



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

A Working Paper on Climate-Focused Community Finance

From the Office of Community and Economic Development

Introduction

Community finance is a subset of financial services focused primarily on: (1) opening access to responsible capital, credit, and financial services to low-income or financially underserved households or small businesses; and (2) financing place-based community and economic development activity in economically distressed geographies.¹ Low-income people experience greater vulnerability to the impacts of climate change and face disproportionate cost burdens for their housing and energy.² Climate-focused community finance is focused on mitigating the impacts of climate change, promoting climate resilience and supporting a clean energy transition, while still achieving the traditional objectives of community finance – advancing economic opportunities for financially underserved people and economically distressed geographies.

Immediately upon taking office, the Biden Harris Administration placed a policy focus on environmental justice. President Biden’s Executive Order 14008 created the Justice40 Initiative, which establishes a goal that 40 percent of the overall benefits of certain federal investments flow to disadvantaged communities that are marginalized, underserved, and overburdened by pollution. Justice40 covered programs will make investments in climate change, clean energy and energy efficiency, clean transit, affordable and sustainable housing, training and workforce development, remediation and reduction of legacy pollution, and the development of critical clean water and wastewater.³ The passage of the Inflation Reduction Act of 2022 (IRA) and the Bipartisan Infrastructure Law made available unprecedented resources to implement investment efforts aimed at producing both environmental and economic benefits including, in many cases, specifically for underserved populations and economically distressed places.

In September 2023, Treasury published Principles for Net-Zero Financing and Investment, which recognize that successful execution of net zero commitments can help firms mitigate exposure to climate-related risk and unlock economic opportunities as the United States builds the clean energy economy of the future.⁴ In October 2023, prudential regulators issued principles for climate-related financial risk management for large financial institutions.⁵ While these publications do not directly address Community Development Financial Institutions (CDFIs), the concepts in each document are likely to have implications for depository CDFIs and potentially for CDFIs that receive funding or investment from larger financial institutions that are adopting these principles. On October 24, 2023, prudential regulators also issued the Community Reinvestment Act (CRA) Final Rule,⁶ which gives credit to community

¹ Place-based community and economic development includes the development or preservation of community assets and community-serving infrastructure that reinforces economic opportunity (such as affordable housing or facilities for the delivery of quality childcare, healthcare and/or education) or economic development efforts that create jobs or facilitate business growth (such as small businesses incubators or commercial development in locations that are accessible to low-income workers and consumers).

² [How Cities Can Tackle Both the Affordable Housing and Climate Crises | Housing Matters \(urban.org\)](#)

³ [Justice40-Covered-Programs-List_v1.2_07-25-2022.pdf \(whitehouse.gov\)](#)

⁴ [Treasury Releases Principles for Net-Zero Financing & Investment, Applauds \\$340 Million Philanthropic Commitment and Other Pledges | U.S. Department of the Treasury](#)

⁵ [Federal Reserve Board - Agencies issue principles for climate-related financial risk management for large financial institutions](#)

⁶ <https://www.federalreserve.gov/consumerscommunities/community-reinvestment-act-final-rule.htm>

development activities designed to strengthen disaster preparedness and weather resiliency in low- and moderate- income communities.⁷

Some CDFIs and other community development organizations have well-established track records of centering environmental benefits in their approach to community finance. Recent federal investments have been a catalyst for broader efforts to build an ecosystem for climate-focused community finance, including identifying the impacts of climate change in financially underserved communities, and developing strategies for investing capital to meet those challenges while promoting economic opportunities. There has been limited exploration of how to collect, standardize, and report data to measure the effectiveness and benefits of climate-focused community finance activities. The CDFI Fund recently included climate-centered financing as an eligible line of business for the Financial Assistance Program.⁸

A Framework for Understanding Climate-Focused Community Finance

There is not yet a widely accepted framework for understanding climate-focused community finance and no consensus on the metrics that best measure the success of these efforts. However, efforts by policymakers, academics and practitioners provide valuable context.⁹ The urgency for a climate-focused community finance framework has increased because of the historic federal investments authorized under the IRA. The development of a framework and associated metrics for measurement can be helpful for: 1) aligning policy across multiple programs and agencies; 2) clarifying and aligning investor expectations; and 3) guiding evaluation of the impact of these efforts. This is all necessary to achieve scaled investment, including through the securitization of local investments. A framework for climate-focused community finance may also complement other climate focused work within Treasury, including work related to insurance markets and household finance.

