



Report

# Are Green Mortgages the Bridge to a Greener Housing Landscape?

[www.opercredits.com](http://www.opercredits.com)

2023

**Oper Credits BV**

WeWork Botanic Building  
4 Sint-Lazaruslaan  
1210 Brussels  
Belgium

**Oper Credits AG**

Josefstrasse 219  
8005 Zürich  
Switzerland

# EXECUTIVE SUMMARY

For Europe to meet the Green Deal targets set in 2023, 500,000 homes must be upgraded weekly. Facilitating this transformation will put a wind of change in motion for local governments (public sector), financial services (private sector), and ultimately consumers. In this report, we have focused on what the financial sector can and will do to support the transition to energy-efficient upgrades.

Financing renovation projects and supporting energy-efficient new builds and modifications, which we'll call green mortgages and sustainable finance, will play an essential role as a lever for this change. Our report shows, however, that this positive transformation also comes with increased complexity for lenders and borrowers.

Awareness around energy efficiency will need to increase with borrowers and how energy efficient upgrades can also impact the long-term value of their property and energy bills. Combining this view with a complex financing decision will be a shared responsibility with lenders where lenders must upgrade their

advisory processes to support borrowers in making the most suitable decisions. Back offices will also be charged with more verification work to ensure that the financings contribute to the sustainability goals imposed by regulators or the board rooms of the lenders.

Overall, we identify three strategies lenders can take to enable the green transition, ranging from a follower role to embedding sustainability and green financing as a core USP. In that regard, lenders can think not only about offering particular finance products to their client base but also about building sustainable home eco-systems to attract new clients and create a lifetime relationship with their clients and, ultimately, their energy consumption and related finances.

Our analysis shows that leveraging energy, supported by good advisory processes and tools, can create value for borrowers and lenders and ultimately contribute positively to the ambitious targets the European regulators have laid out.



# The Burning Platform

In a world faced with the urgency for sustainable actions on a global scale, the need to curb carbon emissions and transition toward more eco-conscious practices has become an overarching priority. As we navigate this complex landscape, it is increasingly evident that the housing industry, where people not only reside but also more frequently work, plays a pivotal role in shaping the path towards a more sustainable future.

*"In order to fulfil the goals of the European Green Deal, around 500,000 homes need upgrading on a weekly basis"*

Currently, housing stands as a significant contributor, accounting for a staggering 40% of CO<sub>2</sub> emissions in Continental Europe. This significant environmental impact highlights the pressing need for transformative measures that enhance energy efficiency and thereby reduce the release of greenhouse gases.

In order to fulfil the goals of Europe's 2030 Green Deal, around 500,000 homes need upgrading on a weekly basis which accounts for EUR 220 million homes in the upcoming years. Facilitating this transition requires a proactive approach from both consumers and the government, complemented by support from the private sector, particularly the European financing industry.

Local European governments have taken action, employing two main strategies:

- 1. Encouraging Change through Incentives:** Governments are offering a combination of public grants and subsidies to improve homes' energy performance. These public subventions are often combined with private support.
- 2. Enforcing Energy Efficiency:** Regulatory measures are compelling the financial sector, especially in Europe, to consider energy performance when granting home financing. This shift encourages the adoption of sustainable practices, particularly during new home purchases.

Since 2022, borrowers have also become more proactive. Our analysis has revealed three underlying factors for this shift:

- 1. Real Economic Impact:** The energy price surge during the '22-'23 winter due to the Ukrainian war demonstrated the financial implications of energy-inefficient housing. This practical reality has prompted homeowners to consider energy-efficient renovations, as evidenced by a recent Dutch survey revealing that 83% of renovators cited reduced energy bills as a key motivation.
- 2. Financial Incentives:** Energy-efficient homes have maintained higher prices compared to conventional renovation projects. This economic aspect further contributes to the appeal of energy-efficient housing.
- 3. Contributing to a Greener Future:** Increasing environmental awareness has motivated homeowners to actively participate in creating a more sustainable future on the micro-scale.

By making changes in the housing sector, we can pave the way for noteworthy decreases in carbon footprints, moving closer to our larger sustainability objectives. This, however, has an impact on both lenders and borrowers, which we will discuss in more detail in the following two chapters.



# Implications for Lending

The financial sector plays a crucial role in this transition by providing loans for home acquisition, renovation, and construction. Nevertheless, introducing layers of energy efficiency and sustainability into this landscape adds extra complexity to an already intricate process. As we interacted with industry leaders during our preliminary interviews, one insight became apparent: "We are loan advisors, not architects", which highlights the evident challenge.

