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Michael Regan, Administrator

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

August 2022

Dear Administrator Regan:

We are writing to express our enthusiastic and unconditional support for the Greenhouse Gas Reduction Fund that is included as part of the Inflation Reduction Act legislation that passed recently. We are also writing to express the interest of the Community Development Finance field in working with the US Environmental Protection Agency (EPA) to ensure that low-income and disadvantaged communities — especially communities of color, Native Nations, and those that are under-resourced — will benefit significantly from the implementation of this Fund. **Finally, we are writing to offer some concrete recommendations to ensure efficiency, effectiveness, accountability, and above all else equity in implementation.**

We believe that with the right supports in place from the Greenhouse Gas Reduction Fund, the community development finance sector can dramatically expand climate mitigation impacts in Justice40 target communities, while achieving both rapid deployment and significant leverage of this resource. To that end, we are providing in this letter a brief overview of our field and a set of recommendations around the most impactful ways to deploy Greenhouse Gas Reduction Funds in low-income and disadvantaged communities.

Community Development Financial Institutions (CDFIs), a United States Treasury Department designation, excel in serving low-income, under-resourced, and traditionally marginalized communities, especially communities of color, rural, and persistent poverty communities. **The term CDFI incorporates community development banks, credit unions, loan funds and venture capital funds, who share a primary mission of community development and engage predominantly in financing activity in low-income and communities of color.** CDFIs provide both technical assistance and financing across all fifty states, with nearly 40 percent of CDFI lending in persistent poverty areas.[1] As capillaries of the financial system, CDFIs reflect and understand the communities they serve.

CDFIs have an over 25-year track record as experienced, specialized lenders skilled in complex financing. Over 1,300 CDFIs serve the nation, with more than $228 billion in assets under management –– the vast majority in the form of loans and investments to low-income and disadvantaged communities that are creating quality jobs, providing affordable housing, and improving health, educational, and financial outcomes for families.

CDFIs have proven their ability to provide capital to low-income communities where others have failed. For example, during the Great Recession, a program evaluation found that CDFIs leveraged capital and increased their lending volume to distressed communities even as mainstream banks pulled back.[2] CDFIs have again proved their worth during the COVID pandemic. Four types of mission lenders — CDFIs, Minority Depository Institutions (MDIs), Small Business Administration (SBA) microlenders and Certified Development Corporations, together termed "Community Financial Institutions (CFIs)" — outperformed all other Paycheck Protection Program (PPP) lenders in multiple ways. The law establishing the $292 billion 2021 Paycheck Protection Program reserved $15 billion for CFIs to lend. As of May 23, 2021, SBA data showed that CFIs had lent TWICE this amount. Further, according to SBA statistics, CFIs were more successful at reaching financially underserved businesses than any other type of PPP lender.[3]

Further, CDFIs are adept at leveraging philanthropic, public, and private capital and collaborating with other lending institutions, including impact investors, community banks, green banks, and other CDFIs. According to the Treasury Department, CDFIs leverage grant investment 8:1 with private sector investment from banks, foundations, and other impact investors.[4] Additionally, CDFIs promote and engage in field building and education/technical assistance efforts.

CDFIs serve the very communities that most acutely feel the financial and environmental costs of fossil energy. Many CDFIs are already playing a leading role in financing clean energy for

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[1] Loethen and Fabiani (2021). "Persistent Poverty and the Prevalence of CDFIs" OFN.

[2] Swack et al (2014). "CDFIs Stepping into the Breach: An Impact Evaluation." University of New Hampshire Carsey School of Public Policy. Prepared for the US Department of Treasury Community Development Financial Institutions Fund.

[3] https://ofn.org/articles/cdfis-continue-outperform-other-ppp-lenders

[4] 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)

these communities. As the CDFI Fund does not capture data on clean energy lending, we must rely on surveys capturing only a fraction of the field to provide you with some sense of current activity. However, even these surveys have identified 98 CDFIs originating over $500 million *annually* in clean energy financing,[5] in the absence of any targeted government support for this activity. This estimate excludes many loans with positive climate impacts — such as financing for regenerative agriculture; loans where clean energy is included in a project but not categorized as a principal purpose; and investments helping to revitalize urban, location-efficient neighborhoods.

