CAPITAL REQUIREMENTS AND OTHER REGULATORY TOOLS
– IN SEARCH OF NEW APPROACHES TO SUPPORT EE IN THE RESIDENTIAL SECTOR
WHY IS ENERGY EFFICIENCY IMPORTANT FOR A FINANCIAL REGULATOR?

Reduction of transition risks at the macro level

Assumed lower credit risk at the micro level
EBA to assess if and how capital requirements could be differentiated depending on the environmental and social impact of the assets held by institutions. The final results of that analysis are expected in 2023.

**Positions:** „neutral” vs. „brown penalizing” vs. „green support”
THE CENTRAL BANK OF HUNGARY’S PRACTICE

Capital requirement discount for green loans and green bond investments until 2025
Mixed experience so far

First retail energy efficient mortgage scheme not used by banks

Corporate scheme used by almost all banks
MNB provides incentives to Hungarian banks incentives to prioritize energy efficient properties in lending

- Higher disposable income for loan service (PD)
- Less volatile collateral values (LGD)
- Lower credit risk (ceteris paribus)

Source | energyefficientmortgages.eu, MNB
LESSONS WITH THE FIRST RETAIL SCHEME

More than half of the respondents planned to provide a green mortgage or green renovation loan, but only at a later stage....why?

Source: MNB survey 2021
LESSONS WITH THE FIRST RETAIL SCHEME

- Acess to EPC data can be a huge obstacle
- Legal (GDPR) and IT issues
- Outstanding loan stock poses the biggest challenge
- Burden of reporting requirements
- Question of mandatory interest rate discounts
LESSONS WITH THE FIRST RETAIL SCHEME

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Revised scheme to address most of this points and linked to the Central Bank’s green mortgage refinancing program.
With no micro-level hypothesis on risk differentials in place, the goal is to reduce transition risks in bank balance sheets and to reduce macro-level climate risks.

**SOME THOUGHTS ON OUR CORPORATE SCHEME**

- **Buying green bonds**
- **Financing renewable energy production**
- **Energy efficiency investments**
- **Sustainable agriculture**
- **Green transportation**
- **Circular economy**

Simple conditions, low reporting requirements
Underwriting the Renovation Wave with Mortgage Portfolio Standards for Energy Efficiency

Mortgage Portfolio Standard ("MPS")

to be included within:

ART. 10 of the EPBD
A Mortgage Portfolio Standard

Would align with the EU Taxonomy

Other EU Financial Regulation

Can accelerate Banks proactive engagement in buildings renovation through a duty of advice and information in:

The Mortgage Credit Directive
ART. 13 & 14

Improved capital treatment for highly energy efficient buildings under CRD IV

The problem of building energy (in)efficiency is a clear case of externality

Governmental (climate&energy) policy is best placed to internalize...

...but the financial system can also be a key player through loans and (covered) bonds

Energy efficient mortgages are the most suitable candidates for preferential treatment given the assumed better credit risk features

When applying regulatory incentives, need for a careful design of conditionality
THANK YOU FOR YOUR ATTENTION!

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