HOUSING PARTNERSHIP NETWORK

Capitalization Sources for Clean Energy Lending

In collaboration with

Sustainable Capital Advisors

200 Massachusetts Avenue NW, 7th Floor
Washington, DC 20001

For additional information contact
Trenton Allen at **allent@sustainablecap.com**

Contents

I. Overview	3
II. Direct	4
A. Traditional Capital Sources	5
1) CRA Motivated Banks	5
2) CDFI Fund	6
B. Impact Investors	8
1) Foundation Program-related Investment and Mission-related Investment	8
2) Donor Advised Funds	10
C. Other Capital Market Opportunities	11
1) Capital Markets Issuance	11
2) Green Banks	13
III. Indirect	15
A. Liquidity Strategies	15
B. Project Finance Origination	17
IV. Building Your Capitalization Strategy	18

I. Overview

Housing Partnership Network (HPN) engaged Sustainable Capital Advisors, along with Bright Power and Community Sustainability Partners, to support HPN members in launching clean energy-focused lending products. Through this engagement, members identified seven key elements of clean energy lending outlined in the Essential Elements for a Clean Energy Lending Strategy chart. This document focuses on capitalization sources with funding approaches categorized into "Direct" and "Indirect" capitalization strategies.

Direct Capitalization Strategies expand a Community Development Financial Institution's (CDFI's) balance sheet through additional capital, enabling organizations to directly fund clean energy projects. These include Traditional Capital Sources (CRA-motivated banks, CDFI Fund), Impact Investors (foundations, Donor Advised Funds), and Other Capital Market Opportunities (green banks, capital markets). Direct capitalizations provides core funding that allows CDFIs to build their lending capacity, take on higher-risk clean energy initiatives, and establish more complex financing structures.

Indirect Capitalization Strategies allow CDFIs to facilitate new clean energy investments through either replenishing its balance sheet through certain liquidity strategies or facilitating project specific transactions. These approaches allow CDFIs to significantly extend their ability to execute clean energy finance opportunities beyond their direct capital constraints.

While the Greenhouse Gas Reduction Fund (GGRF), established by the Inflation Reduction Act (IRA) in 2022, represents a landmark $27 billion investment managed by the Environmental Protection Agency (EPA) to mobilize financing for clean energy projects nationwide, the uncertainty with the availability and amount requires that CDFIs continue to identify additional sources of capital to execute their clean energy lending strategies. The capital sources identified in this report can be utilized to not just fill gaps but establish a comprehensive strategy to fund the projects in their active markets.

This resource document is tailored to provide insights for HPN members as they engage in clean energy lending opportunities while aligning with their specific capacities and community needs. For each identified capital source, there is an overview which includes: Description, Capital Considerations, Creating Partnership, Capital Summary, and Capital Strengths & Weaknesses

For CDFIs considering how to apply this information to their clean energy lending strategy:

1. **Assess your current position**: Examine your existing capital stack, including terms, rates, and restrictions. Analyze specific clean energy-related financing needs in your community and evaluate your organization's expertise and systems for clean energy lending.

2. **Identify your capitalization pathway:** If you have limited clean energy-specific funding, leverage existing flexible capital while pursuing targeted clean energy-specific sources. If you need long-term or flexible capital, match sources to your specific lending terms. If direct capitalization opportunities are limited, emphasize indirect strategies to extend your impact.

3. **Create a balanced strategy:** Align funding with both market demands and your organizational strengths. Consider how direct and indirect approaches can complement each other in your overall capitalization plan. Prioritize partnerships that address technical capacity needs alongside capital requirements.

II. Direct

Direct capitalization is the process of securing and managing capital on a CDFI's balance sheet, giving CDFIs full operational control and flexibility in lending activities. The key sources of capital for clean energy-focused lending highlighted in this section include:

- **Traditional Sources:**
  - CRA-Motivated Banks
  - CDFI Fund Programs
- **Impact Investors:**
  - Philanthropic Program-Related Investments
  - Donor Advised Funds
- **Other Capital Market Opportunities:**
  - Capital Market Issuance
  - Green Banks

Each of these varied capital sources enables CDFIs to build core lending capacity while scaling clean energy-focused investments. Each outlined capital source includes a description, key considerations, and opportunities for partnership as CDFIs determine how each source fits their organization's clean energy lending strategy.

A. Traditional Capital Sources

1) CRA MOTIVATED BANKS

Description

The Community Reinvestment Act (CRA) of 1977 requires federally regulated banks to meet the credit needs of low and moderate-income (LMI) communities through tailored lending and services. Large banks can partner with CDFIs to meet CRA obligations, gaining favorable consideration under updated 2024 regulations, especially when working with certified CDFIs aligned with their assessment areas.[1] For CDFIs, this partnership means access to flexible capital for affordable housing, small business growth, and clean energy initiatives in underserved markets.

Funder Spotlight:
Bank of America and Coastal Enterprises, Inc (CDFI)

Bank of America provided a $100 million loan guarantee for Coastal Enterprises, Inc. (CEI), enabling the CDFI to secure a $20 million loan from the USDA Community Facilities Relending Program, aimed at strengthening rural and low-income communities in Maine.

