

European Construction Sector Observatory

Policy fact sheet

France

Zero Rate Eco Loan Scheme

Thematic objectives 1 & 3

March 2022



In a nutshell

Implementing body	Ministry of Economy, Finance and the Recovery (Ministère de l'Économie, des Finances et de la Relance). Delivered by French banks.
Key features & objectives	Interest-free eco loan scheme that provides finance to support energy efficient renovation work on primary residences.
Implementation date	2009 – December 2023
Targeted beneficiaries	Homeowners and co-owner syndicates (residential buildings)
Targeted sub-sectors	Residential, energy efficiency
Budget (EUR)	7.46 billion (7,000–50,000 per residence)
Good practice	★★★★☆
Transferability	★★★★☆

The challenges posed by climate change, the scarcity of natural resources and geopolitical issues are forcing European countries to rethink and redesign domestic energy strategies. Reducing energy consumption is a key part of climate and environmental strategies and the residential sector is an important part of the equation, as it accounts for 25% of total EU energy consumption¹.

45% of residential buildings in France were constructed before 1970² and only 6.6% of approximately 29 million primary residences are energy efficient³.

An average French primary residence consumes between 151 and 330 kWh/m² of energy per year. 17% of residences are excessive energy consumers, with annual consumption exceeding 331 kWh/m².

To increase the number of eco-friendly residential buildings, successive French governments have provided a full range of support mechanisms, including grants, counselling and affordable loans.

The Zero Rate Eco Loan scheme (éco-Prêt à Taux Zero or éco-PTZ) was launched in 2009. The scheme provides interest-free loans that range from EUR 7,000 to EUR 50,000⁴ to finance energy efficiency improvement work on primary residences.

The scheme is administered by the Ministry of the Economy, Finance and the Recovery, in partnership with 15 banks that provide the eco loans to owners of primary residences.

Loan financing is available to three types of renovation projects. Energy efficient renovation projects can involve a range of improvement actions to thermally insulate roofs, walls, windows and floors, and to install heating and hot water production equipment and systems, especially using renewable energy sources. Energy performance upgrade projects for buildings cover larger-scale interventions to reduce overall energy consumption and to conserve energy for heating, cooling and hot water production. Non-collective sanitation system upgrade projects target the installation of equipment that does not consume energy.

The latest data on the Zero Rate Eco Loan scheme shows that a total of 411,077 loans have been awarded since 2009, at a total value of over EUR 7.46 billion⁵.

Overall, the success of the scheme has been relatively modest. The loans were awarded to just over 1% of the 29 million primary residences in France. Annual loan awards have also been relatively low, following high public demand in the early years of the scheme. However, reforms in recent years are boosting interest and loan awards. Longer-term, there is room for improvement and better results.

1.

General description

The Zero Rate Eco Loan (ZREL) scheme was launched in 2009 by the French Ministry of the Economy, Finance, and the Recovery.

The scheme provides interest-free loans to homeowners and residential building co-ownership syndicates to finance energy efficient building renovations.

Zero Rate Eco Loans are awarded by 15 participating banks that have signed an agreement with the French government.

The main objectives of the scheme are to:

- Give residents access to affordable eco-friendly housing finance;
- Improve the energy efficiency and indoor climate of primary residences;
- Reduce the total energy consumption of the residential sector.

Project types eligible for an eco-loan

Eco-loans are available to support a range of energy efficient renovation actions, building energy performance upgrade projects or projects to upgrade non-collective sanitation systems.

Energy efficient renovation actions

The types of renovation actions that are eligible for an eco-loan include:

- Thermal roof insulation;
- Thermal insulation of exterior walls;
- Thermal insulation of windows (given that the material used will replace single glass windows) and doors leading to outside spaces;
- Insulation of lower floors;
- Installation, regulation or replacement of heating or domestic hot water production systems;

- Installation of heating or domestic hot water production equipment using a renewable energy source.

Since 2019, to encourage more property owners to access the measure, the French government extended interest-free loans to projects that only target one type of renovation action.

To replace glass walls as a single action, for example, the eco-loan limit is EUR 7,000.