However, considering a property as a dynamic asset capable of appreciating not solely due to location or aesthetics, but also through its energy performance, opens doors to potential economic gains for both lenders and borrowers over time. The potential increase in property value, underpinned by positive environmental contributions, could further accelerate the process of financing in this context.

In this section, we will delve into the implications on borrowers and do a deep dive into the direct consequences that lenders may encounter. For lenders specifically, our focus narrows onto the impacts associated with providing energy-efficient loans on its distribution, product, and front- and back-office operations. Throughout this report, we will use terms such as "Sustainable Finance" and "Green Mortgages." For the reader's convenience, we have included definitions of these terms at the end of the report.



## Implication for Borrowers: Increased anxiety through increased possibilities

Numerous reports and surveys have shown that navigating the home financing process often triggers a considerable amount of anxiety. Particularly, the question "Can I afford this property?" evokes anxiety amongst European borrowers.

Although intended for a positive outcome, adding energy performance to the equation of a mortgage or loan application adds additional complexity for several reasons:

1. In a broader sense, the Energy Performance Certificate (EPC) label, indicative of energy efficiency, remains unfamiliar and vague to the majority of borrowers.

2. Energy-efficient renovations are commonly perceived as costly and challenging to correlate with long-term benefits and savings. Moreover, borrowers have limited knowledge regarding which elements can be financed by banks.

3. Additionally, available public grants and subsidies can substantially enhance project affordability. However, navigating these incentives often proves intricate due to frequent changes and regional variations.

4. Notably, this process is relevant not only to borrowers purchasing new homes but also to homeowners considering enhancements such as solar panel installations and improved insulation. Many of these potential projects remain inactive due to financial constraints, unawareness of potential financing options, or both.



## Responsibilities for Lenders

We've identified 5 key responsibilities that sustainable lenders will need to take in the next years in order to actively support the energy transition.

### **1. Guiding and incentivising Borrowers towards Energetic Improvements**

In order to achieve a truly sustainable housing ecosystem, active participation from borrowers is essential. Guiding and incentivising borrowers to improve the energetic performance of their properties while fulfilling their financial obligations is a key strategy. Sustainable lenders must take on a proactive role in offering expert advice, financial incentives, and attractive terms to encourage borrowers to embark on energy-efficient renovations and upgrades. A cycle of sustainability is produced by fostering a mutually beneficial relationship between borrowers and financial institutions, creating a positive impact on both individual property owners and the environment.

### **2. Supporting Borrowers in Identifying the Optimal Financing Mix**

The road to sustainable housing is paved with diverse financial options, and supporting borrowers in identifying the optimal financing mix represents a critical differentiator. Tailored financing solutions, encompassing a blend of mortgages, consumer loans, and subsidies, can enable borrowers to make well-informed decisions that align with their environmental and financial goals. Sustainable financing institutions must harness data analytics and personalized financial planning to empower borrowers with the tools and knowledge needed to navigate the complexities of eco-friendly financing, ultimately accelerating the transition to green housing solutions.







### **3. Financing the Right Properties and Building a Sustainable Portfolio**

As the quest for energy-performant housing intensifies, financing the right properties takes center stage in pursuing environmental responsibility. Sustainable financing practices must prioritize directing investments and funds towards properties that align with eco-friendly standards and promote energy-efficient technologies. Sustainable financing sets the stage for fostering a collective commitment to environmentally conscious construction and reducing carbon footprints by ensuring financial resources flow toward green housing initiatives.

### **4. Consider Properties as living assets for the Lender and the Borrower**

In the past decade, an increase in the value of a property would be significantly tied to its location and rising house prices or immovable characteristics, making property valuations a rather static process. In an energy performance context, we see 3 trends that will make this process more dynamic and will thus cater to more dynamic lending processes:

- Energy performance and, ultimately energy consumption will play directly into the income and expenses of families. Creating a balancing act between financial expenses and energy expenses throughout the lifetime of the financing.
- Property characteristics related to energy efficiency will positively impact the value of the house. This means that a broader set of valuation criteria are required and must be updated.
- Further innovations in energy-efficient technologies (e.g. EV's (electrical vehicles) serving as house batteries) can further drive energy performance and might enable continuous lending opportunities.

## 5. Collaborative Efforts with Regulators and the EU Green Deal

Given the profound importance of this theme, we witness a notable push by (local) regulators and the EU Green Deal towards effecting transformative changes. This collaborative effort emphasises data and document collection, comprehensive monitoring of sustainable portfolios, and the implementation of obligatory renovations. Sustainable financing institutions need to actively adjust their practices to meet regulatory standards, incorporating environmental factors into their lending criteria. This contributes to the shared effort of attaining climate and sustainability goals, while also fulfilling ESG criteria.

