



OPTION 2

Brussels Capital Region, Belgium | Key figures

BUILDING STOCK

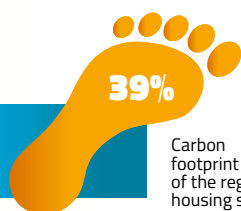
518,494 housing units

37% owner-occupied **61%** rented

2%
unidentified.

TERRITORY

19 municipalities
Area of 161 km²



Carbon footprint of the region's housing stock

PEOPLE

Population of 1,187,890



Average annual gross income of
€21,187/year

Source: Institut Bruxellois de Statistique et d'analyse

The Brussels Capital Region has established ambitious energy and climate goals. It is on the way to reducing its CO₂ emissions by 20% by 2020 while aiming to achieve a 30% reduction by 2025 and 80 to 90 % CO₂ reduction by 2050. In 2016, the Region developed an **Energy, Climate and Air Protection Plan (PACE)**. Buildings which are responsible for 70% of energy consumption play a central role in this plan and other policies developed at the regional level.

The issue

Lack of attractive financing for homeowners with very low to medium incomes

In Brussels Capital Region, **commercial banks** offer the following two types of loans to finance housing energy retrofits:

- **A consumer loan** which usually has a maturity of 10 years and

relatively high interest rates of 3 to 10%.

- **A mortgage** that can include energy renovation costs. Interest rates are lower than for a consumer loan but the maturity is usually the same (10 years). The current average interest rate for a mortgage varies between 1.5% and 3%.

The Region and some of the municipalities offer financial incentives to encourage citizens to carry out energy renovation work in their homes such as:

- **'Energy grants'** for energy retrofit work (energy audits, insulation, ventilation and heating systems) that meets ambitious energy objectives set by the region. The level of ambition is related to the Energy Performance of Buildings Directive (EPBD) which sets a minimum standard for insulation.
- **'Renovation grants'** which can finance any work related to the

renovation of a building such as scaffolding, façade rendering and electrical installation renovation.

Although the Region offers incentives to citizens such as technical assistance and grants, some of them face **difficulties with pre-financing the work**. Homeowners can often finance up to 50% of renovation work via grants, however, they receive the grants only once the renovation works are finalised and paid for. Many homeowners, in particular those on very low incomes, are unable to **pay all the invoices upfront** and/or they do **not have enough money in their bank accounts** to pay for the rest of the investment (not covered by grants). Moreover, people with low and very low incomes may not be eligible for existing loans offered by commercial banks because the risk for the banks is too high.

Solution

The Brussels Capital Region decided to launch a **Brussels Green Loan**, a zero to low interest loan which helps homeowners to pre-finance energy renovation work.

Homeowners have a choice between:

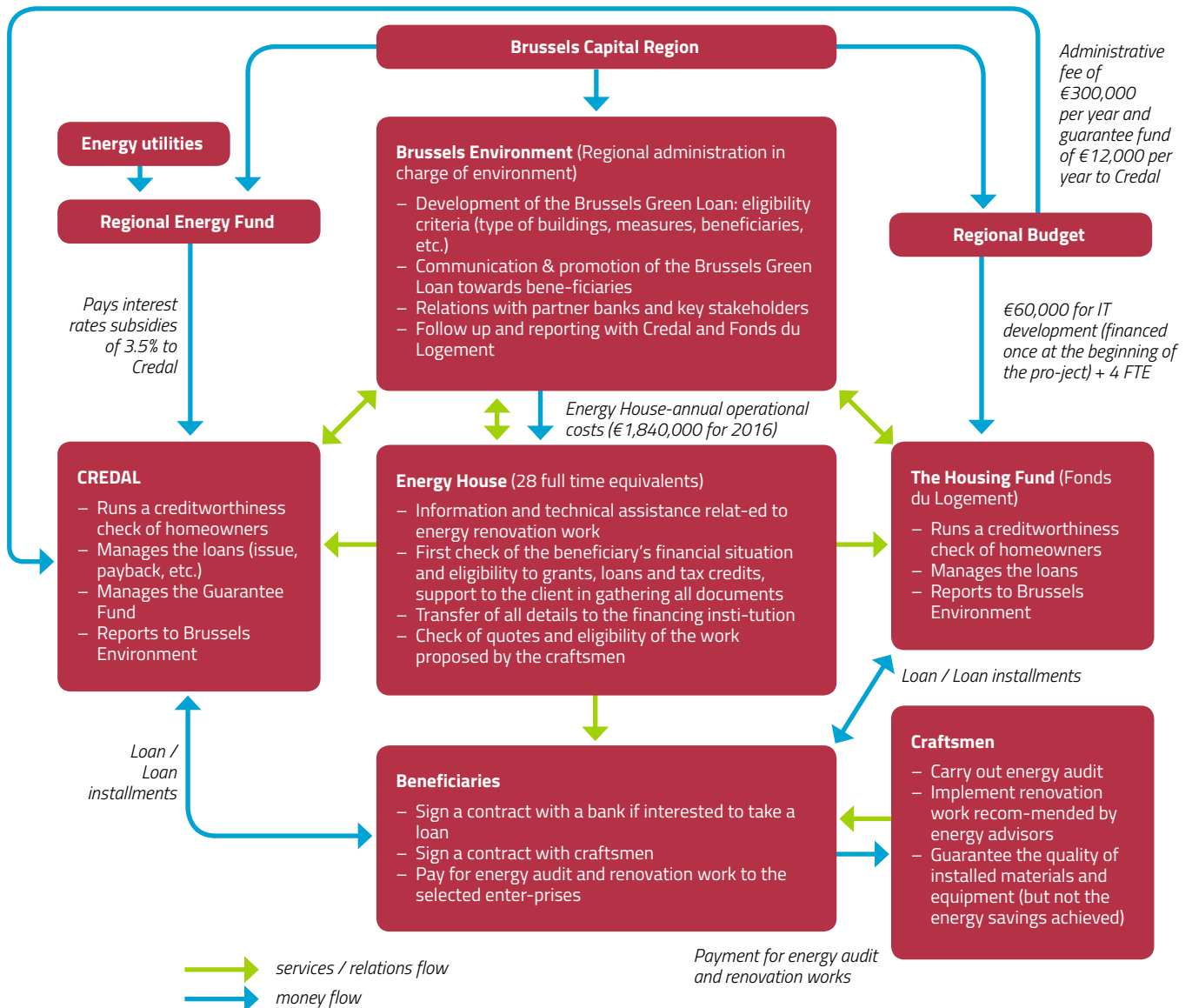
<p>1- A short-term consumer loan with an interest rate of 0% or 1% which they have to reimburse in up to 10 years.</p>	<p>2- A long-term mortgage with a personalised interest rate between 0% and 2% which needs to be reimbursed within a max. of 30 years. Long maturity results in lower monthly installments.</p>
<p>This loan is offered by Crédal, a financial cooperative that aims to promote a fairer and more supportive society.</p>	<p>This loan is offered by the Housing Fund (Le Fonds du Logement/Woningfonds) of the Brussels Capital Region which is a cooperative company. Its objective is to defend access to housing rights.</p>

Interest rates depend on the homeowner's income but are very advantageous in every case.

The added value of the Brussels Green Loan is that even **low and very low income households** and people with no access to commercial loans are eligible. Crédal and the Housing Fund's core business is to support citizens in their project of buying a home and provide them with loans.

The Brussels Capital Region's **target is to issue 700 loans in 2017**.

Business Model





Business Model: Crédal

Crédal issues loans and the **Brussels Capital Region** covers all other costs related to the Brussels Green Loan such as Crédal's operational costs related to its management, subsidies to reduce the interest rates and a guarantee fund:

- ▶ **Operational costs** of about €300,000 per year cover Crédal's staff and other costs related to the management of the Brussels Green Loan:
 - Overhead costs - Telephone, facilities, travel costs, training, IT, others.
 - Human Resources - 3 Full Time Equivalent (FTEs) for the loans + 1 FTE for general coordination. This amount is disbursed in stages depending on the number of loans issued in future years (staged subsidy). Crédal receives 2/3 of the budget, the remaining 1/3 being released once 250 loans have been issued.
- ▶ **Interest rate subsidy:** the Region subsidises the interest rate of the Brussels Green Loan in order to reduce it and make it more attractive for homeowners. The

subsidy is fixed with a 3.5% interest rate, as requested by Crédal. This means that if the beneficiary gets a 0% loan, the Region pays an interest rate of 3.5%. If the beneficiary gets a 1% loan, the Region pays a rate of 2.5%.

- ▶ **Guarantee fund:** the Region has set up a guarantee fund to cover any payment defaults (failure of a homeowner to pay the interest or principal on a loan or security when due). The Region is thus bearing the financial risk related to non-payments. The guarantee fund is managed by Crédal (staff costs are included in the operational costs).

From 2008 to 2010, the region allocated between €12,000 and €24,000 per year to the guarantee fund. The current balance of the guarantee fund comes to €160,924 which is 2.16% of the total amount lent. Given that the risk is really low (1 case of non-payment since 2008), it was decided to stop feeding the guarantee fund in 2016.