Building energy performance upgrade projects

To be eligible for loan funding under this category, renovation projects must upgrade housing to meet the following standards:

- Conventional annual consumption inferior to 331 kWh/m², regarding primary energy for heating, cooling and hot water production;
- Energy conservation of at least 35% compared to conventional annual primary energy consumption before the renovation work for heating, cooling, and hot water production.

Reforms introduced in 2021 have increased the maximum eco-loan amount for building energy performance upgrade projects from EUR 30,000 to EUR 50,000.

Non-collective sanitation system upgrade projects

Projects are required to upgrade non-collective sanitation systems using equipment that does not consume energy.

Non-collective sanitation system upgrade projects are eligible for a maximum loan of EUR 10,000.

Loan combinations

Regardless of the type of renovation, the Zero Rate Eco Loan can be complemented by other public measures targeting better residential energy performance.

Eco-loan applicants can also apply for more than one loan, as long as the total amount does not exceed the maximum limits per project category.

Eligible applicants include⁶:

- Owner-occupants that hold the title of the property and use it as their primary residence;
- Owner-absentees that rent their property to tenants for use as a primary residence;
- Co-owners of a residential property that use it as their primary residence or that rent it to tenants for use as their primary residence;
- Co-owner syndicates, which in French law designates the co-owners of a condominium building. This category of applicants was added to the scheme in January 2015 to support collective renovations in urban areas. In addition to a 'collective interest-free loan', each participating co-owner is eligible to apply for an individual loan, which they can use to renovate their own dwelling.

Applicants must also meet **eligibility criteria**:

- The property must be used as a primary residence, either by the owner or their tenant. According to French law, a primary residence is defined as housing that is occupied at least eight months per year. Professional obligations, health reasons or incidents of force majeure can justify exceptions to the rule;
- The property must have been constructed at least two years prior to the start of the renovation work. This requirement was introduced in 2019 as part of a reform package. Until then, only properties built before January 1990 were eligible for a loan;
- Zero Rate Eco Loans (logo shown in Figure 1) to co-owner syndicates can only be used to finance the renovation of parts of condominiums that are of collective interest (e.g.: balconies, windows, parking lots, etc.).

Figure 1: Zero Rate Eco Loan logo



Source: SOVAMER IMMOBILIER⁷

Eligible Banks

Participating banks are required to sign an agreement with the government and the National Funding and Guarantee Management Company for the Social Accession to Home Ownership (la Société de Gestion du Fonds de Garantie de l'Accession Sociale à la Propriété). The agreement regulates loan procedures, the eligibility control of files and the tax credits provided to the banks.

Participating banks maintain the right to independently assess the solvency and loan guarantees of the potential borrower. In other words, banks are not obliged to grant the eco-loan.

In exchange for their financial services, the government compensates participating banks with tax credits commensurate with the 'normal' interest rate the banks would have charged borrowers for the same amount of money. The exact degree of 'normal' interest rate is defined by the period in which the loan was granted. Public authorities are allowed to reimburse banks over a five-year period.

Application Process

In addition to an interest-free loan, the measure exempts borrowers from application or expert fees and interim interest. Furthermore, at all stages of the application process, free counselling is provided by special advisors. Late payment interest is foreseen, to encourage prompt payment.

Loan beneficiaries must select a contractor from a list of eco-certified companies, which have been awarded the Recognised Environmental Guarantor (RGE) Label (Reconnu Garant de l'Environnement).

In the case of building energy performance upgrade projects, an energy audit must be carried out by a certified architect or design office to estimate the building's current energy consumption and to suggest a roadmap for the renovation project.

Owners of primary residences are required to submit the following documents to one of 15 banks:

- Completed eco-loan application form;
- Energy Performance Certificate;
- Proof that the property is used as a primary residence;
- Most recent tax statement;
- Renovation project description, including the estimated number of working hours signed by each contractor and all associated costs.

Co-owner syndicates are required to submit the following documents to one of two banks:

- Completed collective eco-loan application form;
- Energy Performance Certificate;
- Total number of dwellings and buildings in the condominium;
- Total number of participating co-owners;
- Renovation project description, including the estimated number of working hours signed by each contractor and all associated costs.

Once the application is fully assessed and accepted, the bank must grant the full amount of the loan within a period of three months. Loan beneficiaries must submit proof of project completion within three years of the loan award date.