As the importance of sustainable financing continues to grow, it emerges as a powerful force driving the transition towards a more sustainable housing landscape. Financial institutions can play a transformative role in shaping a more eco-friendly future by financing the right properties, guiding borrowers toward energetic improvements, and facilitating the optimal financing mix.

*"Financial institutions can play a transformative role in shaping a more eco-friendly future"*

Albeit strong the push may be, this transformation also requires downside risks that should be mitigated as much as possible:

- Focusing too strongly on energy-performant lending might make financing less available to sure home buyers and thus make this finance possibility only available for the happy few.
- EPC-values and the overall taxonomy of the energy performance of a house, there's still ambiguity and incorrectness of those scores. Meaning that today a misinterpretation can lead to financings that will not contribute to the overall goal.



# Transformation Path

So how can lenders support borrowers in this journey? We now take a deeper view of the lenders' business model and zoom deeper into the impact on the products as well as on the business product.

## Product Impact

The move towards sustainability demands a fresh approach to housing project financing. Past reliance on 100% mortgage loans to cover the projects no longer suffices and a new mix of funding types is essential. Today's blend includes mortgage loans, consumer loans, and subsidies, reflecting the intricate nature of sustainability. Lenders need to adjust their range of products

to accommodate this change. Their pricing strategies should encourage environmentally friendly housing by offering lower interest rates, added discounts, or reduced fees. Moreover, their risk policies must be updated to consider environmental impact. Lenders will need to transition from conventional risk models to ones that incorporate a new sustainability dimension.



### Activation

- Providing initial indications on project feasibility.
- Expanding mortgage and finance simulations to consider energy performance improving factors, renovation plans, subsidies, and budgeting.
- Offering guidance and clear content to help borrowers navigate the complexities of green finance.

### Advisory

- Advisors need to understand the sustainable aspects of properties, potential improvements, and available grants and subsidies.
- Lenders must help advisors become experts in explaining the impact of energy performance improvement measures.

### Fulfilment

- Lenders and underwriters must capture and review additional data related to property sustainability.
- Relying on external advice from experts to assess potential improvements will impact mortgage processing times.
- Automating data extraction from EPC certificates can improve efficiency.

### Aftercare

- Post-loan closure, lenders need to monitor portfolio sustainability (after renovation works) and perform extended reporting.
- Additional reporting requirements create an increased workload for lenders.

**The mortgage journey/value chain.**



*How does green finance impact each of the steps?*

## 1. Activation

Incorporating green finance elements adds complexity to the process of determining the feasibility of a client's project. The conventional approach of offering a simple mortgage calculator, which relies on only 3-4 inputs to estimate monthly instalments, may prove inadequate for prospects considering sustainable financing options. Such a basic tool fails to create substantial value to attract and activate clients in the future.

What can lenders do?

a. **Expanding the simulation capabilities:**

Lenders must transition from using simple mortgage calculators to more comprehensive and sophisticated mortgage channels that include potential real estate improvements, pricing based on sustainability factors, and available subsidies. By offering such simulations, borrowers can better visualize renovation plans and make well-informed decisions about their budgets and investments.

b. **Providing extensive guidance and content around this new topic:**

Purchasing a house is a significant, once-in-a-lifetime decision for many borrowers and introducing green finance elements further complicates the decision-making process. Therefore, lenders must step up by offering comprehensive guidance and clear content on the subject. By providing relevant information and support, lenders can help borrowers navigate the complexities of green finance smoothly, ensuring a more transparent and rewarding home-buying experience.

## 2. Advisory

- In the advisory stage, green finance significantly expands the scope of responsibilities for mortgage advisors. Beyond the standard mortgage simulation, advisors must delve deeper into the sustainable aspects of the property, identify possible improvements, and assess the property's energy performance. This will require updated tooling.
- Advisors can also leverage their strength in building financial plans and showing the returns certain investments might have.
- Additionally, advisors are expected to offer guidance on available grants and subsidies to support eco-friendly projects. To meet these new demands, lenders need to invest in training their advisors to become experts in renovation and eco-friendly financing. The advisors' roles have evolved beyond purely financial advice, incorporating elements of architecture and subsidy expertise.

"Our advisors are not purely financial advisors anymore but also need to play the role of an architect and the role of a subsidy expert. The skillset and knowledge needed to perform the job have changed and will keep on changing quite a lot in the next few years."

