OPPORTUNITY FINANCE NETWORK

Michael Regan, Administrator
US Environmental Protection Agency
Office of the Administrator, Mail Code 1101A
1200 Pennsylvania Avenue, NW
Washington, DC 20460

October 11, 2022

Dear Administrator Regan:

On behalf of Opportunity Finance Network (OFN) I am writing to urge you to work with the nation's extensive network of community development financial institutions (CDFIs) to ensure the Greenhouse Gas Reduction Fund (GGRF) reaches the underserved communities most impacted by climate change. I would also like to request a meeting with the appropriate EPA leadership to discuss how CDFIs can help GGRF achieve the Biden-Harris Administration's policy goals.

OFN is a national network of more than 380 CDFIs. CDFIs are specialized lenders - community development banks, credit unions, loan funds, and venture capital funds – that invest to benefit low-income and low-wealth communities across America. OFN's membership has originated $91 billion in cumulative financing in urban, rural, and Native communities through 2020.[1]

CDFIs and the Federal Government: Partners in Advancing Environmental Justice

The Environmental Protection Agency (EPA) has an opportunity to design a GGRF application process that ensures good stewardship of these public funds. To achieve the goals of the GGRF, it is critical the providers of these funds have a track record of serving low-income communities, not just a history of providing green products.

As mission lenders with specialized expertise in reaching underserved markets, CDFIs are ideally positioned to finance projects that reduce greenhouse gas emissions. Clean energy finance in low-income communities requires specialized lending expertise. Investing in the clean energy technologies needed to reduce emissions is unaffordable for many households and communities – especially those already underserved by traditional finance.

Low-income homeowners seeking financial assistance to purchase upgraded heat pumps or install solar panels will face the same barriers to accessing capital as they do when seeking a mortgage. A corner store owner looking to upgrade their refrigeration system might not have the collateral or cash flow needed to secure a bank loan to invest in that technology. Ensuring that GGRF capital reaches low-income and disadvantaged communities requires partnering with financial institutions that already have the trust and relationships on the ground.

The CDFI Model: Investing in Communities Other Lenders Overlook

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[1] Opportunity Finance Network, "Inside the Membership: Statistical Highlights from OFN Membership: 2020", Published April 14, 2022. Accessed July 1,2022. https://cdn.ofn.org/uploads/2022/04/14153742/OFN_Inside_The_Membership_FY2020.pdf

CDFIs are mission lenders with the networks and relationships needed to deploy capital to low-income, under-resourced, and traditionally marginalized communities. As capillaries of the financial system, CDFIs reflect and understand the communities they serve. There are more than 1,300 Treasury-certified CDFIs investing in all 50 states and financing sectors with nearly 40% of CDFI lending in persistent poverty areas.[2] As a condition of maintaining their certification, CDFIs are required to direct at least 60% of their financial products to low-income areas or people in their Target Markets – a threshold most CDFIs easily exceed.[3] Data from the CDFI Fund's 2020 Annual Certification Report found that on average loan funds and venture capital funds direct at least 88% of their lending to their Target Markets, and regulated CDFIs direct at least 75% of their lending to their Target Markets.[4]

CDFIs are also experts in the type of place-based investing needed to address localized needs of climate-impacted communities. The overlap between low-income markets and climate-impacted communities intersects with many markets served by CDFIs: flood prone areas like New Orleans 9th ward, manufactured housing communities impacted by extreme heat in the Southwest, farmworkers and rural communities displaced by wildfires in California, coastal communities of color in Florida and along the Gulf Coast – all communities served by mission lenders working to address the impacts of climate change.

Further, CDFIs are experts at leveraging philanthropic, public, and private capital and collaborating with other lending institutions including impact investors, community banks, green banks, and other CDFIs. For example, the Treasury Department has found that CDFIs leverage a grant investment 8:1 with private sector investment from banks, foundations, and other impact investors.[5] CDFIs will be able to leverage capital from the GGRF with other funding, deepening its impact.