Since 2021, the maximum loan repayment period has been increased from 15 to 20 years. Until the loan is fully reimbursed, the property must remain a primary residence.

2.

Achieved or expected results

Since its launch in 2009, the Zero Rate Eco Loan scheme has awarded a total of 411,077 loans, at a total cost of more than EUR 7.46 billion⁸. The scheme has also formalised official lending partnerships with 15 banking institutions to increase public access to the scheme.

When viewed on a year-by-year basis, however, the number of eco-loans awarded has decreased significantly since 2009/2010.

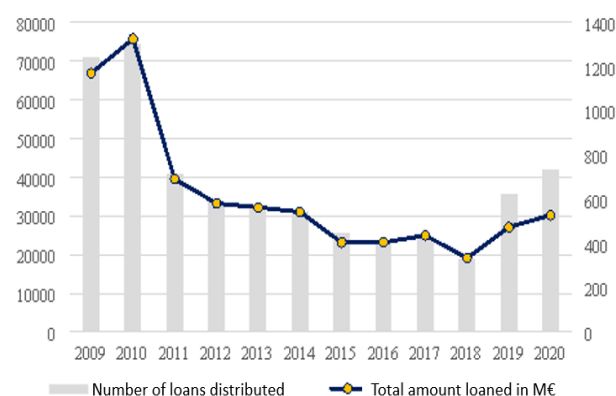
Results data also indicates an imbalance in the share of loan awards by household income category. The largest share has been awarded to higher income households than those on lower incomes. In addition, most loans finance renovation projects of fairly limited scope, which therefore limits their contribution to the scheme's main goal: to significantly improve residential building energy efficiency performance.

Reforms introduced in recent years have, however, had a positive impact on the scheme, evidenced by year-on-year increases in loan awards in 2019-2020.

Figure 2 shows the number of interest-free loans awarded to homeowners per year. In 2009, a total of 70,993 renovation loans were awarded, at a total cost of EUR 1.17 billion. By 2018, however, the annual number of loans awarded had fallen by nearly 75% to 18,775, at a total cost of EUR 335 million.

French authorities introduced a series of important reforms to arrest the fall in annual loan awards. A key reform was to loosen the eligibility criteria, for example, to permit single renovation actions. Following those reforms, annual loan award figures have risen significantly, including during the COVID-19 pandemic. Between 2018 and 2019, in particular, loan awards jumped by almost 90%.

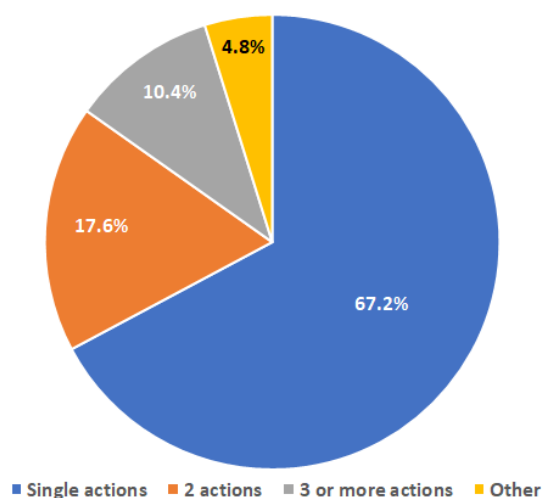
Figure 2: Number of eco-loans awarded to owners



Source: SGFGAS⁹

Extending loan eligibility to single renovation actions had an important side effect. As shown in Figure 3, single action loans accounted for the largest share (67.2%) of eco-loan types awarded in 2020. As a result, the average loan awarded by banks fell by about 30%, from EUR 17,858 in 2018 to EUR 12,561 in 2020. Just 4.8% of all loan awards in 2020 were for sanitation system upgrades and overall building energy performance upgrades.