Mission-driven lenders and community-based organizations currently provide a variety of climate-focused community financing, depending on the needs and locations of their intended beneficiaries. Some categories of projects have been pursued for decades, while others are relatively new. The framework presented below organizes a range of existing practices and financing types into categories and provides examples. A specific type of climate-focused community financing might reasonably be included in more than one of these categories. In addition, there are approaches to community finance that produce positive environmental impact but are not focused on climate goals, such as financing the remediation of brownfields.

⁷ <https://www.fdic.gov/news/speeches/2023/spoct2423.html>

⁸ https://www.cdfifund.gov/sites/cdfi/files/2023-12/FY_2024_CDFI_NACA_Application_Overview_presentation.pdf - Slide 52

⁹ [How U.S. Regulators Can Help Community and Regional Banks Address Climate-Related Financial Risks - Center for American Progress](#), [Understanding Climate Risk: What We Learned from CDFIs | San Francisco Fed \(frbsf.org\)](#), and [How Can Climate Finance Help Secure the Resilience of Low-Income Communities? - Climate Finance Advisors](#)

While not directly applicable to the context of community finance in the United States, it is worth noting that in 2022, the European Investment Bank (EIB) published its Environmental Framework, which summarizes the EIB's readiness and interest in supporting investments that deliver environmental benefits across four environmental objectives: (1) pollution prevention and control; (2) sustainable use and protection of water and marine resources; (3) transition to a circular economy; and (4) protection and restoration of biodiversity and ecosystems.

	<i>Climate Benefits</i>		
<i>Economic Beneficiaries</i>	<i>A. Mitigation of economic impacts of climate-related disasters</i>	<i>B. Climate resilience¹⁰</i>	<i>C. Clean energy transition</i>
<i>LMI and Other Financially Underserved Households</i>	Post-disaster consumer lending, development services, and home repair for homeowners	Consumer and mortgage lending and development services that help consumers and homeowners prepare for anticipated climate impacts and disasters	Financing to allow LMI homeowners to integrate renewable and/or efficient energy sources in their homes or automobiles
<i>LMI and Other Financially Underserved Businesses</i>	Post-disaster business lending and development services to support recovery after climate impacts or disasters	Financing and development services for businesses focused on adapting their business model and/or facilities to be more resilient to anticipated climate impacts and disasters	Financing and development services for businesses that engage in fields including sustainable agriculture ¹¹ , solar, and electric vehicles
<i>Affordable Rental Housing and Community-serving Facilities</i>	Financing to support post-disaster repair and rehabilitation of rental housing affordable to LMI households	Financing and resiliency planning tools to make rental housing and community facilities more resilient to anticipated climate impacts and disasters	Financing to enable the owners of multifamily rental housing properties or other community facilities in LMI neighborhoods to integrate renewable and/or efficient energy sources to increase efficiency and reduce costs for property owners and tenants
<i>Economically distressed geographies</i>	Place-based investment focused on rebuilding community infrastructure after climate impacts or disasters, and pollution reduction measures	Place-based investment focused on making community infrastructure more resilient to anticipated climate impacts and disasters, including	Place-based investment in economically distressed geographies, potentially accompanied by green workforce development ¹³ , to finance clean energy production projects that

¹⁰ According to the Federal Emergency Management Agency (FEMA), hazard mitigation planning reduces the loss of life and property by minimizing the impact of disasters. [Hazard Mitigation Planning | FEMA.gov](#)

¹¹ [How-CDFIs-Support-EFOD-WFPC-Sept2020.pdf \(duke.edu\)](#)

¹³ The U.S. Bureau of Labor Statistics (BLS) defines green jobs as jobs in businesses that produce goods or provide services that benefit the environment or conserve natural resources, or jobs in which workers' duties involve making their establishment's production processes more environmentally friendly or use fewer natural resources. [Green Jobs: U.S. Bureau of Labor Statistics \(bls.gov\)](#)

		sustainable agriculture ¹²	intentionally produce benefits in financially underserved communities including community solar ¹⁴ , and investments in coal-impacted or energy communities ¹⁵
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A. Mitigation of the Economic Impacts from Climate-Related Disasters

