

I STUDY ON GREEN FINANCES IN SPAIN

ASUFIN ECO | DECEMBER 2020

Project Green Finances, Circular Economy and Decarbonization
after COVID-19



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Introduction

The financial sector **is an essential element in the sustainable development of our planet** as it serves as an intermediary between consumers, companies and institutions. This intermediation focuses on two fundamental aspects: financing and investment. The dichotomy between economic development and promotion of these exchanges versus slowing down the pace of such exchanges in favor of greater and better preservation of natural resources. The eternal dilemma between economy and environment.

Having overcome this discourse, one of the most important objectives of today's developed and modern societies is the reduction of emissions into the atmosphere, an achievement in which consumers can participate in two main ways: **reducing energy consumption at home and using environmentally friendly transports.**

Therefore, adequate financing when buying or renovating a more energy-efficient home, as well as purchasing zero or low-emission vehicles, is essential. This kind of homes and vehicles require a higher volume of investment and, although this offers a significant reduction in costs in the long term, **initial outgoings are higher than other options on the market, dissuading consumers.**

ASUFIN analyses in this study, helped by Antonio Luis Gallardo, the offers of this type of product available on the Spanish market, together with the general perception of citizens, whom are still not very familiar with them. Between December 2nd and 10th, 1,149 people were consulted as part of an online survey, involving people aged 18 or over, residing throughout Spain, weighting both the population of each autonomous region of Spain and age group, to achieve representative results in the entire sample analyzed.



This project has been subsidized by the Ministry of Consumer Affairs. Its content is only responsibility of the beneficiary association.

5 Main conclusions

In this study, you will discover that:

- 1.** Almost half of the population (45,4%) would consider investing in an electric car or sustainable housing **to receive tax deductions.**
- 2.** **The Spanish market has a limited supply of “green mortgages”**, which in most cases offer worse economic conditions than conventional mortgages.
- 3.** However, **personal loans available for the purchase of electric or hybrid vehicles** on competitive terms when compared to other financing.
- 4.** **Only 1 in 10 people would be willing to make a “green investment”**, even if the costs were higher than a traditional investment. Furthermore, only 25% of the population believe it is important that an investment is sustainable.
- 5.** Although the automotive sector offers subsidies and deductions when purchasing low-emission vehicles, **in the field of housing, only very occasional deductions are offered in certain regions of Spain.**

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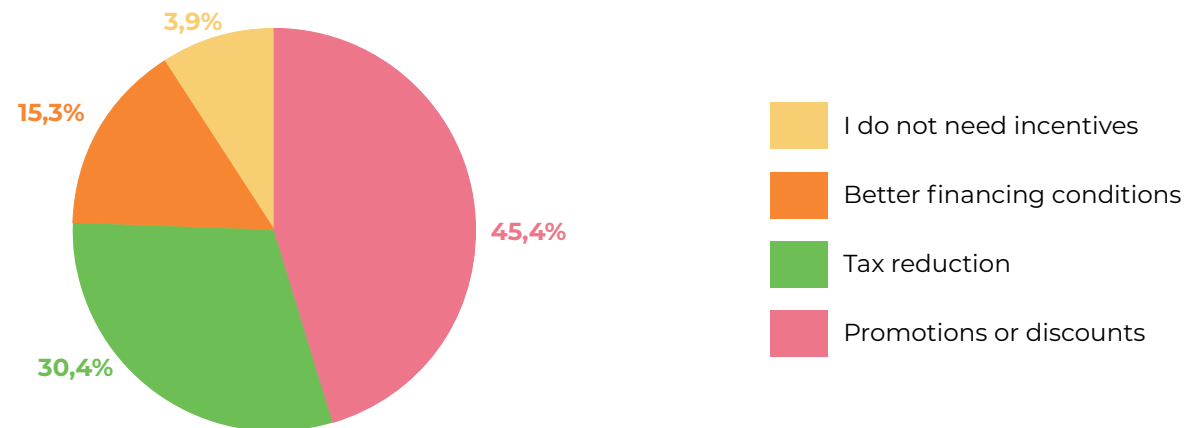
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1. Incentives in the commitment to green products:

Sustainable housing

We have analyzed the main incentives that Spanish consumers look for when betting on the purchase of a home with higher sustainability criteria or a car that meets the requirements of the ECO label.

