# Unlocking A New Era of Climate Finance for Mission-Driven Community Lenders

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## Introduction

Every day, mission-driven community lenders work diligently to provide access to capital and credit to low-income and minority households and communities. These lenders focus on a relationship-based banking model, which includes their incorporation of qualitative metrics like personal character and not just individual credit scores.  Additionally, community lenders show their commitment to the wellbeing of  local communities and the people within those communities, thus helping to increase financial inclusion and to create opportunities for economic mobility and intergenerational wealth-building.

While mission-driven community lenders matter during normal times, they are particularly important during times of crisis. For example, during the pandemic, Minority Depository Institution (many of whom are also certified CDFIs) were instrumental in deploying more than $16 billion to small businesses impacted by the pandemic via the Paycheck Protection Program, outperforming non-MDI lenders in their share of lending to minority communities.

Climate change is the crisis of our time. Whether it's the sudden wildfires that devastated the Hawaiian island of Maui or the more slowly unfolding crises around air pollution, water shortages, and exposure to unsafe temperatures, climate change is impacting all of us. Just as we saw with PPP lending in the pandemic, community lenders can function as lifelines for their communities in responding to the crises, acute and chronic, posed by climate change. Indeed, precisely because these lenders are already located in communities with elevated climate risk, they have a better on-the-ground understanding of both the risks and opportunities faced by their communities.

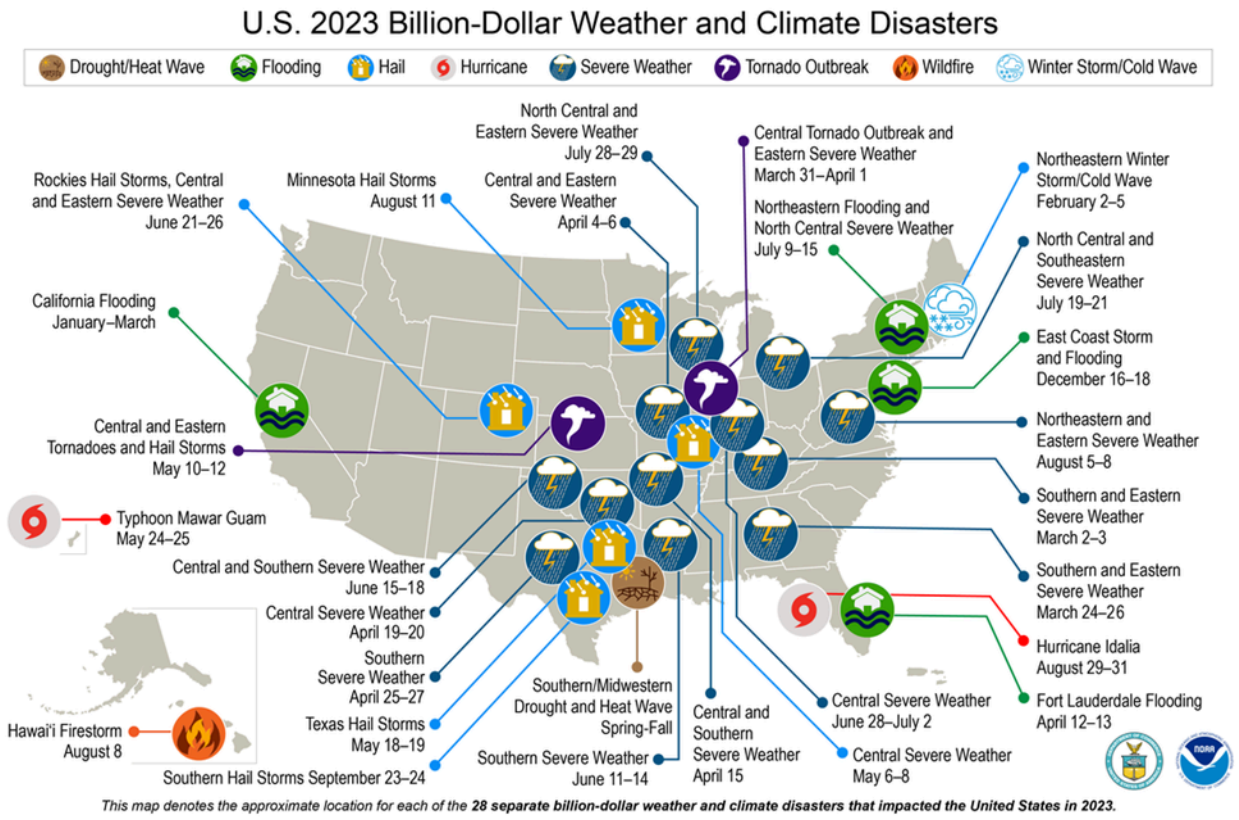
In recent years, both the public and private sector have significantly increased efforts to combat climate change. The throughline for all this activity is capital and credit, which is what enables financing everything from building retrofits to community solar installations to EV charging stations. While community lenders are often small in asset size and staff, they are mighty, and moreover, they are essential conduits for climate finance in underserved communities. It is therefore vital that community lenders continue to participate in and scale their climate-based financing, to address disproportionate risks and ensure equitable growth.

