coalition for green capital

The National Climate Bank Act:
A Green Bank for the United States

Green Banks are specialized institutions with the potential to drive an unprecedented wave of investment to reduce greenhouse gas emissions. They provide a critical boost to the pace of decarbonization by mobilizing private investment into under-served markets in combination with public dollars.

The National Climate Bank Act of 2019 draws on the established Green Bank model to create a National Climate Bank in the United States. This would be an independent nonprofit institution bringing financial tools and expertise to bear on clean energy deployment, reducing greenhouse gas emissions and consumer energy costs.

Core attributes: The Green Bank model is already in use in states across the US and in countries around the world. The flexibility afforded within the Green Bank framework is one of its strengths, and these institutions vary in their structure and focus. At the same time, they share a set of core attributes that contribute to their unique effectiveness.

- Reduce consumer energy costs and increase consumer access to clean energy.
- Use financial tools and expertise to draw private investment into carbon-reducing projects.
- Accelerate the reduction of greenhouse gas emissions.

Financial methods: Green Banks use financial tools to address barriers that prevent private capital providers from fully investing in the target market opportunities. They seek to expand markets and create new opportunities for private investment.

- **Addressing perceived project risks with credit enhancements**: If private investors see an investment as risky (perhaps because it is based on an unfamiliar technology, or because it serves a customer base seen as a credit risk) they may be unwilling to offer capital at rates that are feasible for a project to move forward. Green Banks can offer credit enhancements, such as loan loss reserves or loan guarantees, that help de-risk investments for private investors.

- **Addressing inefficiencies of scale with aggregation**: Small and geographically dispersed projects like residential or small business energy efficiency are often not cost-effective for private investors to underwrite. Green Banks can bundle together and projects that are not cost-effective to underwrite on their own. Pooling these loans diversifies risk and achieves scale, making them far more attractive to lenders.

- **Addressing resistance to first-of-kind transactions**: Transactions that have never been done before are more labor-intensive than typical standardized transactions. Green Banks can put in the technical legwork to develop frameworks for new types of transactions. As the new transaction types become more common, processes become more standardized and friction is reduced.

Proven track record: Green Banks are a cutting-edge idea, but they have a proven track record. There are now 14 existing Green Banks in the US that have driven $3.67 billion of investment to date. National Green Banks in other countries like the UK and Australia have also already financed billions of dollars of clean energy. These investments have reduced greenhouse gas emissions while also reducing consumer costs and generating returns for private co-investors. Specific examples can help showcase Green Banks' achievements.

- **Catalyzing new markets**: Supporting new technology markets helps demonstrate their potential and overcome initial barriers. For example, fuel cell technology has the potential to facilitate clean energy storage and zero emission propulsion. However, private capital providers are often hesitant to lend to the industry because at commercial scale its use is relatively new. In August 2017, the New York Green Bank committed $45 million to a fuel cell technology company that provides hydrogen-based propulsion systems for industrial and commercial vehicles. This investment lessened the burden of cash collateral accounts and brought the technology into wider use, smoothing the path for future deployment and expansion.

- **Mobilizing private capital**: Another strategy for accelerating investments in clean energy is through business models that address private capital markets constraints and risk perceptions. Since 2010, Michigan Saves has mobilized $200 million in private investments from just $7 million in public capital. Michigan Saves uses a credit enhancement in the form of a loan loss reserve to attract private capital. The program's method of driving private investment ultimately means that many more consumers can be served, lowering both their carbon footprint and energy bills.

- **Assisting low and moderate income communities**: Green Banks can help low and moderate income consumers overcome the upfront capital costs of relatively expensive upgrades. For example, the Connecticut Green Bank launched a "Solar for All" program targeting low-to-moderate income (LMI) households. The program offers combined residential solar PV and energy efficiency measures, and has reached nearly 2,500 homes, deployed over 16 MW of solar PV, expanded energy efficiency measures, led to the investment of nearly $70 million, and reducing the energy burden on families by about 30 percent. Connecticut is now a "solar parity" state where LMI households are demanding solar PV the same as non-LMI households.

The National Climate Bank: As established in the National Climate Bank Act of 2019, the National Climate Bank will be a federally chartered, private, non-profit corporation governed by a board of directors.

It will be capitalized with $35 billion over five years, and will provide financing to eligible regional, state and local green banks, as well as make investments directly into projects that reduce emissions across the United States. Its will be empowered to prioritize investment in projects that provide jobs and savings to low-income, minority, distressed and rural communities.

In addition to its Investment Division, the National Climate Bank will explore the establishment of a Cash for Carbon Program that will further accelerate the clean energy transition by using financial methods to facilitate the retirement of coal-fired generation and invest in communities affected by the closures.

To learn more about Green Banks and the National Climate Bank Act, please contact Jeffrey Schub, Executive Director of the Coalition for Green Capital, at jeff@coalitionforgreencapital.com.