Figure 3: Eco-loans granted in 2020 by number of actions



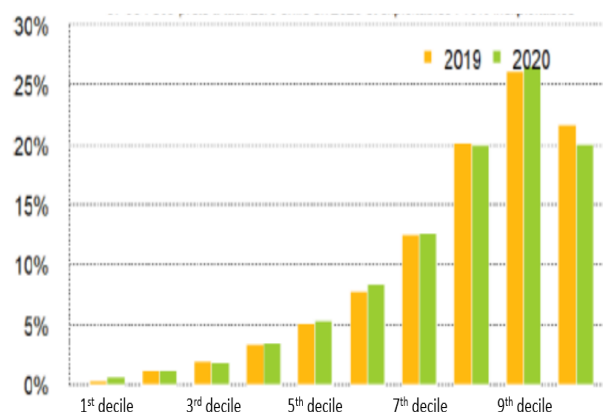
Source: SGFGAS¹⁰

The predominance of renovation projects with a narrow scope is an indication of public preference for more targeted energy efficiency renovation work. It may also indicate financial constraints and/or a preference for limited investment and debt in a financially challenging period. In either case, there is a difference between the public's preference for more limited improvement work and the original aims of the scheme. This is further evidenced by the fact that 'building energy performance upgrade projects' accounted for just 0.6% of loans awarded in 2020.

Another issue with the scheme is related to the income profiles of eco-loan beneficiaries. Although policymakers underline the universal status of the scheme, in practice, evidence indicates that the majority of eco-loan beneficiaries are also those with the highest incomes.

Figure 4 shows the percentage share of eco-loans awarded by household income decile in 2020. The graph shows that the wealthiest deciles in society (7th to 10th) were the main recipients. In 2020, almost 67% of eco-loans were distributed to 30% of the most prosperous citizens. A higher degree of property ownership among wealthier citizens and their greater ability/willingness to invest and take on debt may provide some reasons for this disparity.

Figure 4: Eco-loans by household income decile, 2020



Source: SGFGAS¹¹

The participation of co-owner syndicates, shown in Table 1, has been fairly limited year-on-year since this loan type was introduced (2015). This is partly explained by the inherent complexities associated with this type of ownership structure (i.e.: multiple owners must come to an agreement). Another potentially influential reason may be the limited number of banks (only two) that are eligible to grant loans to syndicates.

Table 1: Number of collective eco loans per year

Year	Number
2015	56
2016	105
2017	95
2018	53
2019	48
2020	11

Source: SGFGAS¹²

3.

Perspectives and lessons learned

Effective communication of complicated measures is essential.

Regardless of the benefits and the advantages a measure may provide, its effectiveness depends on how successfully it is received and implemented by its targeted beneficiaries. The Zero Rate Eco Loan is an inherently complicated measure, which requires technical expertise throughout the process.

Effective communication of the measure by public authorities and financial institutions is needed to fully inform the public and applicants, to convince them of its value. According to the Director of opinion studies at OpinionWay: *“While this type of State aid is growing, two-thirds of respondents say they are unable to name one despite communication from public authorities and private. Eco-loans only capture 2% of quotes”*¹³.

One-to-one counselling has helped to make the application process easier for applicants.

The Zero Rate Eco Loan application process, done through one of 15 banks, is quite complex and burdensome for many applicants. In particular, the requirement to submit technical reports and energy performance studies, have made the process more complex for property owners. The provision of special and personalised technical advice and assistance to applicants, as part of the scheme and free of charge, has therefore played an important role implementation support role. The value of that support is highlighted by the General Director of Teksial, a French energy company: *“Households need a single point of contact to carry out the work in the right order”*¹⁴.

Where housing demand outweighs supply, energy efficiency is often not high on a buyer's list of priorities.

Using a measure such as the Zero Rate Eco Loan scheme to promote energy efficient renovations is

a step in the right direction. However, where the housing market is not able to match supply with ever-increasing demand, concerns about a home's energy performance may not be sufficient to incentivise new owners to invest in eco-improvements, even if the investment conditions are favourable.

According to a Notary and Member of the French Superior Council of Notaries (Conseil supérieur du notariat): *“It all depends on the tension on the real estate market: the stronger the demand, the less important the energy label of the housing is. It is not the energy consumption of the housing that buyers look at first of all, but the location, if they like the accommodation or if there is a balcony or a small outside area”*¹⁵.

Financial support measures such as the Zero Rate Eco Loan should be designed to be affordable for all citizens, regardless of their income status.

Zero Rate Eco Loans are only available to the owners and co-owners of primary residences, whether they reside in them or rent them out. By definition, these loans are therefore limited to those that can afford to buy a residential property.

