



Climate Finance Sources Overview



Prepared for the Community Foundation Climate Collaborative (CFCC)
by Community Sustainability Partners (CSP).

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Purpose of This Tool

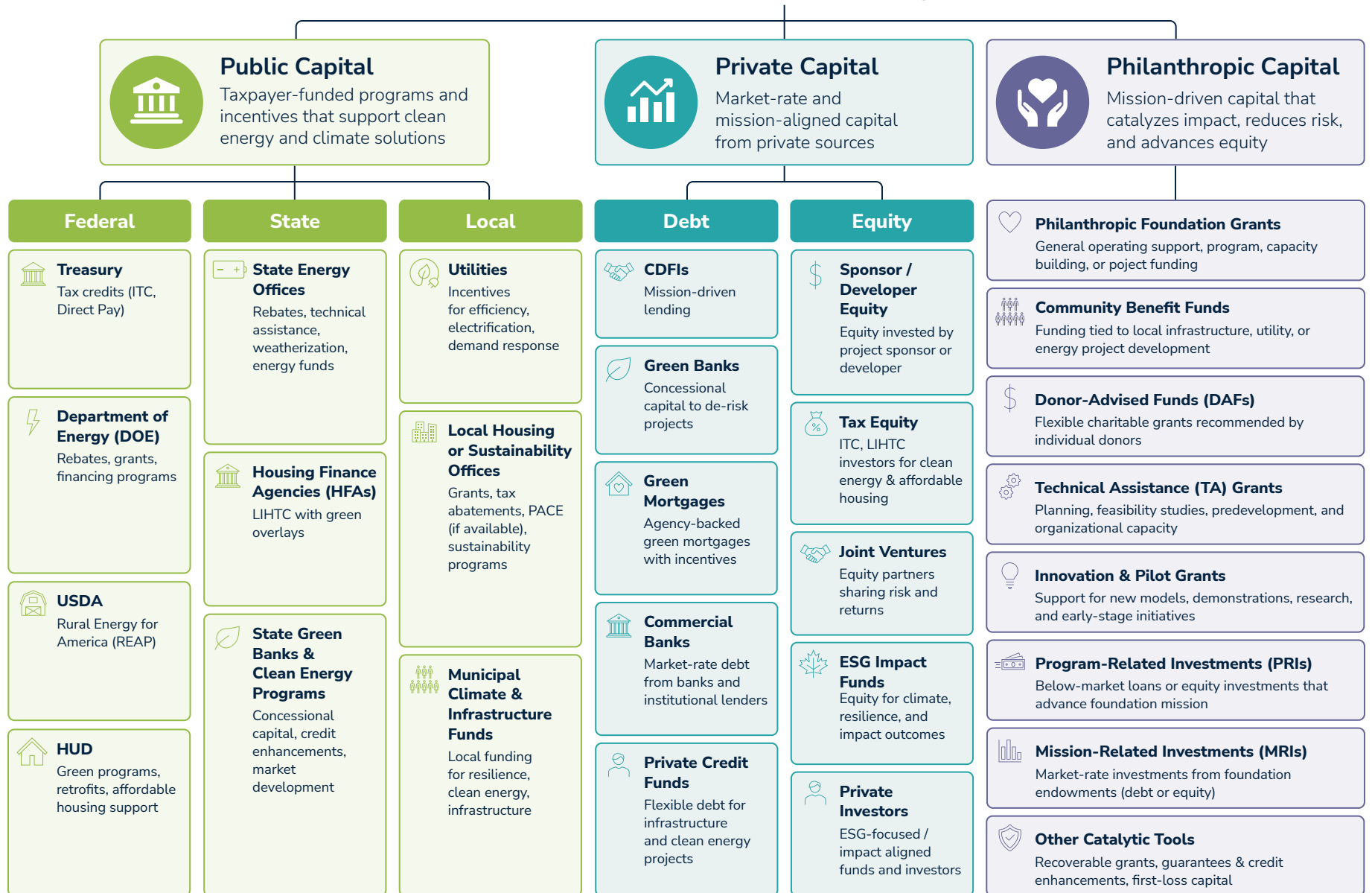
The Climate Finance Sources Overview provides a brief introduction to types of public, private, and philanthropic resources available for climate financing. The overview presents a quick definition of climate lending and a sample project capital stack. This tool is best suited for community foundations who are considering the capital provider role for climate finance. **It provides a summary of the general climate finance ecosystem and types of climate finance sources to help you build your capitalization strategy and create a sustainable financing mechanism.**

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Capital Sources for Climate Projects



★ These capital sources can work together in a blended finance approach to close funding gaps, reduce risk, and accelerate impactful climate solutions ★



Public Funding Sources for Projects

Federal	State	Local
• Treasury – Investment Tax Credits (ITC), Direct Pay, and Transferability. • Department of Energy (DOE) – Home energy rebates (HOMES, HEEHR), grants, and financing programs. • U.S. Department of Agriculture (USDA) – Rural Energy for America Program (REAP) and rural clean energy financing. • U.S. Department of Housing and Urban Development (HUD) – Green retrofit, resilience, and affordable housing funding.	• State Energy Offices – Energy rebates, weatherization, technical assistance, and state clean energy funds. • Housing Finance Agencies (HFAs) – Affordable housing financing, including LIHTC programs with green incentives or overlays. • State Green Banks & Clean Energy Programs – Concessional financing, credit enhancements, and market development initiatives.	• Utilities – Incentives for energy efficiency, electrification, demand response, and distributed energy resources. • Local Housing & Sustainability Offices – Grants, tax abatements, Property Assessed Clean Energy (PACE) financing (where available), and local decarbonization programs. • Municipal Climate & Infrastructure Funds (if applicable) – Local funding for resilience, renewable energy, and building decarbonization initiatives.