Climate finance is a big area, and implementing new green products requires lots of attention to the nuts and bolts of loan terms, reporting requirements, and more. In this short guide, we cover the why, what, and how of climate finance for mission-driven community lenders. Our goal is to be accessible, digestible, and inspiring. Throughout the guide, we highlight additional tools and resources that can serve as a next step, as well as highlight some organizations that can serve as key allies and knowledge-sharers. Whether you are completely new to climate finance or seasoned, we think there's something in this guide for you.

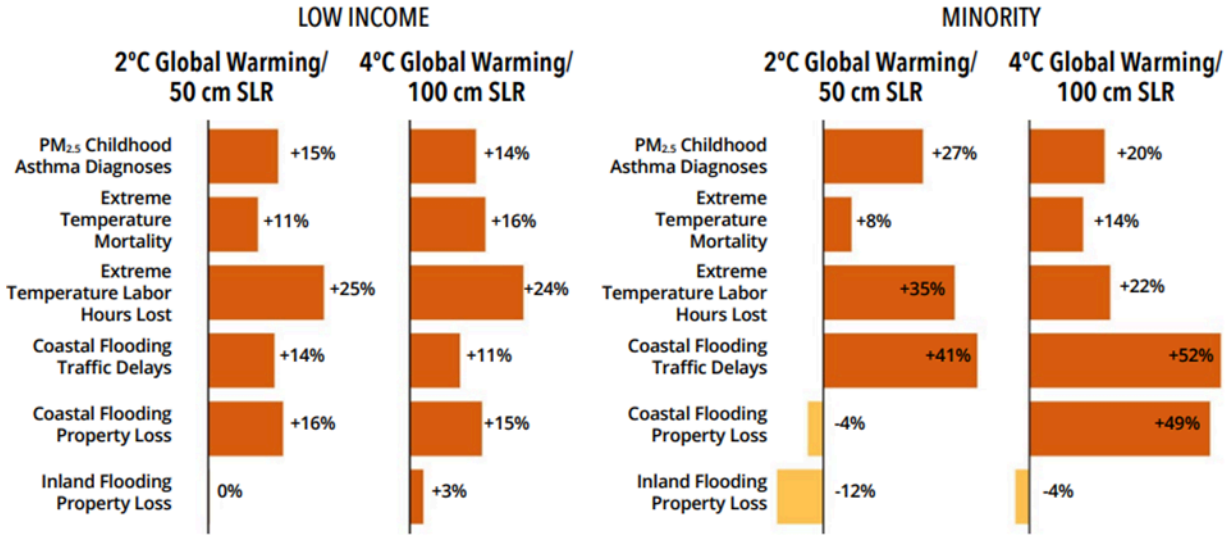
## I: Why is climate finance significant for community lenders?

In 2022, the United States Congress passed the Inflation Reduction Act – the largest climate related bill in U.S. history – based on an understanding that we have reached an inflection point. To limit ongoing damage, and ensure a bright future for the next generations, we need bold action now to curb emissions, transition to clean energy, and to help households and communities mitigate current and future risks.

The stakes are already high. According to data from climate.gov, in 2023, the United States suffered a record-level 28 weather and climate related disasters including a heatwave, tropical cyclones, wildfire, and flooding. Collectively, these disasters cost at least $92 billion. As shown in the government map below, disasters were spread across the United States including land-locked states, demonstrating that risk is not simply concentrated on the coasts.



Moreover, the risks posed by climate change go well beyond individual disasters. Climate change also involves current and forecasted harm that is more chronic in nature, such as higher asthma rates as air quality worsens or less water access from longer lasting droughts. And we know that the effects of both acute disasters and chronic harm fall disproportionately on vulnerable groups and communities. For example, according to a 2021 EPA report, minority (particularly Black) and low income households face outsized climate risk. The EPA chart below catalogs the percentage of heightened risk across several major categories including health, employment, and property.