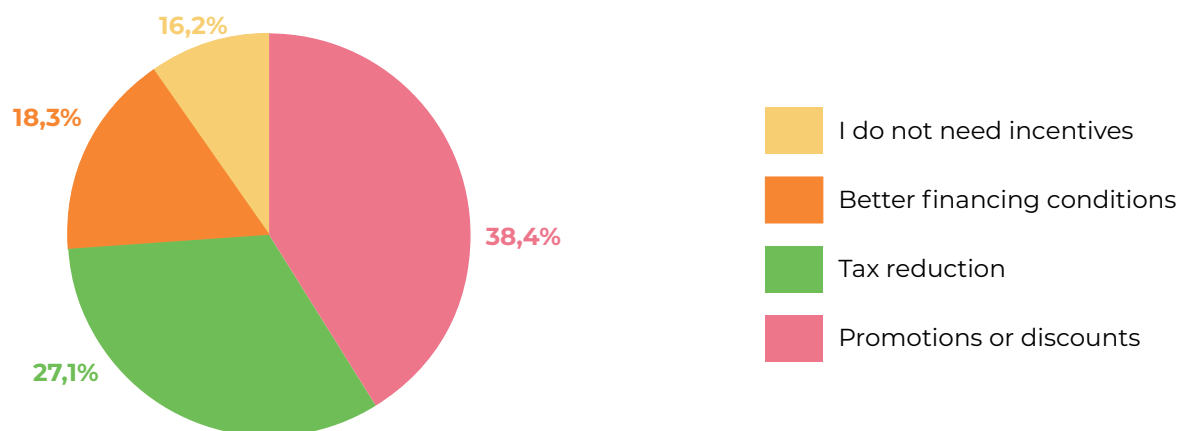
What incentives do you consider most important when buying an ECO car?



In the case of sustainable housing, almost half of the respondents (**45,4%**) recognize that the greatest incentive is the tax deductions derived from the purchase. It is followed by **30,4%**, who seek to see their taxes reduced, and **15,3%**, who hope to see the conditions of their mortgage improve. Finally, **3,9%** state that they do not need incentives, when considering that the energy and other saving that they achieve globally is sufficient incentive.

2. Incentives in the commitment to green products: Sustainable vehicle

What incentives do you consider most important when buying a sustainable house?



In the case of electric vehicles, promotions and discounts are the most important factor for almost four out of every ten people (**38,4%**), followed by less tax on purchases, mentioned by **27,1%** of respondents, and better financing conditions, **18,3%**, in total 5% higher than is the case for housing. The label "I do not need incentives" is also higher (practically double, **16,2%**). In this case, the immediate perceived savings in fuel and other benefits of these vehicles means that many do not require "additional" incentives.

3. “Green mortgages” market

The homes energy efficiency is the requirement that access to the market of the so-called “green mortgages”. The arrival of these certificates, regulated by Royal Decree 235/2013, of April 5th, and which have to be delivered in a mandatory way before any home sale allows that, being incorporated in the mortgage application, it is easy to evaluate by the risk department of the financial institution.

However, the offer in the market is scarce, there are no important bonuses and even in some cases these mortgages are more expensive than other “non-green” ones, since **the starting differential is usually higher** than the one obtained any good customer of an entity.

To this is added that green mortgages, which could be an incentive for the purchase of more real estate sustainable, **do not take into account issues** such as architectural design, materials, the need for artificial lighting, spending on water or in the case of rural homes, the need for a proper system of water treatment.

The supply of green mortgages for home renovation is also scarce. An exception is the Triodos Mortgage offered to those who reform their home and improve their energy rating, after the fixed rate period of their mortgage (the first 18 months), revise down the interest rate for the rest of the period, having to present as only the new energy certificate.

4. Little bonus

In the following comparative table we find that the Variable Triodos Mortgage has an associated differential to energy certification, which allows a price range from the cheapest, of Euribor + **1,05%** for the A certification, the most expensive, of Euribor + **1,29%**, for G certification.