Since 2008, Crédal has issued **857 loans for more than €8 m.** For the

Region the **cost per loan is €2,221.** This means that €1€ invested by the Region into the Brussels Green Loan has triggered private investment in energy efficiency measures of **€4.8.**

Business Model: The Housing Fund (FDL)

The core business of FDL is to provide mortgage loans. The Brussels Green Loan completes their offering by providing a specific product related to energy renovations.

The internal funds allocated by FDL to the Brussels Green Loan come from the early reimbursement of mortgages. The Region has provided a single budget of €60,000 for Information Technology developments and 4 FTEs for management of the loan. The Region also pays the difference between the interest rate paid by the beneficiary and the variable rate of approximately 2.5%.

There is no guarantee fund backing the loans issued. The Housing Fund bears the risk in full. At this stage (end 2016), only 6 green loans have been issued by the Housing Fund.

The Brussels Green Loan step by step

Step	Action
Set up a team	<ul style="list-style-type: none"> - 0.5 full time equivalent in charge of the development of the scheme at Brussels Environment - Profile: financial background (accountant or credit specialist) - In charge of drafting and running public tendering, negotiations and follow-up with potential partners
Carry out a market study	<ul style="list-style-type: none"> - A market study was carried out to determine what incentives already exist to motivate citizens to invest in energy renovation work and the market gaps. - Key findings: The market study recommended setting up two different financial products: one soft loan for medium income households and another soft loan for low and very low income households. - Indicative cost: Part of the study (existing incentives) was conducted internally and the market study was subcontracted to an external expert (€80,465 - inclusive of VAT).
Develop a business model	<p>The Brussels Green Loan as it exists today is the result of the following reasoning:</p> <ul style="list-style-type: none"> - A soft loan is needed to complement the existing financing instruments and to boost energy retrofits. - The Region is not allowed to lend money so there is a need for a partner financial institution for which delivering loans is a core business. - The Region wanted to provide a loan that is complementary to the existing 'energy grants', 'renovation grants' and the Energy House technical assistance services. - There is a need for a holistic approach to achieving ambitious energy renovations.
Set up strategic partnerships	<p>Partnerships with banks</p> <ul style="list-style-type: none"> - The Region launched a call for an expression of interest with the aim of attracting partner banks willing to co-develop two types of soft loans, as recommended in the market study. - One financial institution responded to the call. Crédal was ready to co-develop the Brussels Green Loan for low and very low income homeowners, who are already the main target group of this solidary cooperative bank. - Unfortunately, commercial banks showed no interest in cooperating even though the Region hoped they would be interested in co-developing a soft loan for medium income households. Brussels Environment who negotiated with the banks on behalf of the Brussels Capital Region identified the following main reasons why commercial banks did not respond to the call for an expression of interest: <ul style="list-style-type: none"> ▪ The Region was imposing a certain level of control on the issued loans (to make sure the eligible work is financed) which was not in line with the banks' standard procedures. ▪ Burdensome administrative procedures and a lack of flexibility in relation to the work with the Region. - The Region finally enlarged the Brussels Green Loan to medium income households and is now offering the Housing Fund's financial product under the 'Brussels Green Loan' brand. The loan thus covers a majority of homeowners. - Partnership agreement: a key point that should be included in the negotiations / contracts with banks is staged financing – their costs are reimbursed depending on the amount of loans issued.



Set up strategic partnerships	<p>Partnerships with other key actors</p> <ul style="list-style-type: none"> - The Energy House: employs 28 FTEs and delivers technical assistance to homeowners. - Training is organised by Brussels Environment to train regional associations active in the field of energy retrofits. Case studies featuring fictive energy renovation projects and soft loan beneficiaries were used to illustrate the loan mechanism and to ensure that the staff are able to identify potential clients and check their eligibility. Among the training participants were Réseau Habitat (The Housing network). - All partners are involved in promoting the Brussels Green Loan in order to secure its viability and facilitate the process for beneficiaries.
Launch the scheme & communicate	<ul style="list-style-type: none"> - Brussels Environment supported by an external communication agency developed a webpage and flyers as well as a media communication campaign on the internet, in newspapers and on the radio. - The name of the product: initially, the name of the loan was The Brussels Social Loan. After a few months and very low take-up, Brussels Environment carried out a survey to understand why eligible beneficiaries showed no interest. The conclusion was that the target groups did not recognise themselves in the word "social" as they thought that they earned too much to receive the loan. The decision was taken to modify the name and to call the loan "The Brussels Green Loan". - The Region is used to developing 'institutional communication materials' which can be quite rigid and not attractive enough for young people or other specific target groups.
Monitoring and improvement	<ul style="list-style-type: none"> - To monitor the results, Crédal is required to provide 4 times per year a report on their activities including the key figures. The Housing Fund provides reports twice a year. - The most important statistics requested from Crédal are: <ul style="list-style-type: none"> ▪ Total amount lent and number of loans issued ▪ Average life of the loan ▪ Average amount lent ▪ Guarantee fund balance - The Region also requests figures about number of homeowners contacting Crédal and checks links between the Energy House and Crédal to secure the quality of the information transferred. - One of the reporting weak points: it is complicated to monitor the energy efficiency measures implemented and the actual energy savings achieved. The Energy House is not in charge of such monitoring. The Region needs to set up a procedure to collect figures and analyse the impact on CO₂ emissions.