CDFI Green Lending in Underinvested Markets

[2] Loethen and Fabiani, "Persistent Poverty and the Prevalence of CDFIs", OFN, (2021).
[3] The CDFI Fund defines an approved target market or eligible market, as one or more investment areas or targeted populations. Investment area refers to a geographic area that meets requirements set forth in Title 12, Section 1805.201(b)(3)(ii)(D), of the Code of Federal Regulations with a significant unmet need for loans, equity investments, or other financial products or services or is wholly located within an Empowerment Zone currently in effect or Enterprise Community (as designated under Section 1391 of the Internal Revenue Code of 1986 [26 U.S.C. 1391]). Target populations consist of individuals from the following populations: Low-income targeted population is defined as individuals whose family income, adjusted for family size, is not more than (1) for metropolitan areas, 80% of the area median family income in metropolitan areas; and (2) for non-metropolitan areas, the greater of 80% of the area median family income or 80% of the statewide non-metropolitan area median family income. Other targeted populations include African Americans, Hispanics, Native Americans, Native Alaskans residing in Alaska, Native Hawaiians residing in Hawaii, other Pacific Islanders residing in other Pacific Islands, and other groups with CDFI Fund approval.
[4] CDFI Annual Certification and Data Collection Report (ACR): A Snapshot for Fiscal Year 2020, Published October 2021. https://www.cdfifund.gov/sites/cdfi/files/2021-10/ACR_Public_Report_Final_10062021_508Compliant_v2.pdf
[5] Remarks by Secretary of the Treasury Janet L. Yellen on $1.25 Billion Award to CDFIs to Support Economic Relief in Underserved Communities Affected by COVID-19, June 15, 2021.

The nation's network of CDFIs has tremendous capacity to address the energy and environmental challenges facing economically distressed communities. In 2020, OFN members originated more than $8 billion in financing, with a majority of members indicating they offer green financing products.

As noted above, CDFIs MUST lend or invest in low- and moderate-income communities as a condition of maintaining their certification with the CDFI Fund. While some green banks invest in low-income neighborhoods, they are not required to do so and, in some instances, may lack the community relationships needed to ensure this capital reaches low-income and disadvantaged communities. The urgent need to curb emissions in low-income communities must not be left to chance – EPA needs to work with CDFIs to ensure these funds reach targeted communities.

Federal Programs that Partner with CDFIs Reach More Underserved Markets

The GGRF should be designed with an intentional focus on low-income, climate-impacted communities and the mission lenders that serve them. The Paycheck Protection Program (PPP) experience demonstrated that when affordable capital is coupled with supportive public policy, CDFIs not only deliver but outperform other lenders – reaching deeper into low-income markets than traditional financial institutions. Lessons learned through the PPP experience can improve outcomes for other public-private partnerships like the Greenhouse Gas Reduction Fund (GGRF).

When PPP was not reaching businesses most in need of help, the federal government turned to the CDFI industry to ensure PPP and other pandemic relief reached these overlooked markets. Policy changes were implemented to increase CDFI participation and reach more of their small businesses customers. As a result, CDFIs and other mission lenders made at least $34 billion in Paycheck Protection Program (PPP) loans to small businesses – and, according to SBA statistics, were more successful at reaching financially underserved businesses than any other type of PPP lender.[6]

As the federal government contemplates the structures of the new GGRF, there is an opportunity to adopt two major lessons from PPP:

1) Centering the needs of low-income and disadvantaged communities in program design produces better policy outcomes
2) CDFIs can deliver rapid and targeted deployment of federal funds to underserved markets when supportive policy changes are coupled with adequate capital and capacity building resources

Other programs that prioritize CDFI participation like the Small Business Administration's 7(a) Community Advantage (CA) program and Microloan program are far more successful at reaching underserved populations. Data from the SBA shows Community Advantage lenders reached more than three times as many Black, Latinx, and women-owned businesses as traditional 7(a) lenders – between FY 2016 and FY 2021, CA lenders lent an average of 5.6 times more dollars to Black owned businesses and an average of 2.5 times more dollars to Hispanic owned businesses than

[6] Jennifer A. Vasiloff, "CDFIs Continue to Outperform Other PPP Lenders", OFN, May 2021. https://ofn.org/articles/cdfis-continue-outperform-other-ppp-lenders

7(a) lenders.[7] CA lenders also lent twice as many dollars to women owned businesses than 7(a) lenders. More than half of Community Advantage lenders are certified CDFIs, while the 7(a) program has only a handful of CDFI participants. In the SBA's microloan program which also has robust CDFI participation, more than 60% of the number of microloans issued in FY 2021 went to minority-owned or controlled businesses.[8]

Recommendations for Equitable, Targeted Deployment of GGRF

OFN has recommendations to ensure program funds reach the targeted communities:

- **Leverage the extensive existing network of CDFIs to ensure rapid, equitable investment in all 50 states, across rural, and urban areas, and throughout the economy.** To decarbonize all sectors of the economy, commercial, residential, and consumer, across all 50 states, we must take advantage of the power of the full existing ecosystem of CDFIs. We urge EPA to make it explicit that CDFIs are eligible to access these funds as direct or indirect recipients. To ensure the program meets its statutory intent to reach low-income and disadvantaged communities, CDFIs that meet the statutory definition of eligible recipients should be able to apply directly to the EPA individually or as part of a consortium.
- **Develop a separate application for the $8 billion in funding targeted to low-income and disadvantaged communities.** The EPA should develop separate applications to allocate the $20 billion in GGRF financial assistance not directed to state governments. The $8 billion in funding designated to low-income and disadvantaged communities requires specialized market expertise. Applicants should be prioritized based on their track record and accountability to low-income and disadvantaged communities. The CDFI Fund's certification process ensures certified CDFIs are accountable to these markets.
- **Prioritize Environmental Justice.** EPA should consider the current $8 billion set-aside in the legislation for low-income and disadvantaged communities as a floor and not a ceiling and include impact for these communities as a funding criterion for awards of funds not set aside for that purpose. The $12 billion should also conform to the Justice40 Initiative and target low-income and disadvantaged communities.
- **Allocate funding to multiple entities.** GGRF funds should not capitalize a single entity or revolving loan fund. Having multiple recipients increases the government's ability to achieve its policy and allows lenders to develop customized solutions to meet their community needs. GGRF funds must also be flexible enough to provide grants to lenders and end projects. CDFIs and other mission lenders need flexible, low-cost, and long-term financing to subsidize projects that have high upfront costs. Investments in energy efficiency are difficult for low-income households and communities to finance despite the prospect of long-term savings on energy costs and reduced greenhouse gas emissions.

[7] SBA Weekly Lending Reports
[8] Anthony A. Cilluffo and Anthony A. Cilluffo, "Small Business Administration Microloan Program", Congressional Research Service, March 30, 2022, https://sgp.fas.org/crs/misc/R41057.pdf

GGRF dollars must flow to lenders and subrecipients at least partially as grants to incent these types of investments in low-income communities.

- **Define "low-income and disadvantaged communities" using the established definition of an eligible "Target Market" used by the CDFI Fund** The legislation does not define the terms "low-income and disadvantaged communities" so EPA should adopt the existing definition of an eligible "Target Market" used by the CDFI Fund. This definition meaningfully captures low-income and underserved communities, including consideration of individual borrower characteristics as well as the communities where borrowers are located. Adopting it would create standardization and lower costs of compliance as thousands of mission lenders already track and report lending activity according to CDFI Fund Target Market definitions.

- **Recognize that small scale is not low impact.** Distributing funds through a network of lenders like CDFIs means smaller projects will receive consideration. As the Carsey Institute notes in the context of small-scale solar projects, "A variety of obstacles contribute to the scarcity of financing for low-income solar, including small project sizes, lack of developer balance sheet capacity, both real and perceived issues with credit risk, elevated technical assistance needs, and greater subsidy requirements to pursue goals such as deep energy affordability, climate resilience, or job creation."[9] It is also important to balance deployment speed with deep community impact. Deploying this capital in a way that funds projects and builds CDFI capacity will result in the sustained investments needed to combat greenhouse gas emissions.

- **Ensure a broad range of projects are included as eligible activities.** There is no "one-size fits all" approach to curbing emissions. Rather, it will require investing in a broad set of projects and interventions based on community needs. CDFIs are working across the country to address the climate crisis. The included appendix features CDFIs that received grant funding through OFN's Renewable and Energy Efficiency Financing Grant Program. Between 2019-2022, OFN provided $5.25 million in grants to OFN members focused on a wide variety of renewable and energy efficiency financing projects. Small investments of grant capital will catalyze the creation of innovative new green loan products, development of new funds focused on energy efficiency, and more.

Conclusion

Environmental hazards and climate-driven disasters disproportionately impact low-income communities. The federal government needs CDFIs to implement the Greenhouse Gas Reduction Fund successfully. Even without direct federal support for clean energy financing, CDFIs have financed businesses and projects that reduce greenhouse gas emissions and air pollution and are

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[9] Eric Hangen, Rebecca Regan, Sarah Boege, "Bringing Solar Energy to Low- and Moderate-Income Communities", Published April 23, 2021. https://carsey.unh.edu/publication/bringing-solar-energy-low-moderate-income-communities

poised to do much more. OFN and our network of CDFIs stand ready to partner with EPA to make meaningful progress on reducing greenhouse gas emissions, particularly in the low-income and disadvantaged communities prioritized in the law.