The rest of the entities apply a small bonus on the differential: **0,25%** in the case of Bankia if the certification energy is A or B, **0,10%**, in the case of Banco Santander, and **0,05%**, in the case of Cajamar.

BANK	PRODUCT	DISCOUNTS
Triodos Bank	Triodos variable mortgage	Spread associated with the energy certificate, the lowest Euribor + 1,05% for type A and the highest Euribor + 1,29% for type G
Bankia	Variable Mortgage	-0,25% in the spread type A and B
Banco Santander	Variable Mortgage	-0,10% in the spread type A and B
Cajamar	Variable Mortgage	-0,05% in the spread type A and B

5. Consumer loans for goods and services market

In the case of consumer loans for the purchase of ECO vehicles or home renovations, for example, the difference respect to green mortgages is that **in most cases they do offer more competitive prices than average market rates**. Many of them focus on financing ECO-labeled vehicles and reforms to improve the sustainability of housing, with amounts and maximum terms of up to 75,000 euros and 120 months.

We found up to four competitive products, with prices below the market average, which is 6,82%*.

The one that charges the lowest interest is Bankia's "sustainable credit" for vehicles, purchase of electrical appliances or reforms, with a TAE of **4,85%**. It is followed by the BBVA green car loan, with an TAE of **5,21%**. The one from Kutxabank, for reforms and purchase of vehicles, at **5,77%** and the loan "Motor Eco Verde" from Unicaja, at **6,01%**. Slightly higher the average market price, Banco Cetelem, for the purchase of a hybrid or electric vehicle, stands at **7,18%**.

*Used as a reference the data of the Spanish Bank of the average rate over 5 years of the loans in the market.

6. Competitive prices

BANK	PRODUCT	WHAT IT FINANCES	MAXIMUM AMOUNT	MAXIMUM TERM	APR INTEREST RATE
Bankia	Sustainable loan	Purchase of a hybrid or electric vehicle. Class A domestic appliances. Refurbishment that improves the home's energy efficiency rating	€ 60.000	96 months	4,85%
BBVA	Ecological car loan	Hybrid and electric car	€ 75.000	96 months	5,21%
Kutxabank	Green loan	Refurbishment that improves the home's energy efficiency rating. Electric car.	€ 75.000	120 months	5,77%
Unicaja	Motor Eco Verde Loan	Hybrid or electric vehicle	€ 60.000	96 months	6,01%
Average interest rate of loans over five years: 6,82%*					
Cetelem Bank	EcoAuto Loan	Hybrid or electric vehicle	€ 60.000	96 meses	7,18%

*Used as a reference the data of the Spanish Bank of the average rate over 5 years of the loans in the market.

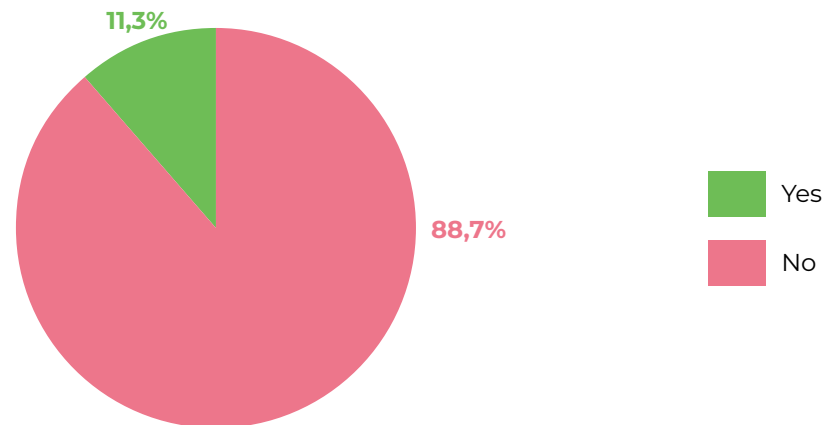
7. Sustainable investment

Whereas one of the biggest handicaps when it comes to choosing financing is the limited availability, this is not the case with investments. According to a study by a Swiss management firm Vontobel Asset Management, **29% of the funds investments in Spain are allocated to environmental, social and corporate governance criteria**. The study on “Sustainable and Responsible Investment in Spain 2020” by SpainSIF calculates that these investments came to just under 285.5 million euros in 2019, up by 36% year-on-year.