Learn more

Capital Considerations

CDFIs typically obtain capital from banks seeking CRA credit at below-market rates, enabling competitive terms for mission-aligned investments and clean energy lending programs. A recent analysis of 72 CDFI Loan Funds found that Mid-Sized CDFIs (AUM $30MM-$500MM) received debt capital at a median cost of 2.1%. Large CDFIs (AUM >$500MM) had a median cost of 2.9%, and Small CDFIs (AUM <$30MM) of 1.9%.[2] Loans are generally structured as balloon loans with periodic interest payments, facilitating capital to support new projects. In 2022, CDFIs originated at least $67 billion in loans, a significant increase from $29 billion in 2018.[3]

Creating Partnerships

To build connections with traditional banks, identify organizations focused on CRA compliance and community development. The eight largest U.S. commercial banks have collectively invested nearly $11.5 billion in CDFIs since 2020.[4] These collaborations enhance CDFIs' impact through technical assistance grants, risk-sharing arrangements that allow for higher-risk lending, and the ability to pool funds from regional banks to combat disinvestment in low-income areas.[5] Despite interest rate fluctuations, CDFIs maintain stable debt costs by creating blended capital structures involving both traditional and alternative sources. Leveraging bank partnerships effectively can help CDFIs serve their communities while traditional banks meet CRA requirements.

[1] OFN's First Look at the New Community Reinvestment Act Rule
[2] CDFI Loan Fund Capitalization: The Continued Importance of Bank-CDFI Partnerships
[3] Examining the Origination and Sale of Loans by Community Development Financial Institutions
[4] The Largest U.S. Banks are Invested in CDFIs
[5] Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions

CRA-Motivated Bank Capital Summary	
Average Source Amount	$5 -10 million
Typical Rates	1.5% - 3%
Term Range	3 - 8 years
Repayment Requirements	Varies depending on capital provider
Additional Considerations	A 2023 modernization of CRA regulation improves potential CDFI – CRA-Motivated Bank partnerships by granting automatic favorable consideration of loans/ investments issued by certified CDFI.[6]

Clean Energy Lending Strengths and Weaknesses	
Capital Source Strengths	**Capital Source Weaknesses**
Flexibility in the type of capital (loans, deposits, capital grants, and equity investments)[7]	Bank requirements may lead CDFIs to focus on larger, less risky loans, potentially moving away from smaller, higher-impact projects
Blended finance opportunities (public and private)	

2) CDFI FUND

Description

The CDFI Fund was established on September 24, 1994 by President Bill Clinton through the Riegle Community Development and Regulatory Improvement Act and promotes economic revitalization in underserved areas. Since its inception, it has awarded over $8 billion to CDFIs and community development organizations. As of fiscal year 2023, the Fund has allocated over $2 billion in grants, $10 billion in New Markets Tax Credits, and guaranteed $300 million in bonds.[8] For fiscal year 2025, the Senate Appropriations Committee approved a budget of $354 million for the Fund, which supports affordable financing, job creation, and community development in low-income areas with flexible repayment terms.

Capital Considerations

All CDFI Program applications for Financial Assistance (FA) and Technical Assistance (TA) awards are usually released in Q1 (January – March with the Bond Guarantee Program occasionally opening applications in Q4 (October –December) to accommodate larger-scale financing initiatives. Award announcements are typically made in Q3 or Q4. The key considerations for each of the CDFI Fund's capital sources, including the CDFI Program, Bond Guarantee Program, and New Markets Tax Credit Program are outlined below:

- **CDFI Program: Financial Assistance (FA) and Technical Assistance (TA)**
  - FA Awards: For FY 2025, the CDFI Program offered Base-FA awards up to $1 million to certified CDFIs for lending capital, loan loss reserves, and development services. FA award types vary year to year but are primarily distributed as grants. In FY 2021, 98.5% of FA awards were grants, while 1.5% were loans.[9]

[6] OFN's First Look at the New Community Reinvestment Act Rule - OFN
[7] Bank Partnerships With Community Development Financial Institutions and Benefits of CDFI Certification
[8] CDFI Fund Annual Report Fiscal Year 2023
[9] CDFI Program Award Book FY 2021

- TA Awards: For FY 2025, up to $150,000 in TA grants were made available to certified CDFIs and entities seeking certification. Funds can be used for capacity-building, including staff training, technology upgrades, and consultant fees.[10]

- **CDFI Bond Guarantee Program[11]**
  - The CDFI Bond Guarantee Program offers 29.5-year fixed-rate financing, guaranteeing bonds of at least $100 million and loans of at least $10 million, fully backed by the U.S. Treasury. For FY 2025, the program has a $500 million annual limit.[12]

- **New Market Tax Credits**

The New Markets Tax Credit (NMTC) Program incentivizes private investment in low-income communities by offering a 39% federal tax credit over seven years to investors making Qualified Equity Investments (QEIs) in certified Community Development Entities (CDEs).[12] These CDEs, often including CDFIs, use the funds for Qualified Low-Income Community Investments (QLICIs). Since 2000, $81 billion in tax credits have been allocated, leveraging $8 of private capital for every $1 of federal investment.[13] CDFIs can access NMTC funding through private investors, such as large banks and corporations, which provide capital in exchange for tax credits, typically contributing 70-85 cents per dollar of credit.[14] They can also compete for allocations from the CDFI Fund, with $10 billion available for CY 2024-2025, or use leveraged financing, combining investor equity with loans, public bonds, foundations, or project sponsors.
NMTC loans offer below-market terms, with a median interest rate of 5.8%, seven-year maturities, and often interest-only periods to match project cash flows.[15]

Creating Partnerships

Opportunities for CDFI Fund partnership are limited, as capitalization is done through a competitive government application process. However, CDFIs can impact the program beyond just funding applications. CDFIs can participate in policy co-creation to expand direct capitalization for clean energy lending through the CDFI Fund's Capacity Building Initiative (CBI), attending workshops to refine strategies and share best practices. This allows CDFIs to influence beneficial policies, as exemplified by the Native CDFI Network's partnership with the CDFI Fund, which secured $35 million for the Native American CDFI Assistance (NACA) Program to support tribal entrepreneurship and infrastructure in FY 2025.[16] CDFIs can also engage in public comment periods and advocacy coalitions to advocate for expanded funding.