Homeowners' advantages

Technical assistance

1. Homeowners with an energy renovation project go to the **Energy House**. They get initial advice and recommendations on potential energy saving measures and existing technologies. Their personal situation is partly analysed and they receive information about grants and financing solutions for which they are eligible. At this stage, the energy advisor can visit their homes and check on the spot which measures can be carried out.
2. Homeowners are responsible for finding **craftsmen** and architects and getting quotes.
3. The Energy House advisor checks the quotes and official documents presenting the homeowner's personal and financial situation. They check whether the households and the proposed measures are eligible for grants, the Brussels Green Loan and other financing instruments.
4. When homeowners wish to apply for a loan, an appointment is made with the financial institution which issues the loan.

The Brussels Green Loan

Eligibility criteria

Type of housing	Type of households*	Eligible measures
-Single family houses and apartments -Situated in the Brussels Capital Region	All Brussels citizens over 18 with a limited income*	Insulation and heating system

*Type of households eligible for the Brussels Green Loan

No. of dependants	Taxable Income*		
	A - Single person	B - Households with 2 persons or more with 1 income	C - Households with 2 persons or more with more than 1 income
1	€ 45,895	€56,094	€71,303
2	-	€61,193	€76,492
3	-	€71,391	€86,690
4 and more	-	€76,490	€91,789

*yearly indexed

Loan conditions

Crédal: consumer loan



The Housing Fund: mortgage



Loan amount: from €500 to €25,000

Maturity: 1.5 - 10 years

Interest rate: 0% or 1%

0%: for people with annual income of less than €30,000 (single) / €60,000 (family)
1%: for the others

Grace period: none

Administration fees: none

Guarantee: not required from homeowners - secured by the Guarantee Fund set up by the Region

Beneficiary's own contribution: minimum homeowner contribution is not requested by the bank.

Loan amount: from €3,600 to €25,000

Maturity: up to 30 years

Interest rate:

0% for people with annual income of less than €15,000
Formula used for other beneficiaries (Max 2%): Net taxable income x 2 / 66,293*

Administration fees: €50

Mortgage commitment fees: +/- €60 (if requested)

Guarantee: not required from homeowners - secured by the Guarantee Fund set up by the Housing Fund

Beneficiary's own contribution: minimum homeowner contribution is not requested by the bank.

*yearly indexed



Financing scheme highlights

Strong points	Weak points
<ul style="list-style-type: none"> - Tailor-made advice for homeowners - Attractive interest rate (0-2%) - Accessible to low and very low income families - Very low risk (1 case since 2008) - Ambitious energy efficiency targets to obtain grants 	<ul style="list-style-type: none"> - Expensive for the Regional budget - Time-consuming for the bank advisors to carry out a financial check and provide information to homeowners (on average 16.5 hours for Crédal). - Risk borne by the Region - Absence of a procedure to monitor the results in terms of CO₂ emission reduction - The fact that two lenders are involved in the financing scheme makes it more difficult to set up simple common procedures and conditions - The Brussels Environment internal communication team does not have the expertise to communicate on financial issues - A substantial number of people involved: can slow down the process

Recommendations

- Keep your financing mechanism simple and easy to understand.
- Keep the mechanism easy to manage, monitor and follow.
- Make sure you have a visible and efficient front office.
- Carry out a professional communication campaign.
- Think in advance about how to monitor the effect of investment in terms of CO₂ emissions.

Next steps:

The Region intends to:

- Increase the amount of loans issued by reinforcing its communication campaign.
- Investigate options on how to increase the renovation rate of condominiums through specific technical assistance and a financing instrument.

Need more details about this case study?

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