The conditions that affect negatively to the choice of a green investment are very varied. First, aversion to risk, since in most cases these investments are focused on variable income funds . But the second is in the rejection of the extra cost.

8. “Green” investment´s extra cost

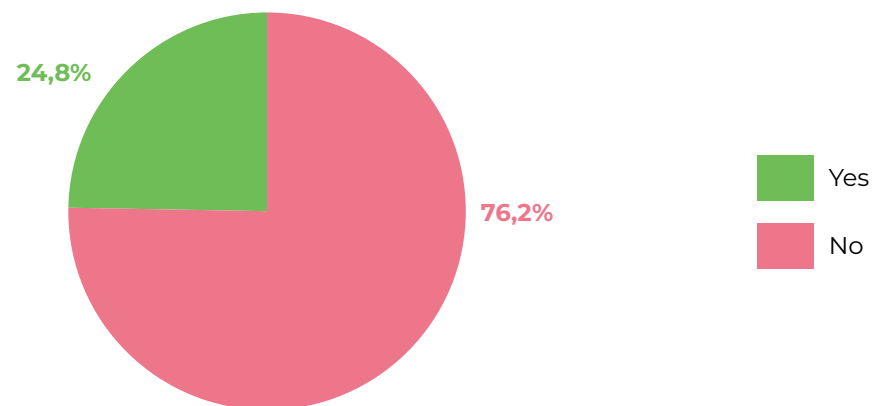
Would you pay more for a sustainable financial product?



According to the data obtained by the survey, when asked if they would be willing to **assume the extra cost of a green investment**, without going into assessing its risk, only **11,3%** acknowledge yes.

9. Sustainability criteria

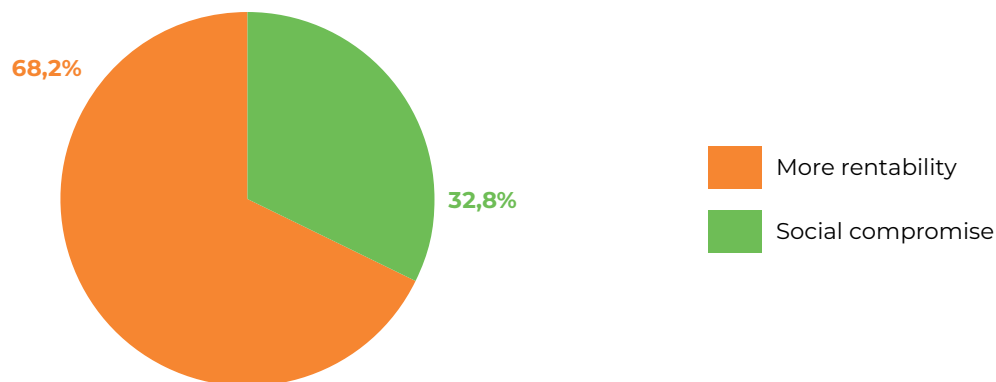
When choosing investment is the main factor the sustainability?



Regarding sustainability as a singular judgement when deciding investments in funds or companies, **24,8%** of those surveyed give it importance, compared to the rest who do not take it into an special consideration.

10. Profitability vs. Social commitment

Why do you think it is important investing in sustainable companies?



Asked about the reasons why it is consider important to invest in sustainable companies, **32,8%** say that they do so thinking of of the social commitment , while the rest (**68,2%**), mostly, declares that they do for the highest profitability.

In the context of recent years, marked by the imposition of greater requirements, both national and international, it is leading to the implementation of “green policies” in large companies. Not only that, the evaluations made by risk rating companies **take these greater commitments into account**, since they are very related to risk reduction. All of this means that these companies dominate many investment portfolios and offer little potential of profitability than uncommitted companies.