We would like to make the following recommendations to EPA regarding implementation of the Greenhouse Gas Reduction Fund:

- **Leverage the extensive existing network of CDFIs, MDIs, and other experienced community lenders to ensure rapid, equitable and widespread investment.** We suggest that EPA ensure full equitable participation by CDFIs, Minority Depository Institutions (MDIs), green banks, and other mission lenders. To decarbonize all sectors of the economy, we must take advantage of the power of the full existing ecosystem of community lenders. As the PPP example demonstrates, CDFIs and their CFI partners have the financial sophistication, infrastructure, and deep community roots and relationships to deploy federal funds quickly and effectively.

    - **Use existing definitions from the CDFI Fund to target resources to low-income and disadvantaged communities**. The legislation leaves the term "low-income and disadvantaged communities" up to EPA to define. We believe that the definition of eligible "Target Markets"[6] used by the CDFI Fund meaningfully captures these communities, including both consideration of individual borrower characteristics as well as the communities where borrowers are located. Adopting it would create standardization and greatly lower costs of compliance in the space, as thousands of community-based lenders already track and report lending activity according to CDFI Fund Target Markets. Earlier versions of the legislation had introduced overly broad definitions which did not meaningfully focus funding for the communities who need it most; we discourage the use of that language in EPA's definitions. Overall, EPA should coordinate directly with the CDFI Fund at the U.S. Department of Treasury to ensure inclusion of CDFIs in implementing the program.

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[5] Source: University of New Hampshire analysis of survey results provided by Opportunity Finance Network, Inclusiv, and the Federal Reserve Bank of Richmond.

[6] [12 CFR§1805.104(ll)]

- **Ensure that low-income and disadvantaged communities receive their fair share of capital on terms that they can afford.** To succeed in low-income communities, many decarbonization projects will require grant incentives, gap financing, and technical assistance to accomplish. Many others will require long-term, below-market financing. EPA should ask eligible intermediary recipients to document how they will ensure that appropriate forms of financial assistance will reach low-income and disadvantaged communities — especially communities of color, Native Nations, and those that are under-resourced. Further, EPA should demand that costs of financial intermediation are minimized for these communities.

- **Insist on democratic, community accountability** in the investment of these dollars, with a transparent and fair process at all levels. We urge EPA to ensure that direct and indirect recipients of any funds intended for low-income and disadvantaged communities have a governance structure in place that is accountable to those communities. The CDFI Fund has developed a rule to assess community accountability that we believe provides a good model for EPA to adopt.[7]

- **Make sure that these funds do not become another government program that exacerbates inequality.** We recommend that the EPA consider the current 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 even for awards of funds not set aside for that purpose. Members of Congress in both the Senate and the House of Representatives have supported this position.

In closing, we would like to re-iterate our strong support and gratitude for the law's inclusion of the Greenhouse Gas Reduction Fund and express our thanks both to the Administration and to the many advocates, including the Coalition for Green Capital, whose tireless work over the past decade has brought this vision to reality.

Sincerely,

Michael Swack, Director, Center for Impact Finance, Carsey School of Public Policy, University of New Hampshire

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[7] CDFI Certification Application, CDFI Fund p. 55, Accessed on December 14, 2021

Supporting individuals and organizations:

Elyse Cherry, BlueHub

Catherine Godschalk, Calvert Impact Capital

Robert Rapoza, CDFI Coalition

Keith Bisson, Coastal Enterprises, Inc.

Jeannine Jacokes, Community Development Bankers Association

Kerwin Tesdell, Community Development Venture Capital Alliance

Frank Altman, Community Reinvestment Fund

Elise Balboni, Enterprise Community Loan Fund

Cathie Mahon, Inclusiv

Joe Evans, The Kresge Foundation

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