Examples of financing the mitigation of climate impacts include the following:

- i. *LMI Households*: After Hurricane Harvey, Capital Plus Financial, a CDFI headquartered in Bedford, Texas, helped borrowers file insurance and FEMA claims and worked with lenders to set up emergency bridge financing to enable impacted families to start rebuilding before they received insurance and FEMA dollars.¹⁶
- ii. *LMI Businesses*: TruFund Financial, an African American-led CDFI with a focus on serving minority populations in six states throughout the Gulf Coast and Northeast, has provided \$55 million in grants and loans to over 2,600 small businesses and nonprofits for disaster recovery and resiliency.¹⁷
- iii. *Affordable Rental Housing*: Enterprise Community Partners, in partnership with Morgan Stanley, created a Disaster Recovery Accelerator Fund, to provide affordable rental property owners access to capital immediately after a disaster, while they wait for HUD disaster relief.¹⁸
- iv. *Economically distressed geographies*: Following Hurricane Maria, PathStone Corporation financed relief efforts and access to credit and capital in small, remote communities in Puerto Rico.¹⁹

¹² The U.S. Department of Agriculture (USDA) defines sustainable agriculture as farming in such a way that protects the environment, aids, and expands natural resources, and makes the best use of nonrenewable resources. [Sustainable Agriculture | National Agricultural Library \(usda.gov\)](#)

¹⁴ Community solar is a distributed solar energy deployment model that allows customers to buy or lease part of a larger, off-site shared solar photovoltaic system. The U.S. Department of Energy (DOE) defines community solar as any solar project or purchasing program, within a geographic area, in which the benefits of a solar project flow to multiple customers such as individuals, businesses, nonprofits, and other groups. Advocates assert that community solar fosters community ownership and creates an opportunity for equitable workforce development and entrepreneurship. [Community Solar | Department of Energy Community Solar | State, Local, and Tribal Governments | NREL](#)

¹⁵ Under Section 45, 48, 45Y, or 48E of the Internal Revenue Code, the IRA defines energy communities as 1) A “brownfield site” (as defined in certain subparagraphs of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCA)); 2) A “metropolitan statistical area” or “non-metropolitan statistical area” that has (or had at any time after 2009) 0.17% or greater direct employment or 25% or greater local tax revenues related to the extraction, processing, transport or storage of coal, oil, or natural gas; and has an unemployment rate at or above the national average unemployment rate for the previous year; or 3) A census tract (or directly adjoining census tract) in which a coal mine has closed after 1999 or in which a coal-fired electric generating unit has been retired after 2009.

¹⁶ [CDFIs-and-Hurricane-Recovery.pdf](#)

¹⁷ [TruFund PPP-Impact-Report_web-201203.pdf](#)

¹⁸ [Enterprise and Morgan Stanley Launch Disaster Recovery Accelerator Fund | Enterprise Community Partners](#)

¹⁹ [hurricane maria – CDFI Coalition](#)

B. Climate Resilience

Examples of financing climate resilience include the following:

- i. *LMI Households:* The Solar and Energy Loan Fund provides financing for weather-hazard mitigation, including hurricane shutters and impact windows to help homeowners protect their homes.²⁰
- ii. *LMI Businesses:* Coastal Enterprises, Inc., a CDFI in Maine, supports the growth and expansion of green small businesses, including sustainable farms and food systems, and local fishing industries and aquaculturists that are adapting to the impact of climate change.²¹
- iii. *Affordable Rental Housing:* Enterprise Community Partners created Keep Safe, a guide to aid vulnerable residential building owners in island communities to design and build housing that can withstand future climate hazards.²²
- iv. *Economically distressed geographies:* Flywheel Development builds green infrastructure, including stormwater projects such as rain gardens, to help restore rivers and streams and improve climate resilience in the Washington, D.C. area, with financing provided by CNote, a CDFI.²³

C. Clean Energy Transition

Examples of lending to support a clean energy transition include:

- i. *LMI Households:* Inclusive Prosperity Capital’s Smart-E Loans finance clean energy home improvements, including strategic heating and cooling electrification, such as heat pump and solar panel installation.²⁴
- ii. *LMI Businesses:* VSECU, a CDFI and credit union in Vermont, provides green business loans to help businesses, nonprofits, farms, and municipalities reduce the cost of financing solar and energy efficiency upgrades.²⁵ California FarmLink is a CDFI that offers financial resources to farmers, ranchers, and fishers to underwrite sustainable agriculture as well as economic and environmental resilience.²⁶
- iii. *Affordable Rental Housing:* Elevate, a national nonprofit organization based in Chicago, provides property owners with water efficiency and energy storage assessments to plan for upgrades and assists them with comprehensive energy retrofit planning. Working with the Clean Energy Group and Northwestern University, Elevate facilitated the design of an integrated energy system for a public housing site in Chicago.²⁷ Some affordable housing providers utilize Energy Services Companies (ESCOs) to finance energy efficient upgrades to properties that produce financial savings in exchange for a portion of the cost savings over time.²⁸
- iv. *Economically distressed geographies:*

²⁰ [Storm Resilience - Solar and Energy Loan Fund \(solarenergyloanfund.org\)](http://solarenergyloanfund.org)

²¹ [Climate Justice & Environmental Resilience - CEI \(ceimaiine.org\)](http://ceimaiine.org)

²² [Keep Safe | A Guide for Resilient Housing Design in Island Communities \(enterprisecommunity.org\)](http://enterprisecommunity.org)

²³ [CNote | Meet Flywheel Development, The Company Striving To Create Sustainable Communities In Washington D.C. \(mycnote.com\)](http://mycnote.com)

²⁴ [Smart-E Loan Program - Inclusive Prosperity Capital](http://inclusiveprosperitycapital.com)

²⁵ [Solar Loans & Financing in Vermont | VSECU | A Vermont Credit Union](http://vsecu.com)

²⁶ [About Us – California FarmLink](http://californiafarmlink.com)

²⁷ [Solar and Storage - Solar Battery Storage at Your Property - Elevate \(elevatenp.org\)](http://elevatenp.org)

²⁸ [Department of Energy ESCO Financing Summary](http://escos.com)

- a. *Rural Solar Energy Production*: Self-Help Credit Union has invested over \$175 million in solar development companies that are providing a clean energy alternative to fossil fuels and opportunities for economic advancement in rural communities. These installations have created 2,250 jobs in the clean-energy sector.²⁹ Also, the Pacific Asian Consortium in Employment (PACE), a CDFI, launched the PACE Green Loan Fund to promote the creation and expansion of green businesses in the Los Angeles region to help address the climate crisis and economic inequality. The loan fund will prioritize businesses that strengthen economic resiliency in disinvested communities by creating high quality jobs and/or improving environmental conditions.³⁰
- b. *Community Solar*: The City of Bloomington, Indiana, CDFI Friendly Bloomington, and IFF (a CDFI), created a Solar and Energy Efficiency Loan program for nonprofit and community institutions in Bloomington to access solar installation along with other upgrades, with the goals of reducing utility costs and saving energy.³¹
- c. *Investments in Coal Communities*: Sixty CDFIs across 14 states have lent or invested more than \$100 million in communities experiencing economic challenges due to contractions in the coal industry. 24 CDFIs have deployed nearly \$230 million in New Markets Tax Credit investments in coal-impacted communities in nine states to support economic diversification and community revitalization initiatives.³² For example, Appalachian Community Capital and other partners in Opportunity Appalachia works with over 50 projects in Central Appalachian communities, seeking to raise over \$420 million in financing for projects that support economic restructuring and diversification in underinvested communities.³³

Measuring Climate-Focused Community Finance

Metrics, data collection and benchmarking specifically for climate-focused community finance are essential to understanding how these financing activities advance net zero objectives and create benefits for LMI people and financially underserved communities. Employing standardized data and consistent terminology will assist community lenders to quantify the results of climate-focused community finance, gauge progress against stated objectives, and set future goals. Data collection and benchmarking of climate-focused community finance will allow different strategies to be evaluated for effectiveness and relative cost and will help financial institutions develop standardized loan products to underwrite this work.