Funder Spotlight: Ecotrust and NMTCs

In late 2024, the CDFI Ecotrust was awarded $40 Million in NMTCs. In alignment with organizational priorities, primary projects will have a minimum project budget of $7 million and will focus on climate resiliency, especially in LIDACs and on Tribal land.

Learn more

[10] Fiscal Year 2025 CDFI Program
[11] CDFI Bond Guarantee Program 101
[12] New Markets Tax Credit (NMTC) Public Data Release
[13] New Markets Tax Credit Benefits
[14] Community Development Financial Institutions Fund (CDFI Fund) New Markets Tax Credit Program
[15] New Markets Tax Credit (NMTC) Program Evaluation
[16] Statement from NCN CEO Pete Upton

CDFI Fund Capital Summary	
Average Source Amount	Up to $1 million financial assistance $100 million minimum bond guarantee $10 million CDFI loan guarantee
Typical Rates	Not Applicable
Term Range	Not Applicable
Repayment Requirements	N/A - 98.5% of capital provided as grants
Additional Considerations	CDFI Program dollars are congressionally allocated and may vary year over year.[17]

Clean Energy Lending Strengths and Weaknesses	
Capital Source Strengths	**Capital Source Weaknesses**
No repayment required for most programs	Limited grant sizes (e.g., $1M FA, $150K TA)
Flexible funding mix (grants, loans, equity)	Highly competitive application process
Strong funding pool for impactful projects	Awards announced only annually

B. Impact Investors

1) FOUNDATION PROGRAM-RELATED INVESTMENT AND MISSION RELATED INVESTMENT

Description

Charitable foundations play a significant role in clean energy-focused financial institutions through Program-Related Investments (PRIs) and Mission-Related Investments (MRIs). PRIs support a foundation's mission with below-market returns, counting toward the 5% annual distribution requirement. This allows concessional capital for impactful initiatives like CDFI-led clean energy lending in low-income areas.[18] MRIs don't impact payout obligations but integrate clean energy and social equity into portfolios, blending financial returns with mission-related outcomes.

Capital Considerations

Key considerations for both PRI and MRI are outlined below:

- **Program Related Investments**
  - PRIs provide CDFIs specialized capital to mitigate higher risks in clean energy-focused lending, typically with interest rates below commercial benchmarks (0-3%).[19] This allows CDFIs to offer lower rates for energy-efficient upgrades in low-income households where upfront costs are prohibitive. PRIs often

[17] CDFI Fund Annual Report 2023
[18] The 5% Rule Explained - Pacific Foundation Services
[19] PRI Makers Network

subordinate foundation capital to senior bank debt, enabling CDFIs to attract more private funding. For example, the SDG Loan Fund, supported by a $25 million PRI guarantee from the MacArthur Foundation, mobilized $1.1 billion in private capital—a 40:1 ratio—for renewable energy and agribusiness projects in 80 emerging markets.[20]

- **Mission Related Investments**
  - Mission-Related Investments (MRIs) offer CDFIs flexible capital at near-commercial rates, combining market returns with clean energy lending. Unlike Program-Related Investments (PRIs), MRIs represent most foundation assets, aiming for financial returns alongside social or environmental impact.
  - These investments in CDFIs, through loans, guarantees, or equity, seek to attract additional capital sources.[21] Per IRS guidelines, foundation managers must prioritize investments offering the best returns, lowest risks, or greatest liquidity, exercising care and prudence.[22] MRIs typically have 10 - 12 year horizons, supporting long-term community development initiatives.[23]

Funder Spotlight:
MacArthur Foundation PRI and Community Investment Corporation in Chicago

The MacArthur Foundation contributed $1,000,000 in PRI to the Community Investment Corporation CDFI for a new "energy savers" loan fund supporting the Preservation Compact of Cook County, aimed at creating affordable, energy-efficient rental housing in Chicago, IL, leading to cost savings.

Learn more

Creating Partnerships

To create partnerships, it's critical to first identify potential strategic partnerships with clean energy-focused foundations. In addition to providing capital, clean energy-focused foundations, especially region specific institutions, can enhance a CDFI's clean energy lending through financial product design support. For example, regional partnerships like the Michigan Climate Investment Accelerator, supported by $11 million in federal funds, enable CDFIs such as Detroit's Invested Communities to finance clean energy projects.[24] By combining CDFIs' expertise with foundations' catalytic capital and policy advocacy, these partnerships make clean energy finance a community development priority.