Much of this heightened climate exposure that minority households in particular face is the direct result of injustices both past and present. For example, recent research finds that formerly redlined neighborhoods within cities are on average 5 degree Fahrenheit warmer than other areas within the city, though the gap can sometimes be as high as 20 degrees. Much of this disparity is the result of an ongoing lack of public investment in these marginalized neighborhoods, particularly in regards to the built environment. Similar research finds that the share of Black or Hispanic households is more highly correlated with air pollution levels than poverty, and that Black and Hispanic children are more likely to live near and attend school near superfund sites and other sources of toxic emissions.

To respond to both this ongoing harm and the elevated risks of future harm, communities across the United States are in great need of capital that can be deployed toward adaptation, mitigation, and preparation. And community lenders are vital sources for that capital.

Community lenders care about climate lending because the effects of climate change disproportionately impacts the primary communities that these mission driven & minority-led financial institutions serve. Due to decades of redlining, communities of color have been concentrated in industrial zones and major highways have been built near or through their communities, directly exposing residents not only to toxins and harmful emissions but also

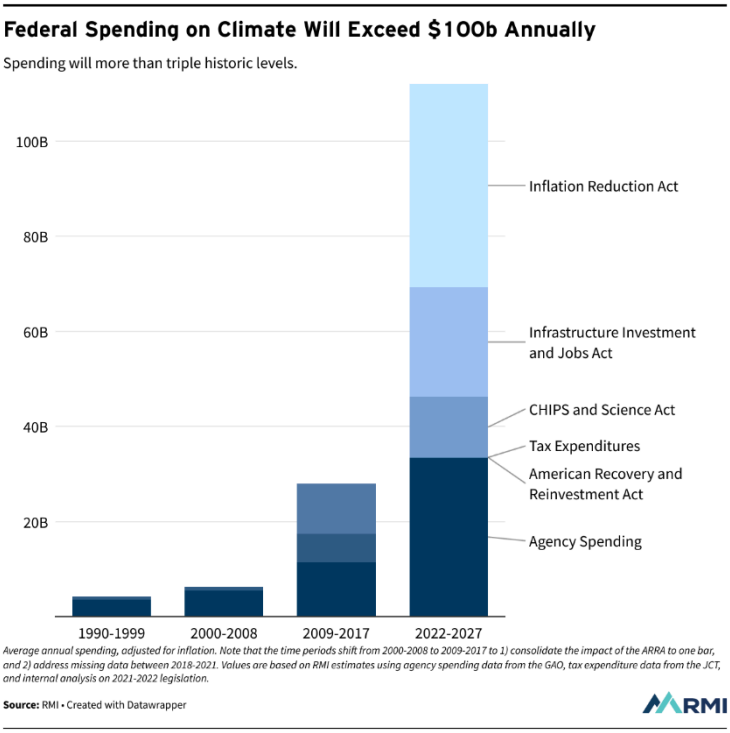
turning these areas into heat islands further contributing to the devaluation of assets in their neighborhoods.

Community lenders know their communities better than traditional lenders and have the opportunity and business acumen to lead in the just transition from an extractive to regenerative economy that does not see making a profit and prioritizing people as mutually exclusive goals, but that understand that climate justice and economic justice are inextricably linked.

These lenders have the opportunity to invest in the public health and safety of those living within their footprint by increasing the access to capital within these frontline communities through innovative financing solutions for reparative climate-friendly infrastructure projects. Doing so will strengthen the economic power of frontline communities by reducing economic disparities exacerbated by climate related asset degradation. Understanding the why is the first step on the journey to restoring and enhancing the communities in which we operate.