*Client of Oper Credits*





### 3. Fulfillment

- During the fulfillment step, lenders and underwriting teams face the challenge of capturing and reviewing additional data and documents related to the property's sustainability. Gathering these additional data and documents from the borrower will increase the lender's workload and will negatively impact the time-to-yes. Additionally, the reliance on external advice from architects and real estate experts to accurately assess potential real estate improvements introduces additional delays in the mortgage process.
- To address these issues and better support mortgage advisors, lenders can leverage technology solutions to automate data extraction from Energy Performance Certificates (EPCs) uploaded by clients or retrieve information from external sources like databases containing real estate data (e.g. EPC). Implementing these tech-driven approaches can save valuable time, boost productivity, and enable a more efficient and well-informed decision-making process for both clients and advisors.

### 4. Aftercare

- Even after loans are closed, the lender has a vital responsibility to monitor the sustainability of its portfolio and conduct regular reporting. However, these additional and extended reporting requirements impose an increased workload on the lender. On a case-by-case level, lenders can also take responsibility to actively monitor the energy improvements made to individual projects. These additional process requirements impose an increased workload on the lender.
- To effectively manage their sustainable portfolio, lenders can leverage advanced data analytics and technology solutions. By streamlining the reporting process and automating data collection, lenders can efficiently track and assess the environmental impact of their loan portfolio. This not only reduces the burden on the lender but also enables them to make informed decisions regarding their sustainability initiatives.



## Best Practices to Build a Double Positive Impact

Lenders face an important decision regarding their approach towards sustainable finance. They have 3 strategies to consider. One is to follow the basic 'need-to-haves' approach, which means focusing on regulatory compliance and implementing the bare minimum. While this might not distinguish them as sustainability leaders, it covers the basics and allows them to keep up with regulatory constraints.

Lenders can also take a slightly more opportunistic approach, combining essential sustainable finance elements with strategic advancements. They build on basics while capitalizing on opportunities to adapt to changes without completely altering their business model. An example of this could be a bank that wants to attract new clients by offering special sustainability products at attractive rates. In this example, the sustainability angle becomes a tactic to expand the business.

On the other hand, some lenders might prioritize sustainable finance as a core aspect of their identity and USP. Embedding sustainability in their full product and process portfolio. They will integrate sustainability deeply into their operations, going beyond compliance and aiming to build a comprehensive ecosystem of sustainable initiatives, products, and processes. This approach positions them as first movers, attracting similar partners and clients. Banks like Triodos, ASN Banks, and GLS Bank in Europe take sustainability as their core driver. We anticipate that more Highstreet banks will join this club to accelerate the green turnaround.

Each strategy chosen by the respective lenders will require some changes. Based on our market analysis, we've identified a set of measures we see lenders take within their strategic role.



### Best Practices to Build a Double Positive Impact

#### Must-haves

- Updated products (mortgage/consumer) that address energy performance
- Updated acceptance policies and pricing grids containing sustainability dimensions
- Updated advisory processes and loan advisor training to support energy-performant renovations.
- Launch a calculator that supports grants and subsidies
- Underwriting policies and back-office verification processes.

#### Opportunistic

- Build an advanced financial planner to help loan advisors and borrowers navigate the long-term decision.
- Automate data retrieval for property and renovation data.
- Automate and support clients in the subsidy application process.
- Build after-care processes to check in on energy efficiency gains + Cross-sell

#### First mover advantage (strategic driver)

- First mover advantage (strategic driver) Build an ecosystem of constructors, building promoters, and energy companies to support borrowers end-2-end.
  - Proactively help borrowers in measuring the energy performance of their housing.
  - Referral service.
- Launch new dynamic financing products for longer-term uptake based on energy performance.





## Is it relevant to the lenders only?

We believe not. Our analysis shows that wider ecosystem players can contribute positively on a meta-level. Notably, 2 categories: real-estate players as well as mortgage brokers.

- **Real-estate players** include building promoters and real estate platforms with relevant data about properties' energy performance. They can tie their deep housing expertise to the financing journey. This can create better customer journeys as well as make it easier for lenders to navigate the challenges that come with deeper housing advice.
- Similarly, **mortgage brokers**, often known for their advice capacity in offering the best solutions for their clients, will need to include sustainability in their advisory processes. Earlier research has shown that brokers thrive in markets where products are complex and there are a lot of different possibilities. Given that a client will require profound advice about its building projects, we think that also mortgage brokers can take advantage of this by highlighting their role as independent advisors looking for the most suitable product in the market.