PRI/MRI Fund Capital Summary	
Average Source Amount	$50,000 - $10,000,000
Typical Rates	0 - 3%
Term Range	3 months - 12 years
Repayment Requirements	Foundation Dependent
Additional Considerations	Clean energy-focused PRIs/MRIs often require specialized impact metrics

[20] Allianz's SDG Loan Fund leverages a $25 million guarantee to catalyze $1.1 billion
[21] Mission-Related Investments - The Abell Foundation
[22] Investments Made for Charitable Purposes
[23] Transformative Capital How mission-related investing can deepen foundations' impact
[24] State launches Michigan Climate Investment Accelerator

Clean Energy Lending Strengths and Weaknesses	
Capital Source Strengths	**Capital Source Weaknesses**
PRIs provide CDFIs with uniquely structured, below-market rate capital for high-risk clean energy initiatives	Limited number of foundations currently use clean energy-related metrics and targets for investment

2) DONOR ADVISED FUNDS

Description

Donor-Advised Funds (DAFs) are managed by 501(c)(3) organizations and allow individuals and corporations to contribute assets to the fund. Unlike traditional foundations, DAFs do not have a legal minimum payout requirement, though the average payout rate in 2023 was 23.9% with over $251 billion in assets. The scalability of DAF investments is illustrated by RSF's 2024 pilot program, mobilizing $16 million in DAF assets for its Social Investment Fund, financing loans to social enterprises in food/agriculture, climate, and education.[25] CDFIs can access DAF capital by presenting mission-aligned investment opportunities for DAF holders interested in clean energy lending, affordable housing, or small business development. For example, RSF Social Finance's program granted $45 million to nonprofits in 2023 at a 58% payout rate, over double the national average, demonstrating DAFs' potential to prioritize impactful initiatives impact.[26]

Capital Considerations

DAFs offer flexible capital deployment, enabling structures like recoverable grants (similar to loans) and impact investments. This allows CDFIs to combine DAF funds with traditional debt, enhancing their capital stack. For example, Vanguard Charitable, a national DAF, selected donors to recommend recoverable grants starting at $25,000, which funded the New York Forward Loan Fund (managed by the CDFI LISC). This initiative helped CDFIs expand their lending to small businesses, nonprofits, and property owners statewide.[27]

Creating Partnerships

To utilize DAF resources, CDFIs can pursue strategic partnerships. One approach is targeting mission-aligned DAF platforms, such as RSF Social Finance, which offers Double Impact DAF programs for investing in Social Investment Fund notes, with minimums of $500,000 to $5 million.[28] CDFIs can collaborate with community foundations that manage DAFs alongside PRIs/MRIs. They can also sell loan participations to DAF-sponsored investors, like RSF's partnership with Equal Exchange for funding fund fair-trade coffee cooperatives with minimums ranging from $500,000 to $5 million.[29]

Funder Spotlight: Greater Cincinnati Foundation DAF Supporting CDFIs

The Greater Cincinnati Foundation, primarily managing DAFs, made its first impact investment as a loan in 2001 to a CDFI to support local housing development in downtown Cincinnati. This initial investment helped catalyze subsequent growth in the downtown housing stock.

Learn more

[25] RSF Opens Double-Impact DAF Program to Donors Everywhere
[26] RSF – Our Impact
[27] Flowing Donor Advised Fund Capital to Communities
[28] How It Works: Activating DAF Dollars Through RSF's Social Investment Fund
[29] How It Works: Activating DAF Dollars Through RSF's Social Investment Fund

Donor Advised Fund Capital Summary	
Average Source Amount	$25,000 - $5 million
Typical Rates	Typically charitable, potentially 0-1% loans or recoverable grants
Term Range	If loans, potentially up to 10 years[30]
Repayment Requirements	Ranges from non-repayable grants to recoverable grants or impact investments with flexible repayment term
Additional Considerations	DAFs are relatively new philanthropic financial vehicle, with 81% of funds opened since 2010.

Clean Energy Lending Strengths and Weaknesses	
Capital Source Strengths	**Capital Source Weaknesses**
Flexible capital structures like recoverable grants	CDFIs are new investments for DAF donors
	DAF payouts are unpredictable due to no mandatory distribution requirements

C. Other Capital Market Opportunities

1) CAPITAL MARKETS ISSUANCE

Description

Capital markets issuances enable mature CDFIs to scale clean energy lending by leveraging their lending track records and financial strengths. This allows CDFIs to borrow against projected revenue streams, potentially raising significant capital (up to $50 million) for clean energy-focused lending.[31] By securing credit ratings from agencies like Standard & Poor's, Moody's, or Fitch CDFIs can enhance their creditworthiness, attracting a broader range of investors. Numerous CDFIs such as LISC and Enterprise Community Partners have successfully utilized this strategy, proving its effectiveness for similar organizations. This method is particularly beneficial when CDFIs face limits with traditional funding sources or impact investors, enabling continued growth in clean energy lending efforts despite other capital limitations.

Capital Considerations

Capital market strategies can provide CDFIs access to larger pools of capital than might be available through traditional sources or impact investors alone. The credit rating evaluates the CDFI's financial strength, management expertise, and loan performance history, creating opportunities to secure loans and other forms of financing at more favorable rates than might otherwise be available. The resulting financing would typically be structured as an obligation of the CDFI's loan fund, secured by the CDFI's projected revenue streams from

[30] Three Ways to Use Your Donor-Advised Fund Beyond Grantmaking
[31] CDFIs and the Capital Markets

their existing loan portfolio. Interest rates vary based on the CDFI's credit rating, market conditions, and capital structure, but generally offer relatively competitive pricing compared to other sources of growth capital. The number of S&P Global Ratings' issuer credit ratings (ICRs) outstanding for US CDFIs reached 15 in 2024 up from 13 ICRs in 2023.[32] This shows the growing adoption of this strategy among CDFIs. The ratings process evaluates factors including the CDFI's loan performance history, loss rates, management expertise, operational systems, and overall financial health, with higher ratings translating to lower borrowing costs and broader investor appeal. Organizations that pursue this approach can issue bonds, typically with terms ranging from 5 to 10 years.