## II: What is climate finance?

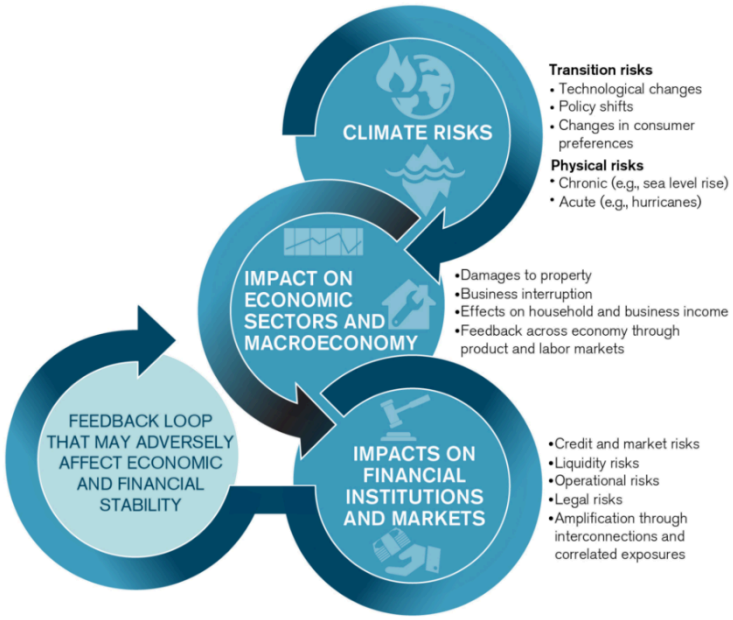
Climate has emerged as a significant consideration for financiers at every scale, and fast. Commitments to decarbonize or align investment portfolios with net-zero from the world's largest financial institutions rose to 73 percent by the end of 2022, while climate finance capital flows almost doubled between 2019 and 2022, reaching a yearly average of $1.3 trillion. In the United States, $140 billion in energy transition investments were made in 2022 and the supply of green capital continues to increase with public dollars further incenting climate finance investments. The Inflation Reduction Act (IRA) alone will mobilize an estimated $370 billion of federal incentives to support energy transition and decarbonization, and many of the IRA programs have been designed to mobilize private capital. For instance, the $27 billion Greenhouse Gas Reduction Fund (GGRF) is forecasted to mobilize upwards of $250 billion over 10 years, and sets the stage for mission-driven lenders to capitalize on the opportunity of entering the climate finance landscape.




So, what is "climate finance," and why does it matter? From consumer loans for rooftop solar, to project finance for an industrial green steel plant, climate finance has an abundance of use cases. More specifically, climate finance supports projects or technologies that help replace the high-emitting assets that provide essential services like light, heat, and mobility with low-carbon alternatives. The price tag to decarbonize the United States has been estimated to be $10 trillion by 2050. This decarbonization need spans sectors, technologies, and practices that encompass decades of reliance on fossil fuels. Mobilizing capital towards

electric vehicle fleets and infrastructure, low-embodied carbon buildings, energy-efficient appliances, energy storage facilities, and other emission-reducing interventions is critical now more than ever. These examples are high-level and non-exhaustive, but show that climate finance is about much more than extending solar loans on the margins of business. Rather, it is a lens that must be integrated across all business lines and financial decision-making, with portfolio-wide opportunities. Beyond building green and installing clean technologies, climate finance includes investments along the supply chain for clean technologies – including manufacturing, electrical engineers, contractors, and more. The US is on a one-way track to a net-zero economy, and the transition has implications for the affordability of basic services, the building stock, job opportunities, and much more.

**Figure 1.2: Transmission Channels Linking Climate Risks to Financial Stability**




Source: Figure created by FSOC.

Failing to think about the implications of a net-zero transition for your clients and your bottom line is becoming bad business. The U.S. Financial Stability Oversight Committee (FSOC) acknowledges that climate change poses widespread risks to the financial sector, highlighting that financial actors who wait to transition portfolios will face material shocks.

Beyond the risks of inaction, the climate finance market is skyrocketing. 507 gigawatts of new renewable energy sources were developed in 2023, and this success is projected to continue climbing. Specifically, the solar market is expected to have record-breaking years ahead as utility solar is gaining significant traction and IRA incentives are boosting solar appeal. The International Energy Agency expects the US to add 340 gigawatts of renewable energy capacity by 2028. In the transportation sector, passenger EV sales tripled between 2020 and 2022. Meanwhile, heat pumps have made their stake in the market by selling over 1 million more units than gas furnaces over the last 2 years.

Clean energy market trends present a strong business case. In 2023, banks who underwrote green bonds and loans made upwards of $3 billion on their deals. And as clean energy and green project investments continue to grow, institutions who ignore these opportunities risk getting left behind.

### Delivering the Clean Energy Transition to Communities

The energy transition is making significant progress, but not all communities are seeing the benefits. Real and perceived barriers affect access to clean energy technologies, especially in low-income and historically marginalized communities. Clean energy projects like rooftop solar, a new electric vehicle, or home electrification have high upfront costs. Where additional investments like roof repairs, or health and safety upgrades are needed, upfront costs can be

even higher. Clean energy projects can reduce energy burden, create long-term savings, and deliver other benefits, but some consumers may not have the option to cover a significant upfront payment, and those with low credit scores may face limited access to affordable capital when exploring financing options.