Data collection for climate-focused community finance should not only include metrics related to the economic impacts on beneficiaries but also related to the climate categories described above. There are notable examples of tools for measuring and benchmarking the impact of financing which advances climate resilience and emissions reductions, including the Resilient Community Development Finance Initiative's [Resilience Assessment Tool for CDFI Lending Programs](#), the District of Columbia Department of Energy and Environment's [energy benchmarking website](#), and the [Multifamily Portfolio Carbon Emissions Roadmap Tool](#) created by Stewards of Affordable Housing for the Future. Also, in

²⁹ [Our Environmental Work | Self-Help Credit Union](#)

³⁰ [PACE Awarded \\$5 Million Through the Community Economic Resilience Fund - Pacific Asian Consortium in Employment \(PACE\) \(pacela.org\)](#)

³¹ [SEEL - nonprofits - intake form.pdf](#)

³² [Bringing Opportunity to Communities Through Partnerships With Community Development and Community Finance - Community Health and Economic Prosperity - NCBI Bookshelf \(nih.gov\)](#)

³³ [Opportunity Appalachia 2022 – 2024 – Appalachian Community Capital \(appalachiancommunitycapitalcdfi.org\)](#)

alignment with the Justice40 Initiative, the Council on Environmental Quality (CEQ) developed the Climate and Economic Justice Screening Tool to help federal agencies identify disadvantaged communities that will benefit from programs included in the Justice40 initiative.³⁴ In November 2023, CEQ released a [playbook](#) for agencies to help develop their Environmental Justice Strategic Plans.³⁵

A. Measuring investments in response to climate-related disasters:

There have been numerous analyses of the patchwork of federal disaster relief programs.³⁶ Multiple agencies, including the Federal Emergency Management Agency (FEMA), the US Department of Housing and Urban Development (HUD), and the US Small Business Administration (SBA), have developed data collection methods for tracking the efficacy of these investments. The approach to measuring the economic impacts of disaster relief can be similar to the methodologies for measuring responses to economic crises, such as those that resulted from the COVID-19 pandemic. As such, the metrics and data collection methods associated with federal disaster assistance programs and recent COVID-response programs may be relevant starting points for any new efforts to measure the efficacy of community finance efforts to mitigate the economic impacts from climate-related disasters and environmental changes. The following are important additional considerations, specific to climate-related disasters.

- i. *Speed* – The amount of time it takes to deliver assistance to households and businesses in the wake of a disaster can significantly affect the extent of economic harm experienced, especially for households and businesses with little savings or other resources. This can be similarly true for damaged buildings and infrastructure that can deteriorate rapidly after sustaining initial damage from a disaster, potentially raising the cost of repair, necessitating condemnation or total replacement, or even leading to further environmental disaster (e.g., when there is a containment failure of toxic materials in storage facilities). Federal agencies should consider the speed of delivering emergency resources, development services, and responsible access to capital as a key metric of success.
- ii. *Access for vulnerable populations* – Households and businesses most heavily impacted by a disaster may be least well-positioned to access financing in the aftermath. Further, those that already experienced barriers to accessing capital prior to a disaster are likely to experience even greater challenges in the wake of one. This implies that the policy and implementation approach of a typical federal community finance program may need to be adapted in the context of disaster recovery with a recognition of the challenges faced by LMI other underserved categories of households and businesses. Leveraging the capacities and relationships of community-based organizations to facilitate access to resources is another method that has been used to address this challenge. Federal agencies should consider metrics of access as a key indicator of the early success of disaster response efforts. This necessitates collecting information about applications and the deployment of resources, disaggregated by categories that reflect key underserved populations or geographies.
- iii. *Opportunities* – While disasters bring wide-spread harm and hardship, it is important to recognize that responding to and rebuilding from disasters will produce a surge in economic activity in the affected community. To the extent that underserved communities are often disproportionately impacted, recovery efforts can present new economic opportunities for local residents and

³⁴ [About - Climate & Economic Justice Screening Tool \(geoplatform.gov\)](#)

³⁵ [A New Environmental Justice Playbook for Federal Agencies | CEQ | The White House](#)

³⁶ [Reforming national disaster policy | Brookings](#)

businesses. Federal agencies should consider the extent to which individuals and businesses from the impacted community are benefitting economically from recovery efforts.

