Processes

licensing new products. Similarly, Fundamenta would like to extend the programme to existing products.

A problem might be that while in the case of newly built apartments the green discount can be given to buildings holding a 'BB' energy performance rating or better, most of the newly constructed residential buildings in Hungary are only of 'CC' energy performance rating (e.g. that of built by Concordia, who is one of the market leaders in the residential building sector). This might cause a problem of eligibility as the buildings where the newly bought apartment is located has to comply with the performance rating defined in the programme.

3. MFB Residential Energy Efficiency Loan Programme

3.1. Description of the facility

The most important loan product available in the retail segment is a non-market-based, loan-like product, the Residential Energy Efficiency Loan Programme, which actually exists in the form of a refundable EU-grant (the funding of the facility is an EU grant). In this program with a total available budget of HUF 115 billion, individuals, condominiums and housing cooperatives can take advantage of a preferential 0% fixed rate loan for purposes, among others, as upgrading of heating systems, insulation, replacing doors and installation of solar panels. The maturity of the loan can be up to 20 years, with a maximum amount of HUF 10 million for individuals and an own resource requirement of at least 10%. Naturally, commercial banks - some of which are also intermediaries of MFB products - offer loans that can be used, for example, to purchase and install solar panels. In addition, there were previously and there are also currently credit institutions (with relatively low volumes of placement) whose mortgage loans support the improvement of energy efficiency by granting a lower interest to customers on account of the energy efficiency of the financed property, but there are no data reports on the portfolio of these loans.

The facility has two windows, one for the central part of Hungary („VEKOP”) and one for the other regions of the country („GINOP”). The window for the central part was already closed at the end of 2019 as the amount dedicated to that window had been drawn.

The facility has a very detailed product description available in Hungarian at <https://www.mfb.hu/maganszemelyek/lakossagi-energiatakonysagi-hitel-t32-p32>

The Hungarian Development Bank, MFB, is the underwriter of the loan based on EU funding, and the loan can be taken out by individuals/condominiums via commercial banks who participate in the program by contracting with MFB.

Main conditions of the loan are the following:

Borrowers:	individuals, housing cooperatives, condominiums
Loan amount	90 % (10 % must be paid from own resources)
Loan amount	maximum 10 M HUF for individuals
Interest rate	0 %
Other fees	0 %
Loan purpose	<ul style="list-style-type: none"> • upgrade of heating, insulation, replacement of doors and windows (renovation and upgrade of apartments, residential buildings), • installation of renewable energy sources, like solar panels • loan purpose is specified in details in the product description
Loan maturity	maximum 20 years

other conditions	detailed technical description, acceptable unit costs for the different actions are specified,
Eligibility	<ul style="list-style-type: none"> • granting of the loan is subject to the fulfilment of CO2 savings in relation to the actions taken, • budget and technical implementation plan must be filed, • implementation of loan purpose will be controlled, • delivery of CO2 savings will be controlled • only the actions described in the program can be financed, other accompanying investments not (e.g. in the case of installing new floor heating, the floor topping cannot be financed)
Collaterals	mortgage on the property, but only above HUF 5 M loan

3.2. Experience relating to the facility

The facility has been available since 2018, there has been a considerable demand for it. The window for the central part of Hungary is currently not available and there is an over demand amounting to 3-4 billion HUF. In the other window (GINOP) 12-13 thousand borrowers have received loans up to the first quarter of 2020. The funding is expected to run out in one year's time.

MFB's 0% loan cannot be beaten by any other energy efficiency improvement loan facility; although, most of the MFB loan facility has been used for solar power projects.

Fundamenta is willing to enter in further cooperation with RenoHUB and participate in the planned Green Finance Forum in October. Fundamenta is exploring refinancing opportunities with international financial institutions, like EBRD. They are also interested in cooperation with energy utilities in third party financing schemes in order to deliver their carbon emission reduction commitments.

4. Identified problems in the practice of the banks

The operation of the facility is rather complicated, it requires lots of administration and documentation (the loan conditions have to comply with the indicators of the programme, implementation of the loan purpose has to be controlled, etc.). MFB helps the participating commercial banks with sharing a detailed work flow support, however the banks think the loan process still needs a lot of documentation and work; therefore, it is an expensive process.

The loan application process puts a lot of burden to the borrower as well and the borrower encounters extra costs in order to apply properly: cost of energy audit (could be more of them), property valuation, implementation plan, preparation of a budget, official documents like property ownership, etc. All these have to be borne by the borrower and financed upfront. Another problem is that the loan needs to be pre-financed: it can be drawn based on the invoices received by the borrower, i.e. on work already completed, hence a rather high liquidity is needed on the borrower's part which limits the number of families interested.

Another issue is the question of collateral, individual borrowers tend to avoid having to mortgage their properties. In this facility a mortgage is necessary only above a loan amount of 5 M HUF.

But the collateral could be a problem in the case of condominium as borrowers, because there are some legal issues which cannot be mitigated.

There is a big information gap on the borrowers' side regarding the planning and implementation of energy efficiency investments, they often ask the information from the bank – this can be a genuine entry point for RenoHUB!

Based on information from MFB the majority of the borrowers uses the loan for the installation of solar panels, which is easier to implement than a deep renovation, or insulation project to improve the energy efficiency of the home.