Creating Partnerships

To successfully implement a capital markets strategy, CDFIs must develop relationships with several key partners.

- **Financial Advisors** play a critical role serving as a fiduciary to the CDFI. Financial advisors assist with the development of initial structure, credit ratings strategy, underwriter selection, pricing support and disclosure requirements.
- **Bond Counsel** with expertise in securities offerings is essential for navigating regulatory requirements and drafting offering documents.
- **Investment banks or underwriters** play a crucial role in structuring bond offerings and connecting issuers with institutional investors. CDFIs should identify firms with experience in community development finance or municipal bonds, as these institutions will better understand the unique aspects of CDFI operations.
- **Credit rating agencies** represent another critical partnership; CDFIs should engage early with agencies like S&P, Moody's, or Fitch to understand their evaluation criteria and potentially receive preliminary feedback on likely ratings.

CDFIs must build relationships with key partners to implement a successful capital markets strategy. Investment banks play a crucial role in structuring bond offerings and connecting issuers to institutional investors. CDFIs should seek firms with community development finance or municipal bonds experience. Engaging credit rating agencies early, such as S&P, Moody's, or Fitch, helps CDFIs learn evaluation criteria and gain feedback on potential ratings. Partnerships with existing CDFIs that have accessed capital markets offer insights into best practices and pitfalls. For example, LISC's Strategic Investments team has developed expertise in this area and can support organizations considering this strategy. By assembling the right partners, CDFIs can successfully navigate capital market complexities and enhance their capitalization potential.

Funder Spotlight: LISC's Sustainability Bond Issuance

After receiving an AA rating from S&P, LISC led the CDFI industry by offering $100,000,000 in general obligation bonds in 2017. LISC issued the bonds to "accelerate its work around economic opportunity and drive investment capital into distressed urban and rural communities across the country." This bond was issued with a 20 year term with an all-in cost of 4.351%.

Learn more

[32] U.S. CDFIs Take On More Debt To Grow Their Lending Capacity: Ratings Will Likely Remain Stable

Capital Markets Summary	
Average Source Amount	Generally up to $50 million, with some exceptions
Typical Rates	2.5% - 5%
Term Range	5 - 10 years
Repayment Requirements	Contractually outlined in offering
Additional Considerations	CDFIs generally access capital markets through traditional bonds (71% of rated issuances) and the remaining 29% are offered as impact notes.

Clean Energy Lending Strengths and Weaknesses	
Capital Source Strengths	**Capital Source Weaknesses**
Allows CDFIs with extensive lending experience to leverage their track records and financial strengths to raise additional capital	Additional cost and administrative burden to receive credit rating
Opportunity for partnership with CDFIs within the HPN network who have capital market experience	Additional cost for specialty legal and other expertise for capital market offering

2) GREEN BANKS

Description

Within the United States, green banks are "public, quasi-public, or nonprofit financing entities that leverage public and private capital to pursue goals for clean energy projects that reduce emissions."[33] States across the United States have green banks that serve as key sources of capital for clean energy-focused products and projects, with more competitive rates than traditional banks. The green bank network in the United States has expanded dramatically in the last 5 years, with over 40 green bank or green bank-like entities in the US,[34] nearly doubling since 2020.[35]

Capital Considerations

Green banks can provide CDFIs with competitively priced, long-term debt capital specifically structured to support clean energy-focused lending. For example, the NY Green Bank's Community Decarbonization Fund (CDF) offers fixed interest rates as low as 1.5%, well below conventional market rates, which seeks to enable CDFIs to finance projects and to incentivize CDFIs and other specialty lenders to offer expanded clean energy financing products benefitting disadvantaged communities.[36] These loans feature extended terms of up to 12 years, with loan sizes ranging from $2 million to $25 million (or 20% of a CDFI's total capitalization), providing flexibility to scale clean energy initiatives such as building retrofits or EV infrastructure.[37] These terms and structure can enhance a CDFI's capacity to underwrite higher-risk projects in underserved markets. Co-lending

[33] Green Banks | US EPA
[34] What is a Green Bank - Coalition for Green Capital
[35] Green Banks Issue Brief | National Caucus of Environmental Legislators
[36] NYGB 2024-25 Annual Business Plan
[37] Community Decarbonization Fund (CDF) FAQ

models also allow CDFIs to share risk with green banks such as NY Green Bank, which covers 50% of upfront costs for solar installations, enabling CDFIs to expand their project pipelines.[38]

Creating Partnerships

CDFIs can strategically partner with green banks through several pathways. To identify and connect with green banks in your state or region, review resources from The U.S. Green Bank 50 network. CDFIs can also connect with network leads or directly with local green banks to learn about co-lending opportunities or to seek additional capital for specific clean energy-focused projects. HPN members can also connect with the Green & Healthy Communities team at HPN to further build relationships with green banks. Additionally, leverage networks like the Coalition for Green Capital (CGC) serve as a hub to connect CDFIs to regional green banks and technical assistance. By combining green banks' policy driven mandates with CDFIs' community expertise, these partnerships can amplify clean energy action.