11. Green finance taxation

As we have already seen, tax benefits, both at the time of purchase and thanks to the subsequent deductions available, **are one of the main reasons** for choosing more sustainable homes or electric vehicles.

In this sense, two completely different policy lines are taken by the administrations. On the one hand, a firm commitment to subsidising the purchase of environmentally-friendly vehicles, but very limited assistance when it comes to sustainable housing.



AUTOMOBILE SECTOR



HOUSING SECTOR

12. Automobile grants

There are currently two lines of active subsidies, incompatible between them, so the consumer must choose one or another.

PLAN RENOVE

The 2020 edition of Plan Renove is aimed at vehicles with an A or B energy rating (the 45% most efficient vehicles on the market) which must also be approved in terms of CO2 emissions below 120 g/km, or must be vehicles that use alternative energy, such as hybrids, gas or electric. This plan sets an upper price limit for cars of 35,000 euros, rising to 45,000 euros for people with reduced mobility. It is a prerequisite that the buyer's old vehicle must be scrapped.

The subsidy is variable and ranges from 400 euros for category B vehicles to 4,000 euros for zero emissions vehicles. On top of this amount is the sum contributed by the dealer: 1,000 euros for zero emissions vehicles and an identical amount subsidised by the government for ECO and C-Label vehicles, in addition to a further 500 euros if any of the following requirements are met: when scrapping a vehicle that is over 20 years old, when the buyer is part of a Spanish Large Family or when monthly household income is less than 1,500 euros.

Although the plan has ended in the year 2020 without distributing all its funds, there is no official confirmation of its extension. However, the Impulse Plan for the Electric Vehicle is expected to be launched in 2021, which will be endowed with 1,100 million euros in 2021, from the recovery funds of the European Union.

PLAN RENOVE II

Plan Moves II, aimed only at electric, plug-in hybrid and gas vehicles. The subsidy available differs depending on the buyer, the technology chosen and the self-sufficiency, although tops off at 6,500 euros.

At the end of this study, the Government is considering different options to extend this aid throughout 2021.

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13. Housing grants

Following the exclusion of deductions for the purchase of a habitual residence 8 years ago, deductions in this field are few and far between, and in the case of sustainable homes even more so.

AIDS COLLECTED IN THE 2018-2021 HOUSING PLAN

On the one hand, subsidies included in the 2018-2021 Housing Plan, covering the refurbishment of regular housing structured around energy efficiency (also to make housing more accessible), are very limited, with no plan in place to substitute it when it ends within a year's time. The main problem with these subsidies is that they only apply during the year in which the investment is made and ceilings are set (varying between the different regions in Spain), meaning that **the real tax benefit is very low in relation to the total investment made.**

For example, in Galicia, up to 15% of the total amounts invested can be deducted, subject to a maximum limit of 9,000 euros per taxpayer. The requirement is that the property's energy efficiency must be improved, moving up to a higher rating. In the Canary Islands, 10% of the amounts spent on energy refurbishment work on the taxpayer's usual residence can be deducted, up to a maximum of 7,000 euros per taxpayer.

Green finance, a market with a remarkable development margin

Compliance with the environmental and sustainable development objectives set for 2030 is a major undertaking and one that we must all be aware of. Consumers, as the last link in the chain, have the power with our decisions to change many of the economic dynamics with an impact on our environment, not only environmental but social. However, the market does not offer attractive incentives.

We are facing a clear shortage of financial products that can be considered “green”, especially financing, but also investment, in addition to having insufficient public initiative. Lack of deductions, which we cannot forget is one of the main incentives for citizens, is a important ballast when it comes to improving the sustainability of a home.

At **ASUFIN**, we feel obliged to draw attention to this fact, in addition to the lack of solutions in the short term; public administrations must be the catalysts for making green investments profitable and attractive. However, this could also be the perfect opportunity for financial institutions if they decide to offer this type of product, opening up a niche in the market. It is essential that the conditions offered are competitive and encourage the public to buy a more sustainable homes, or to refurbish their own home in such a way that the emissions it produces are compatible with the prevention of climate change, which is a global target that we must all pursue together.

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