The Co-founders of Effy, France's first energy renovation specialist, and the real estate agency Pretto highlight the concern and the need for a fairer offer for all citizens: *“First of all, you need incentive levers: today we observe that the eco-PTZ is still too weakly offered to low-income households. Only 7% of the 42,000 eco-PTZs issued in 2020 were for low-income households. The banks must be encouraged to distribute it more by significantly increasing their remuneration in return for a quantitative obligation in the distribution of this loan”*¹⁶.

The Zero Rate Eco Loan application and award process should be streamlined to give banks a greater incentive to promote it.

The banking system is essential to the delivery of renovation project financing to beneficiaries. Government support measures therefore need to provide banks with sufficient incentives to support and promote their delivery.

Simplifying and mainstreaming eco-loan procedures not only benefits loan beneficiaries, but also the providers. Where a loan scheme is potentially less profitable to banks than more standard credit instruments, public authorities

should ensure that the application and award process does not impose a high administrative burden (time and cost) on participating banks.

According to a Member of the French Parliament and special rapporteur on the Zero Rate Eco Loan scheme: *“As the banking network is traditionally the gateway for households to access the eco-PTZ, it is essential to work to remove the obstacles identified by banking players to the distribution of the eco-PTZ. Bank advisers are indeed reluctant to distribute a product that requires a high investment and workload”¹⁷.*

4.

Conclusion and recommendations

The Zero Rate Eco Loan scheme has achieved relatively modest success since its launch in 2009. Having generated high levels of interest when it was first launched, interest fell considerably in subsequent years. However, reforms introduced in recent years have reversed that trend, resulting in year-on-year increases in loan awards, even during the COVID-19 pandemic.

The key results achieved, to date, include:

- 411,077 loans granted, with a total estimated value of more than EUR 7.46 billion;
- A network of 15 banks, responsible for channelling eco-friendly investment to homeowners;
- Average loans of EUR 12,561 awarded in 2020, down from EUR 17,858 in 2018 (smaller, single action projects were permitted in 2018/19);
- Low usage rate (0.6%) of eco loans for more ambitious and holistic energy efficiency renovation projects;
- The latest reforms, introduced at the end of 2021 are positive; however, it will take time to assess their impact.

As an overall conclusion, there remains a significant gap between the number of primary residences in France – 29 million, of which only 6.6% are energy efficient – and the number of loans awarded by this scheme (1.4% of primary residences). There is therefore room for significant improvement, greater uptake and higher impact.

The scheme's relatively modest performance over a number of years in the last decade, compared to its early years, may be partly explained by the economic challenges of that decade, with

constrained household finances and a reluctance to take on further debt, even at a zero-interest rate. The availability of low interest options through traditional financing instruments may also have played a part.

Looking forward, the three to help improve the reach and impact of the Zero Rate Eco Loan scheme are:

- Improved coordination and simpler processes are needed to increase incentives for participating banks and homeowners. The administrative burden for all parties involved is impeding the growth of loan applications and awards. Homeowners are discouraged by the complicated process and banks are hesitant to promote the measure, due to higher administrative burden and lower profits than traditional loans;
- More flexible financing options should be provided to provide incentives and easy access by all, irrespective of household income. Emphasis should be placed on attracting the participation of lower income households;
- Focus should be placed on increasing the number of applications and awards for larger-scale eco-renovation projects, such as overall building energy performance renovation projects. Given the ultimate objective of the measure is to grow the number of eco-friendly homes and buildings, French authorities should focus their efforts on promoting and supporting more ambitious projects.

Overall, the Zero Rate Eco Loan is rated a 3-star good practice measure' on a scale of 1 (low) to 5 (high).

This score is based on the relatively mixed results achieved by the scheme, to date. Strong performance in the early years of the scheme was followed by markedly lower numbers of loan

awards through most of the last decade. Recognising the issue, government reforms to the scheme have resulted in an upturn in annual results and further reforms have been introduced to strengthen results. Their impact will need to be assessed in the short and medium-term.