Funder Spotlight: DC Green Bank and City First Enterprises

In early 2022, DC Green Bank and City First Enterprises launched a $2.8 million partnership for energy-efficient projects for small businesses. DC Green Bank contributes $100,000 for loan-loss reserves, with $330,000 from City First and $495,000 from DC Green Bank. This collaboration allows City First to offer borrowers a competitive interest rate of 3%, advancing DC's clean energy goals.

Learn more

Green Bank Capital Summary	
Average Source Amount	Varies on maturity of green bank
Typical Rates	1% - 5%
Term Range	Up to 12 years
Repayment Requirements	Varies based on product type
Additional Considerations	Green Banks typically only provide capital for clean energy lending activity within their states.

Clean Energy Lending Strengths and Weaknesses	
Capital Source Strengths	**Capital Source Weaknesses**
A green bank's specific focus on clean energy lending provides technical expertise on clean energy technologies, reporting requirements, and financing structures[39]	Availability and amount of capital will vary depending on the maturity of the green bank in each CDFI's state[40]

[38] NY Green Bank Impact Report FY 2024
[39] DC Green Bank 2021 Annual Industry Report Final.pdf
[40] DC Green Bank 2021 Annual Industry Report Final.pdf

III. Indirect

Indirect capitalization focuses on the tools available to a CDFI to meet the capital deployment needs of its market without a new infusion of capital from external sources. Ideally, each CDFI would have access to all the capital needed in the terms required but this is often not the case. As a result, CDFIs can serve as catalysts that arrange, coordinate, and optimize capital flows from diverse sources, enabling them to support clean energy investments at a scale beyond what their current balance sheets alone could achieve while distributing risk across multiple stakeholders. Key approaches include:

A. Liquidity Strategies

B. Project Finance

These approaches allow CDFIs to support market deployment during new capital-constrained periods, extend their impact without proportional balance sheet growth, and catalyze significantly larger clean energy initiatives than would be possible through direct lending alone.

A. Liquidity Strategies

Description

Loan sales and securitizations offer CDFIs tools that can create portfolio liquidity and provide access to freed up capital to sustain lending capacity. According to the Federal Reserve Bank of New York, CDFIs sold $14.2 billion in loans in 2022 - a 137% increase from 2018.[41] Liquidity strategies are particularly valuable during periods of constrained capital access or when traditional funding sources reach their limits. By improving liquidity through strategic loan sales, CDFIs can sustain and potentially expand their clean energy lending operations even when direct capitalization opportunities are limited, all while decreasing reliance on securing grant money typically required for issuing smaller loans.[42]

Capital Considerations

Effective liquidity strategies depend on creating loan products with characteristics that appeal to secondary market investors. To execute this strategy effectively, CDFIs should focus on seasoned, performing loans that meet secondary market standards, such as those aligned with the SBA Community Advantage program, which enables microlenders to sell guaranteed portions at 8 -10% premiums.[43] The Aspen Institute reports that CDFIs using platforms like Scale Link generated $4.5 million in revenue from loan sales while recycling $45 million in capital between 2020 - 2023, primarily through sales of small-dollar loans to CRA-motivated banks. Loan sales typically involve either whole loans or participation interests, with pricing reflecting factors such as interest rates, term, credit quality, and any guarantees. The terms of these transactions can vary widely, from outright sales that remove assets from the CDFI's balance sheet to participation arrangements where the CDFI retains a portion of the loan and servicing responsibilities.

[41] Examining the Origination and Sale of Loans by Community Development Financial Institutions
[42] We Have New Tools To Capitalize CDFI Growth
[43] Capitalization Opportunities for Today and Tomorrow

Creating Partnerships

CDFIs should seek to create relationships with a diverse range of potential loan purchasers. Banks seeking CRA credit represent primary partners, as loan participations can help these institutions meet their regulatory obligations while providing CDFIs with additional liquidity. Beyond banks, insurance companies, pension funds, and impact investors increasingly participate in the CDFI secondary market, often attracted by the combination of financial returns and social impact. CDFIs should also consider partnerships with peer organizations for loan participations, creating arrangements that distribute risk and enhance collective impact. By developing these strategic partnerships, CDFIs can create reliable liquidity channels that support sustainable clean energy lending operations.

Funder Spotlight: Community Reinvestment Fund

CRF has acquired various economic development and housing loans from community lenders and bundled them into Community Reinvestment Bonds. This has allowed CRF to secure over 700 loans from 47 organizations nationwide.

Learn more

Liquidity Capital Summary	
Average Source Amount	$4.5 million in revenue, $45 million in capital recycling
Typical Rates	8 - 10% premium on loan sale
Term Range	N/A
Repayment Requirements	N/A
Additional Considerations	Increasing liquidity is particularly useful strategy during periods of constrained or uncertain periods of capital access

Clean Energy Lending Strengths and Weaknesses	
Capital Source Strengths	**Capital Source Weaknesses**
Sale of loans, to entities such as CRA-motivated banks, can generate additional lending capacity for the CDFI	Must intentionally create more standardized loan products with key characteristics that appeal to secondary market investors

B. Project Finance Origination

Description

Project finance structures can be an approach for CDFIs to facilitate clean energy investments without deploying their own capital. Through this strategy, CDFIs leverage their expertise in project development, community relationships, and financial structuring to arrange financing packages that draw capital from diverse sources including banks and institutional investors. Rather than serving as the primary lender, the CDFI acts as an arranger, bringing together conventional lenders, tax equity investors, grant providers, and other capital sources to fund clean energy resilience initiatives. This approach allows CDFIs to extend their impact beyond the constraints of their balance sheets, enabling the implementation of larger-scale clean energy projects than would be possible through direct lending alone. By focusing on financial origination rather than direct lending, CDFIs can multiply their impact while conserving their own capital resources for situations where other financing options are unavailable.