# Use cases



## 1. Volksbank – Die Gestalterbank

Volksbank offers their customers simple solutions for financing renovation, energy modernisation and age-appropriate conversion measures. Secure favourable loan interest rates and take advantage of the unscheduled repayment options. This aims to give borrowers financial leeway for their projects.

- Simple: Handshake loans are simple loans for home financing purposes between EUR 5,000 and EUR 50,000.
- Convenient: Borrowers receive the loans without providing collateral. This saves makes the process much more efficient.
- Cost-efficient: In the case of smaller financings, land registry and notary costs are disproportionate to the financing project.
- Fast: Borrowers receive the loan decision and also the loan provision directly on the spot.
- Familiar: Volksbank offers handshake loans to all customers who have their salary account with Volksbank eG – Die Gestalterbank and already own their home.

Source.



## 2. Triodos NL – Their first bio-based mortgage

With the Triodos Bio-based Mortgage, customers receive an extra low interest rate if they are going to live in or build a bio-based home. *"There are plenty of alternatives to concrete, steel and rock wool,"* says Mortgages Director Jeroen Pels. *"By providing financial incentives for building with wood, straw and flax, we hope that these materials will become more competitive."*

Triodos Bank looks at the Environmental Performance of Buildings (Dutch abbreviation: MPG) when applying for a bio-based mortgage. The MPG indicates the environmental impact of the materials used in a building.

Source.





### 3. KBC - Unburding customers in the energy transition and renovations

KBC has one of the most cutting-edge apps in the global banking scene with a goal to guide mass retail customers through the energy transition. By integrating the Setle service in their mobile app, KBC is able to offer a journey that gives users better insights into their sustainable renovations while promoting green mortgages and relevant financial products.

This brings key advantages:

- Enhanced customer experience and satisfaction levels
- Streamlined and efficient processes for assessing renovation loans
- Higher chance of concluding a deal due to customers' better understanding of costs, which leads to increased uptake in renovation loans for a bank

Source.



# Closing Notes

In a world where sustainability is a collective responsibility, Green Mortgages offer solutions towards the future of finance. This report has explored the ins and outs of Green Mortgages, revealing their potential to reshape housing and lending. As we stand at the crossroads of environmental awareness and financial innovations, it's clear that Green Mortgages are more than a trend; they will be bridging us to a more sustainable future.

The report has shown how housing, once a significant source of CO2 emissions, can be remodelled to drive positive change. The urgency to boost energy efficiency, highlighted by the significant carbon footprint linked to housing, calls for

creative solutions. Europe's 2030 Green Deal emphasises this, spotlighting the joint efforts of consumers, governments, and the private sector.

In this ever-changing landscape, we encourage lenders to think about their roles as agents of change. The choices made and the paths taken today, will resonate far beyond now, shaping a future defined by sustainable progress. By collaborating, innovating, and committing to responsible lending, we can shape a future where financial progress and environmental well-being go hand in hand.



# Definitions

**Sustainable Finance:** Refers to the integration of environmental, social, and governance (ESG) factors into financial decision-making processes and investment strategies. The aim of sustainable finance is to promote investments that not only generate financial returns but also have positive impacts on society, the environment, and corporate governance practices. This concept recognizes that financial decisions can play a significant role in addressing global challenges such as climate change, social inequality, and resource depletion.

**Green Mortgage:** This is a type of home loan or mortgage that is specifically designed to incentivize and support environmentally sustainable and energy-efficient home improvements or purchases. The goal of a green mortgage is to encourage homeowners to make eco-friendly choices that reduce energy consumption, lower greenhouse gas emissions, and promote environmental sustainability.

## Authors and Contributors



**Geert Van Kerckhoven**  
CEO and Co-Founder  
Oper Credits



**Wouter Lachat**  
Co-Founder  
Oper Credits



**Thibaut Nivelles**  
Co-Founder and CEO  
Setle



**Achim Arnold**  
Account Executive  
Oper Credits



**Urs Baumgartner**  
Account Executive  
Oper Credits



**Natalia Slota**  
Editor and Designer  
Oper Credits

[Book an Expert Call](#)



## About Us

At Oper, we aim to empower lenders to finance sustainable housing projects through seamless and integrated financing journeys. We are committed to providing digital customer journeys that inform and guide borrowers through a comprehensive and enriching experience. These journeys cover every aspect related to exploring the impact of renovation decisions on the property, assessing options and costs, and ultimately ensuring the finance-ability of specific projects.

To achieve our vision, we are partnering with Setle, the market leader in technology for sustainable finance and subsidies in Belgium. Together we have developed, and continue to enhance, integrated tools for advisors that streamline the process of finding the optimal financing mix for each borrower's unique project.

oper

Setle

oper