To achieve a higher good practice score, the scheme's participation rate would need to match or exceed the results recorded in the early years of its implementation. That may require further reforms, such as simpler and more streamlined processes and more flexible financing options and conditions, to provide homeowners and participating banks with the incentives they need to make the scheme more successful and deliver more energy efficient homes.

The Zero Rate Eco Loan is rated a 4-star transferable measure on a scale of 1 (low) to 5 (high).

The rationale for this score is similar to that given on 'good practice'. The Zero Rate Eco Loan concept is certainly transferable. Although the implementation experience of this scheme has been rather mixed, to date, this type of targeted low or zero rate loan scheme has the potential to deliver significant results in any country.

The key is to design a scheme that is well aligned with national/local needs and interests, communicate and promote it effectively, ensure sufficient funds are in place to finance it, and provide potential applicants with appropriate incentives, financing conditions and support (e.g.: advice and assistance).

Endnotes

- 1 Housing Europe, Energy and Construction Working Committee, 2022:
<https://www.housingeurope.eu/section-10/energy>
- 2 European Commission, EU Buildings Factsheets, 2014:
https://ec.europa.eu/energy/eu-buildings-factsheets_en
- 3 Ministère de la Transition écologique, Le parc de logements par classe de consommation énergétique, September 2020:
https://www.statistiques.developpement-durable.gouv.fr/sites/default/files/2020-09/document_travail_49_parc_logements_consommation_energie_septembre2020_0.pdf
- 4 Service-Public.fr, Éco-prêt à taux zéro (éco-PTZ), January 2022 :
<https://www.service-public.fr/particuliers/vosdroits/F19905>
- 5 Assemblée Nationale, Deuxième partie – Thème d'évaluation : BILAN DE L'ECO-PRÊT À TAUX ZERO, May 2021:
https://www.assemblee-nationale.fr/dyn/15/rapports/cion_fin/l15b4195-a23_rapport-fond#_Toc256000027
- 6 All information regarding the General Description of the measure have been taken by the following official reports:
Service-Public.fr, Éco-prêt à taux zéro (éco-PTZ), January 2022:
<https://www.service-public.fr/particuliers/vosdroits/F19905>
Assemblée Nationale, Deuxième partie – Thème d'évaluation : BILAN DE L'ECO-PRÊT À TAUX ZERO, May 2021:
https://www.assemblee-nationale.fr/dyn/15/rapports/cion_fin/l15b4195-a23_rapport-fond#_Toc256000027
- 7 SOVAMER IMMOBILIER, Découvrir l'éco prêt à taux zéro (éco-PTZ), 2021 :
<https://www.sovamer.fr/actualites/69/eco-ptz.htm>
- 8 All information regarding the Achieved or Expected results of the measure have been taken by the following official report:
Assemblée Nationale, Deuxième partie – Thème d'évaluation : BILAN DE L'ECO-PRÊT À TAUX ZERO, May 2021:
https://www.assemblee-nationale.fr/dyn/15/rapports/cion_fin/l15b4195-a23_rapport-fond#_Toc256000027
- 9 Ibid
- 10 Ibid
- 11 Ibid
- 12 Ibid
- 13 Les Echos, Immobilier : pourquoi les Français bloquent sur la rénovation de leur logement, October 2021:
<https://www.lesechos.fr/patrimoine/immobilier/immobilier-pourquoi-les-francais-bloquent-sur-la-renovation-de-leur-logement-1357548>
- 14 Ibid
- 15 Le Monde, Immobilier : la consommation énergétique d'un bien a-t-elle un impact sur son prix de vente, November 2021:
https://www.lemonde.fr/argent/article/2021/11/05/immobilier-la-consommation-energetique-d-un-bien-a-t-elle-un-impact-sur-son-prix-de-vente_6101078_1657007.html
- 16 La Tribune, Encourageons les banques à devenir moteur de la rénovation énergétique, December 2021:
<https://www.latribune.fr/opinions/tribunes/encourageons-les-banques-a-devenir-moteur-de-la-renovation-energetique-897583.html>
- 17 Assemblée Nationale, Deuxième partie – Thème d'évaluation: Bilan de l'éco-prêts à taux zéro, May 2021:
https://www.assemblee-nationale.fr/dyn/15/rapports/cion_fin/l15b4195-a23_rapport-fond#_Toc256000027