Capital Considerations

Project finance structures typically involve capital stacks drawn from multiple sources with varying terms, priorities, and requirements. These structures may include senior debt from commercial lenders, subordinated debt from mission-driven institutions, tax equity investments leveraging incentives like the Investment Tax Credit (ITC)[44] and possibly grant funding for specific components. The CDFI identifies suitable capital providers, structures transactions for various stakeholders, and may offer credit enhancement or gap financing, resources with origination fees between 0.5%-1%.[45-46] Project sizes vary from community-scale solar installations of $1- 5 million to neighborhood resilience initiatives over $50 million. Financing terms can extend 15-20 years for renewable energy or infrastructure projects.[47]

Creating Partnerships

CDFIs can expand project finance opportunities by engaging with a diverse set of capital providers and technical partners. CDFIs should cultivate connections with traditional financial institutions offering senior debt, tax equity investors (typically large banks or corporations with significant tax liabilities), subordinated debt providers like green banks or impact investors, and grant-making organizations for concessionary components. Technical partnerships are also important, including relationships with solar developers, energy

Funder Spotlight: Boston Community Loan Fund (BCLF) & Lawrence Communityworks

BCLF entered a Power Purchase Agreement with Lawrence Communityworks (the borrower) to install the PV panels on the roof of Union Crossing in Lawrence, MA. BCLF acted as an intermediary rather than a primary lender, combined tax equity with subordinate debt and structured repayment around energy cost savings rather than traditional collateral. This stacking allowed BCLF to mobilize $650,000 in solar infrastructure with only $195,000 of its own capital at risk.

Learn more

[44] Business Structures and Financing for Energy Projects
[45] CREDIT ENHANCEMENT PRACTICES
[46] Closing the Capital Gap for Emerging Small-Scale BIPOC Developers
[47] RENEWABLE ENERGY- START TO FINISH

service companies, engineering firms, and other specialized contractors who can ensure project feasibility and implementation. Public sector relationships, particularly with local governments and utilities, are often important for navigating regulatory requirements and securing necessary approvals.

Liquidity Capital Summary	
Average Source Amount	CDFI Project Contribution Varies by Project Total Project Size: $1 million - $50 million
Typical Rates	0.5% - 1% Origination Fee
Term Range	Up to 20 years
Repayment Requirements	Depends on CDFI's participation in capital stack, typically subordinate to senior debt from commercial lenders

Clean Energy Lending Strengths and Weaknesses	
Capital Source Strengths	**Capital Source Weaknesses**
By convening other lenders, tax equity providers, and grant providers, CDFIs can extend their impact beyond the constraints of their balance sheets and the execution of larger projects.	Lead CDFI is required to take on administrative burden of coordinating project participants, structuring capital stack, and establishing contractual relationships.

IV. Building Your Capitalization Strategy

The diverse capitalization strategies outlined in this resource provide CDFIs with multiple pathways to support clean energy resilience initiatives, yet implementation requires thoughtful alignment between organizational capabilities and community needs. When pursuing capitalization, three fundamental elements should be considered:

1. **Market need:** The specific clean energy financing gaps in your community.
2. **Organizational capacity:** Your CDFI's willingness and ability to provide specific financial products.
3. **Available capital:** Funding sources with terms that match your intended lending products.

Before pursuing new capital sources, conduct a comprehensive assessment of your existing portfolio and financial products. Examine your existing funding sources, including terms, rates, and restrictions, to identify which could potentially support clean energy initiatives without requiring new funding relationships. Simultaneously, analyze the specific clean energy-related financing needs in your community - this market assessment will guide which products to develop and, consequently, which capital sources to pursue.

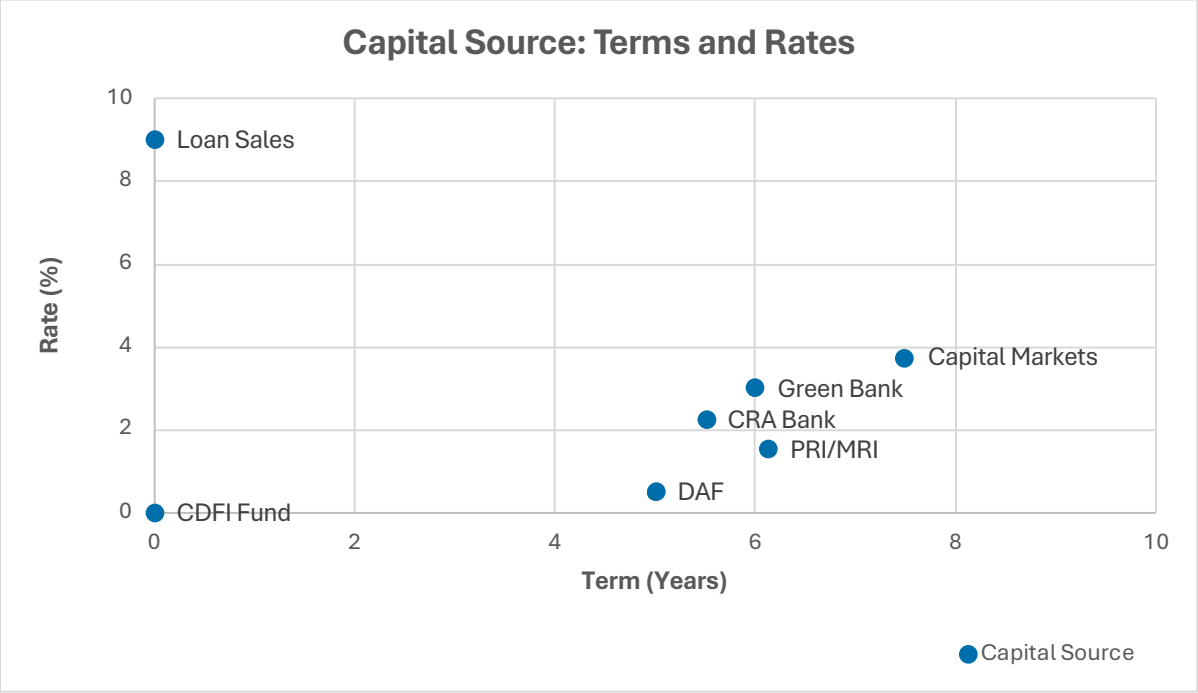
Additionally, evaluate your organization's expertise, staffing, and systems for clean energy lending to determine whether you need technical assistance alongside lending capital. With this assessment complete, your CDFI can pursue several strategic capitalization pathways tailored to your specific circumstances:

- **Limited Clean energy-Specific Funding:** If your analysis reveals suitable existing capital but limited clean energy-specific funding, consider leveraging your current resources by repurposing flexible funding. Non-clean energy specific capital can be directed toward clean energy initiatives, while clean energy-specific funding cannot be used for non-clean energy work. Explore blending various funding types to achieve desired terms, for example, pairing market-rate bank debt with foundation PRIs to offer products to borrowers.

- **Long-Term/Flexible Capital Needs:** When your assessment indicates a need for additional capital with specific characteristics, focus on matching capital sources to your lending needs. Long-term clean energy infrastructure projects can require correspondingly patient capital, such as 7-10 year foundation PRIs or green bank financing. Smaller CDFIs might prioritize foundation relationships and CDFI Fund programs, while larger organizations could explore capital markets opportunities.

- **Limited Opportunity for Capitalization:** If direct capitalization proves challenging or insufficient, consider indirect approaches that expand your impact beyond balance sheet constraints. Develop standardized loan products that can be sold to secondary markets, recycling capital for new clean energy lending without expanding your balance sheet. Alternatively, position your organization as a project originator rather than direct lender, bringing together capital from multiple sources to facilitate larger clean energy initiatives than would be possible through direct lending alone.

In order to identify which of the strategies listed above best meets the needs of your organization it's essential to first assess your current capital sources, identify specific gaps when compared against your intended products, and prioritize funding sources that best align with your organizational capabilities. By strategically aligning funding with both market demands and your CDFI's unique strengths, you'll maximize your impact in building resilient, sustainable communities. A summary of the capital sources, along with their terms and rates is outlined below for easy assessment of organizational needs:



Additionally, key considerations for each capital source is outlines in the table below:

Clean Energy Capital Source Summary

Capital Source	Key Characteristics	Advantages	Challenges	Best Suited For
CRA-Motivated Banks	• Driven by regulatory requirements • Often local or regional focus	• Potential for large funding amounts • Can lead to long-term partnerships	• May have stricter lending criteria • Might require more traditional collateral	• CDFIs with strong track records and established bank relationships
CDFI Fund	• Federal government program • Specifically designed for CDFIs	• Favorable terms • High mission alignment	• Competitive application process • Extensive reporting requirements	• CDFIs looking to leverage federal support for expanded lending capacity
New Market Tax Credits	• Tax credit incentive program • Focuses on low-income communities	• Attracts private investment • Can fund larger projects	• Complex structuring • Limited allocation availability	• Larger CDFIs with capacity to manage complex transactions in qualifying areas
Program Related Investments	• From foundations • Below-market returns	• Patient capital • High risk tolerance	• May have specific program requirements • Limited availability	• CDFIs aligned with foundation missions and impact goals
Mission Related Investments	• From foundations • Closer to market returns	• Potentially larger amounts • Broader range of eligible projects	• May compete with traditional investments • Higher return expectations	• CDFIs with proven financial and impact performance
Donor Advised Funds	• Individual donor-driven • Flexible terms	• Potentially untapped resource • Aligned with impact goals	• May require education of DAF holders • Fragmented source	• CDFIs with strong impact stories and individual donor networks
Capital Markets	• Borrowing • Credit ratings	• Provides access to substantial capital amounts	• Requires significant administrative resources	• Larger CDFIs with extensive lending experience
Green Banks	• Focus on clean energy initiatives • Often state-based	• Specialized in green lending • Can provide technical assistance	• Limited geographic availability • May have specific project criteria	• CDFIs focusing on clean energy projects
Liquidity	• Loan sales to secondary markets	• Enables CDFIs to generate significant revenue while recycling capital,	• Requires intentional creation of loan products with specific characteristics	• CDFIs experiencing constrained capital access periods,
Project Finance	• CDFIs act as project sponsors or arrangers rather than primary lender	• Allows CDFIs to facilitate larger clean energy initiatives beyond their balance sheet constraints	• Must manage the administrative coordination of multiple project participants	• CDFIs seeking to expand their project pipeline