B. Measuring climate resilience investments:

While scaled federal disaster recovery efforts have existed for many decades, climate resilience is a far newer concept.³⁷ There has been a recognition in recent decades that disaster recovery resources and activities can be a catalyst for developing greater resilience in households, businesses, and the built environment than existed prior to the disaster. Large-scale environmental changes are also resulting in “slow-moving” disasters, such as sea level rise and dwindling water supplies. These types of risks are significant challenges for the insurance market and can present an existential threat for households, businesses and communities that are not insured against such risks and have limited resources.

Climate resilience involves the assessment of risks and opportunities, identifying viable risk mitigation strategies and taking action to implement strategies that meaningfully mitigate highest-priority risks while maximizing economic opportunity. Resilience-focused community finance strategies, including development services, may include:

- the implementation of plans for harm mitigation by individual households or businesses or for neighborhoods or broader communities;
- the development or enhancement of building or physical infrastructure; or,
- putting in place policies, financial facilities or other resources aimed at supporting the financial capacity and resilience of households and businesses in the event of a disaster.

The efficacy of resiliency efforts could be quantified by measuring reductions in the cost of disaster and/or post disaster recovery. Given the wide range of potentially appropriate resiliency measures in different contexts, federal agencies should consider placing an emphasis on process measurement, such as assessing the extent to which resilience planning is based on an assessment of risks and opportunities that incorporates meaningful community input; whether it results in the implementation of resiliency strategies that are responsive to those identified risks and opportunities; and whether there is a strategy to evaluate the efficacy of the resilience measures over time. Examples could include the following:

For LMI and financially underserved households or businesses:

- reduction of financial impacts because of successful resilience strategies or insurance coverage; and
- reduction in the amount of time it takes for businesses to reopen after a disaster, as compared to previous disasters or businesses that did not benefit from resilience efforts.

For affordable rental housing development and in economically distressed communities:

- reduction in the cost of recovery efforts after a disaster or climate event.

C. Measuring the impacts of investments to support a clean energy transition:

When measuring the impacts of investments to support a clean energy transition, there is the opportunity to measure potential climate impacts, including reductions in greenhouse gas emissions, as well as economic outcomes for targeted beneficiaries. It is not realistic for a community lender to report the reduction in greenhouse gas emissions associated with financing a given activity. As such, there will be a

³⁷ [Resilience | Enterprise Community Partners](#)

need to identify metrics that can reasonably be collected by a community lender and then to have methodologies or calculators that a federal agency can use to approximate the greenhouse gas reduction outcomes of those activities. For example, a lender could provide financing to a company that installs solar and energy efficient retrofits to commercial and multifamily residential buildings. It is reasonable to expect that the company has the capacity to project or directly measure the reductions in non-renewable energy and/ or reduction in usage of fossil fuels. The federal agency could require the lender that receives federal funding and seeks to claim credit for a climate-focused investment to provide such information using an industry standard metric (e.g., reduction in the usage of kilowatt hours of electricity from a non-renewable source or reduction in usage of cubic feet of natural gas). The federal agency could then aggregate data across all lenders reporting these outcomes and use a scientifically rigorous methodology or calculator to estimate the overall reduction in greenhouse gas emissions. An approach of this type would require the development of significant data collection infrastructure by a lender or consortium of lenders and for end users of the capital, lenders, and federal agencies to be aligned on the metrics. Federal agencies should consider allowing resources to be expended by recipients of federal funds that are facilitating a clean energy transition to cover the higher costs associated with collecting credible data for these activities.

A range of financing activity can support clean energy transitions. However, to be considered a community finance activity it should produce an economic benefit for LMI or other financially underserved households or businesses or in economically distressed communities. The following are examples of metrics for measuring the economic impacts of climate-focused community finance activities:

For LMI and financially underserved households or businesses:

- reduction in the cost of utilities or other energy burden measured in average dollars per month;
- the number of LMI residents trained for green jobs that support energy transitions (e.g., specialized solar installer or electrician);
- the number of LMI residents employed in green jobs that support energy transitions; and
- increase in contracting dollars flowing to businesses owned by LMI or financially underserved people.

For affordable rental housing development and in economically distressed communities:

- reduction in annual operating costs for affordable housing developments (potentially including utilities, lower insurance premiums, etc.) resulting in a more financially sustainable project; and
- increased local tax base.