Community lenders can help members of their communities overcome these barriers by providing low-cost, patient capital, and other creative financing programs and products. The Center for Impact Finance at the University of New Hampshire (UNH) and the New York City Energy Efficiency Corporation (NYCEEC) summarizes three major loan products for green projects: 1). Direct Loans 2.) PACE Loans 3.) Project Finance Loans, and their structural variations.

**Solar and battery manufacturing have been the big winners since passage of the IRA**

Growth in cumulative investment since 2018, indexed to Q2-2022. (2022-Q2=100)

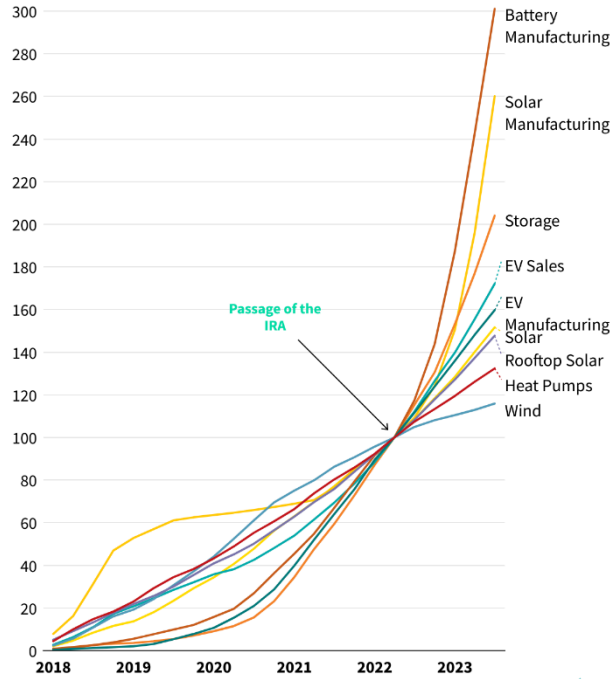



**Chart:** RMI Graphic • **Source:** Clean Investment Monitor • Created with Datawrapper

## III: How can lenders integrate climate into their business?

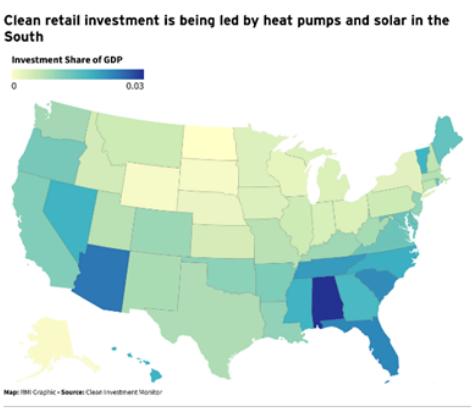
So, how do you get started?

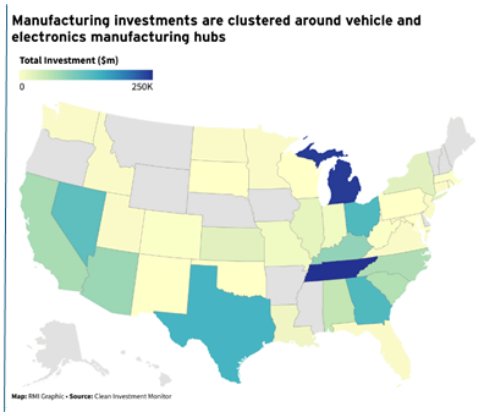
Lenders can start by expanding on existing knowledge about communities they serve, and what they need most. Using strategies highlighted in RMI's report Getting Down to Business, a portfolio-led approach can help evaluate *where* (across sectors and places) and *how* (across asset classes and business units) your institution can integrate climate finance mechanisms into your business. This tailored approach capitalizes on your role in the market, and the intersections between what you already do, and what needs to happen. Finding ways to bring affordable financing to historically marginalized communities is in community lenders' DNA, and it is also a key piece of the climate finance puzzle.

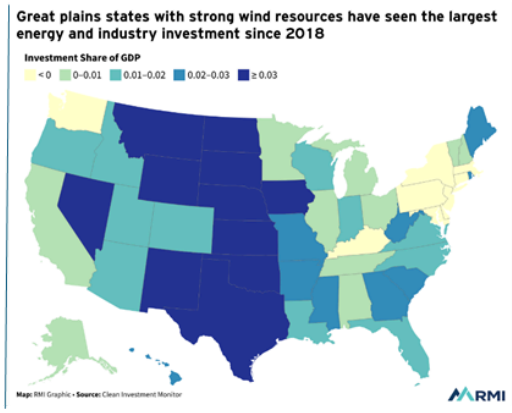
### Tailoring climate strategies for where you work, and the types of clients you serve.