The overall opinion of the commercial banks is that this is a good loan facility which is rather sought after, is a good example for a green type of loan and the program should be continued.

Fundamenta suggested that the Government should reconsider VAT reduction for energy efficiency investments, because still very proportion of the refurbishment is carried out without invoicing; therefore, not eligible for bank financing.

Fundamenta also expressed an interest in using a reliable database on building energy efficiency and modelling improvement impacts of various actions, like better insulation, changing of windows and boilers, etc. They would welcome a normative list for energy efficiency of different building types.

5. Lessons learnt for the RenoHUB project

- The facility operates on the initiative of MFB, is based on grant funding.
- The 0 % interest is sought after, seems to be workable despite of the rather complicated administrative process.
- People are interested in green loans; they are interested in investing in energy efficiency and renewables.
- Renewables – especially solar panels – can be managed better as there are a number of companies offering full services to individuals and condominiums in this respect. Therefore, investment in solar panels is increasing rapidly. This is decreasing the risks, but may increase the price of investment.
- Energy efficiency by implementing renovation of homes remains still very difficult to finance – there is a large information gap regarding necessary actions, its price, planning and budgeting, acceptable unit prices, etc. which makes it difficult for a family to deal with the issue and with all the well-known problems.
- Banks would be interested to see how energy efficiency improvements can increase the market value of property.

Annex A – Questionnaire (in Hungarian)

Kérdőív a helyzetfelmérésben résztvevő bankok részére

1. Policy, stratégia

- Van-e a Banknak zöld stratégiája, fenntarthatósági stratégiája?
- Van-e a Banknak stratégiája a lakossági energiahatékonyság elősegítése területén?
- Mi a véleményük az MNB Lakáscélú Zöld Tőkekövetelmény-kedvezmény Programjáról?
- Ismerik-e az MFB lakossági energiahatékonysági hitelprogramját, van-e ezzel kapcsolatos tapasztalatuk?
- Tudnak-e az EU-s kezdeményezésekről, EU által finanszírozott projektekről, melyek a kockázat csökkentést célozzák? EeMAP, EeDAPP, energy efficient mortgages, (on-bill, on-tax financing, crowd-funding és egyébek)
- Mi a véleményük/várakozásuk a közösségi támogatások (grant) várható szerepéről?
- ELENA (EIB/EBRD) – mi a véleményük egy EIB/EBRD által refinanszírozott hitelkonstrukcióról a témában?

2. Termékek

- Milyen lakossági energiahatékonysági hitel- és egyéb termékek (garancia, biztosítás) vannak jelenleg?
- Ha vannak ilyenek, mik a főbb kondíciók (hitelcél, hitelfelvevő, hitelösszeg, kamatok, futamidő, fedezet, stb)?
- Mik a tapasztalatok eddig?
- Terveznek-e energia-megtakarítást célzó hitelkonstrukciót a lakossági szektorban?
- Hitelcélok között szerepelhet-e energia megtakarítás?
- Mi az energiatanúsítvány szerepe az ingatlan értékelésében jelzálog hitelezés esetén?
- Jelzálog hitelek versus szabadfelhasználású hitelek összehasonlítása a lakossági szegmensben – milyen célra veszik fel az ügyfelek, mik a tapasztalatok a hitelek minősítésében?
- Tapasztalnak-e hitel keresletet lakóingatlan energiahatékonysági felújítása iránt?

3. Kockázatok, akadályok, hiányzó információk

- Vannak-e és ha igen, mik az akadályok az energiahatékonyságot célzó felújítási hitelek indításánál? Milyen információk hiányzanak a döntési folyamatban/kockázatelemzésben?
- Ingatlanérték és értéknövekedés hogyan épül be a kockázat elemzésébe?
- Beépíthető-e az energia tanúsítvány a kockázat elemzésbe?
- Lehetségesnek tartják-e, hogy a magasabb besorolású energia tanúsítvánnyal rendelkező lakóingatlanokkal kapcsolatos hitelezési kockázat csökkenjen (amennyiben ilyen ingatlan a fedezet), vagy fordítva, valamilyen „brown discount” figyelembe vételét alacsonyabb besorolású energia tanúsítvánnyal rendelkező lakóingatlan esetén?
- Egyetértenek-e azzal az elvvel, hogy ha az ügyfél által elvégzett energia hatékonysági felújítás következtében csökkennek az ingatlan fenntartási költségei (energia számla), akkor az ügyfél esetében csökken a default valószínűsége, így megbízhatóbb adós lesz, valamint a magasabb

besorolású energia tanúsítvány alapján a lakóingatlan értéke növekszik/nem csökken, így a loan-to-value arány növelhető, vagyis összességében csökkenhet az ilyen fedezettel rendelkező hitelek tőkeköltsége?

4. A ReHUb projekttel kapcsolatos kérdések

- A RenoHUb projekt milyen információkat tudna szolgáltatni pl. egy termékfejlesztéséhez?
- Befogadna-e hotspot-ot az intézmény? Ha igen, milyen feltételekkel?

5. Intézményspecifikus kérdések

- Meglévő pipeline a lakáskasszáknál hogyan értékelhető?
- Mi a megváltozott szabályozási környezetre a lakáskasszák válasza?
- Deep versus staged renovation?