Sincerely,

Beth Lipson
Interim President & CEO, Opportunity Finance Network

Appendix: Examples of CDFI Green Lending from OFN's Energy Efficiency Grants

Bluehub Capital, based in **Boston, MA** created an electric vehicle (EV) pilot program using vehicle-to-grid (V2G) technology to lower the costs and increase the reliability of a car for low-income households, identify barriers to low-income household adoption of EVs, and recommend policy changes and business initiatives that enable low-income households to transition from gas to EVs.

Capital Good Fund, based in **Providence, RI** is planning to expand their DoubleGreen loan program for energy-efficiency upgrades. Designed to serve the needs of moderate-to-middle income homeowners with less-than-perfect-credit, the loans serve to upgrade wall insulation, duct sealing, high-efficiency heating & cooling equipment to make your home more energy-efficient and safe. Currently serving Rhode Island, Florida, Massachusetts, Delaware, Illinois, and Texas with hopes of expansion.

Cincinnati Development Fund, based in **Cincinnati, OH**, created the Affordable Energy Fund, targeting developer-borrowers who are creating affordable, multi-family housing in the high-poverty neighborhoods CDFIs serve. The Affordable Energy Fund provides low-cost mezzanine debt as incentive for developers to identify energy-efficiency solutions, proper implementation, while preventing the creation of a financial barrier for low-incomes through the added cost of energy-efficient systems.

City First Enterprise, based in **Washington, DC** is launching the Small Business Renewable and Energy Efficient Fund (REEF) in partnership with Montgomery County, MD's Green Bank. In the first phase, the organizations will provide a $650,000 loan fund of secured and unsecured debt to Montgomery County-based small businesses to accelerate adorable energy efficiency and clean energy.

Community Loan Fund of the Capital Region, based in **Albany, NY** is supporting affordable housing developers moving into the economically distressed neighborhoods of Arbor Hill and Sheridan Hollow to build-out green infrastructure. They also help nonprofits who serve residents in those communities make energy updates to their buildings providing cost savings to their limited budgets. All funds are combined with sustainability education for new and existing residents.

Kentucky Highlands Investment Corporation, based in **London, KY,** makes loans to small businesses for energy efficiency improvements and retrofits so they can reduce operating costs to remain competitive. KHIC has a program that combines energy projects with the USDA's Rural Energy for America Program (REAP) loan and grant program to a achieve a 3:1 leverage. Only agricultural producers and rural small businesses are eligible to apply for REAP funds. REAP is a competitive renewable energy and energy efficiency improvement reimbursement program that makes grants up to 25% and loan guarantees up to 75% of eligible costs.

Neighborhood Housing Services of South Florida, based in **Miami, FL** is expanding their operations to provide innovative solutions to communities facing an affordable housing crisis and residential as well as business displacement due to climate change, natural disasters, gentrification, and unexpected economic hardships, such as a pandemic.

New Jersey Community Capital, based in **New Brunswick, NJ** finances projects that upgrade and improve energy efficiency of housing units and other facilities and may lead to LEED certification. Through their Healthy Communities Fund, they provided the financial resources and development expertise to drive the construction of safe, affordable, stable, and environmentally sound housing opportunities in an effort to realize better health outcomes in distressed neighborhoods.

Northeast South Dakota Economic Corporation, based in **Sisseton, SD** will use the grant to educate and provide lending for upgrading or purchasing new energy-efficient products to business loan customers. Providing education to customers on energy-efficient products that will enhance small businesses and lower operating costs.

Opportunities Credit Union, based in **Winooski, VT,** created a loan program for energy-efficient home appliances with affordable monthly payments for low-income homeowners in Vermont.

Rural Community Assistance Corporation, based in **West Sacramento, CA**, created the Biomass Utilization Fund (BUF), a pilot lending program designed to reduce wildfire risk by using low-value forest wood (biomass) to generate sustainable energy and employment for low-to-moderate-income (LMI) rural Californians.

The National Housing Trust Community Development Fund, based in **Washington, DC** will use the grant to support the Energy Efficiency for All (EEFA), a collaborative that brings together state and local groups from across the country to help increase energy efficiency investment in multifamily housing.

Triple Bottom Line, based in **Lakewood, Colorado** will use the grant to expand and create a loan loss reserve for their work in providing technical assistance and financing for energy efficiency and renewable energy improvements in multifamily affordable housing properties serving low-income residents.

Virginia Community Capital, based in **Richmond, VA** operates a Clean Energy Lending program by providing solar loans for direct ownership, to small businesses and for third party ownership using power purchase agreements (PPAs) for nonprofits. Virginia Community Capital is also looking to expand this program geographically, and lend in contiguous states (North Carolina, Tennessee, Kentucky, West Virginia, Maryland, and Washington DC).