A first step is understanding green financing needs and opportunities across your portfolio and the regions you serve. Regions with different climates need different technology solutions. Technologies have different costs in different electricity markets. Communities have experienced different levels of clean energy uptake across socioeconomic groups. For instance, the geographic distribution of clean energy investment in the US differs by type of investment: retail is being led by the South, manufacturing by the Midwest and Southeast, and energy production by the Great Plains.

Climate Policy Initiative's data visualization tool shows investment needs for clean technology project categories across census tracts. RMI's Financing Building Decarbonization report discusses investment needs in the United States real-estate sector.




Meanwhile, deploying clean technologies will require an ecosystem of support, including green manufacturing, suppliers, and vendors. How can you engage your small business clients to think creatively about opportunities to get involved in the green economy? Is there a local business you can partner with for the installation of these solutions?

RMI's Great Lakes Clean Growth Tool can help identify opportunities for clean growth in the Great Lakes region based on existing economic conditions, industrial capacities, and workforce needs.

Additionally, it will be important to assess the risks to your portfolio and for the communities you serve by failing to account for a changing climate and rapidly decarbonizing economy. For example, a lender primarily serving a low-income community located in a heat island may find that continued record-breaking temperatures are making reliable heating and cooling systems, which may be a high-cost luxury for some, a critical necessity for the comfort, health, and safety of their clients. Additionally, contractors or vendors whose businesses support fossil-fuel dependent systems or equipment will quickly lose out as green alternatives gain market share. Identifying market gaps will allow lenders to continue to strengthen and expand their own business while strengthening customer relationships by responding to their needs.

UNH's Resilience Assessment Tool walks lenders through a series of prompts that can help inform decision-making and loan structuring processes, with a goal of maximizing community benefits and product resilience.

### Tailoring climate strategies for the products and business lines you currently have, and those you want to expand into.

Green technologies are increasingly outcompeting fossil fuel alternatives, but home and vehicle upgrades are still material expenses for households and small businesses. Federal, State, and Local public funding incentives, as well as utility programs, may help sweeten the deal. Still, green lenders have a role to play in making these incentives more accessible, especially for low-income and disadvantaged communities. For example, low-income consumers don't always have a tax liability to cash in on the full value of renewable energy tax credit benefits from rooftop solar projects. Low- or zero-cost bridge financing may also be needed between upfront investment and the time rebates are received. While it can be daunting to understand the landscape of public funding incentives, resources exist to help identify programs or tax credits you, or a borrower, can benefit from.

RMI's IRA Program and Tax Incentive Summary is a filterable list of all IRA programs to help identify which public incentives might apply to various projects.

Green incentives present opportunities to re-tool existing products to support green outcomes or expand into new product offerings. A mortgage loan could evolve into a green mortgage loan, and car loan programs could integrate the electric vehicle tax credit. Using the tools and strategies discussed above, lenders can use new knowledge about the markets you serve to build an investment strategy that expands on your expertise and reaches client needs you may not currently be addressing.

Integrating climate into business strategies will require investment in internal capacity-building and upskilling. The Clean Communities Investment Accelerator (CCIA), a $6 billion component of the GGRF, can support organizations in funding the technical assistance and capacity building to get started. Organizations may also want to hire sustainability, clean energy, low-emission technology, or green lending experts in-house. As the climate finance strategy strengthens, lenders can continue to upskill, expand product offerings, and build expertise in the new market. Right now, many factors are enabling and assisting with this integration, and lenders should be looking to work their way in given both the pressing needs and the significant momentum.

## Conclusion

Change happens when we transform a moment into a movement. The rise of opportunity in the climate finance market marks one such moment - and the way community lenders respond, through energy, collaboration, and commitment, is what will allow this moment to endure as a movement.

The old adage says, "Rome was not built in a day," and we know that it will take time to build the adequate infrastructure, form deal flows, ensure connections with developers, contractors, and lenders are forged, and for new economies of scale to emerge. But, we also know that community lenders have an incredible track record in pursuing racial equity regardless of barriers.

As lifelines to their communities, mission-driven lenders are and will continue to be indispensable allies in the march to pursuing climate and economic justice. Together, we can build lasting wealth, safeguard the planet, and ensure a bright future for generations to come.