Private Funding Sources for Projects

Debt

- **Community Development Financial Institutions (CDFIs)** – Mission-driven lenders serving underserved communities.
- **Green Banks** – Public or quasi-public lenders providing concessional or catalytic capital to de-risk clean energy projects.
- **Green Mortgages** – Agency-backed mortgages with incentives for high-performance or green-certified properties.
- **Commercial Banks** – Market-rate construction, bridge, and permanent financing.

Equity

- **Sponsor/Developer Equity** – Capital invested by the project sponsor or developer.
- **Tax Equity** – Investments monetizing tax credits (e.g., ITC, LIHTC) for renewable energy and affordable housing.
- **Joint Venture (JV) Equity** – Strategic partners sharing project ownership, risk, and returns.
- **ESG & Impact Investment Funds** – Equity focused on climate, resilience, and measurable social outcomes.
- **Private Investors** – Family offices, institutional investors, and impact-focused funds seeking financial and mission returns.



Grants / Philanthropic Funding Sources for Projects

Grants (Non-Repayable)

- **Private Foundation Grants** – Operating, programs, capacity
- **Donor-Advised Funds (DAFs)** – Flexible charitable grants recommended by individual donors.
- **Technical Assistance (TA) Grants** – Planning, feasibility, predevelopment, and organizational capacity.
- **Innovation & Pilot Grants** – Support for new models, early-stage initiatives.
- **Corporate Philanthropy** – Grants and sponsorships from corporate foundations.
- **CF Grants** – Place-based funding aligned with local priorities and regional needs.

Mission-Aligned Investment Capital (Repayable)

- **Program-Related Investments (PRIs)** – Below-market loans or equity investments,
- **Mission-Related Investments (MRIs)** – Market-rate debt or equity investments made from a foundation's endowment to generate both financial and social returns.
- **Recoverable Grants** – Grants repaid only if a project succeeds, recycling philanthropic capital for future investments.
- **Guarantees & Credit Enhancements** – Philanthropic commitments that reduce lender risk and unlock additional private capital.
- **Catalytic First-Loss Capital** – Flexible capital that absorbs early losses to attract senior investors.



Definition of Climate Lending

Climate lending is traditionally defined as financial resources and technical assistance to support the implementation of energy-efficient and renewable energy solutions. These lending products can either be traditional loan products used for energy or specialized energy products. In both cases, the loan proceeds must go towards projects that increase energy efficiency or utilize renewable energy sources. You may want to include climate adaptation, green infrastructure, and water projects in your climate lending portfolio.

Project Capital Stack - Sample

Source	Description	Amount	% of Total
CDFI Senior Loan	Mission-aligned lender, 4.5-6% rate (blended grant/PRI \$)	\$8M	40%
Tax Equity	ITC Investor or LIHTC equity	\$2.5M	12.5%
Developer Equity	Sponsor contribution (could include deferred fees)	\$2M	10%
Green Bank Loan	Subordinated debt from state/local GB	\$2M	10%
Federal Tax Credits	Investment Tax Credit (ITC) for rooftop solar, batteries	\$1.5M	7.5%
State Grant	State Energy Office (rebates, retrofit incentives)	\$500K	2.5%
Local Incentives	Utility rebates (heat pumps, smart thermostats, LED)	\$300K	1.5%
DOE Rebate Program	HER/HEAR (state/local administrator)	\$500K	2.5%
Philanthropic Grant/PRI	PRI, predev, TA, close gap, interest rate buy down, rate risk reduction grants	\$700K	3.5%
PACE Financing	Optional (if enabled locally) for HVAC, windows, envelope	\$2M	10%
TOTAL		\$20M	100%



Hypothetical Loan Types with Repayment Considerations*

Loan Type	What It Finances	Repayment Considerations
Predevelopment Loan	Early-stage costs: feasibility, energy modeling, environmental review, and certification prep	Short-term (12–36 months). Repaid at financial close (from construction loan or equity). Higher risk → lender focuses on sponsor strength.
Construction / Bridge Loan	Hard / soft costs of new build or major rehab to green standards (LEED, Passive House, Enterprise Green Communities), or covers the value of energy incentives or tax credits	Interest-only during construction. Taken out or converted into permanent mortgage at stabilization or upon receipt of energy rebates or tax credits. Requires progress / certification monitoring, and certainty of tax credit or rebates.
Green Permanent Mortgage (Senior Loan)	Acquisition, refinancing, or long-term financing for stabilized green properties	15- to 30-year amortization. Paid from rental income (NOI). Incentives: lower rates, higher leverage if meeting green targets.
Green Second Mortgage / Subordinate Loan	Gap financing for green retrofits, electrification, and resilience not covered by senior debt	Subordinate to senior → higher risk. Often cash-flow contingent. Common in affordable housing with LIHTC / public subsidies.
Supplemental Term Loan	Specific improvements (boilers, solar, insulation, HVAC, windows)	Medium-term. Often sized to expected utility savings. May be secured by property or equipment. If solar is longer term and sized on solar production and savings from a Power Purchase Agreement (PPA), the loan would be secured by solar PV equipment.
Recoverable Grant	Early-stage project development (predevelopment), bridge to future capital (e.g., ITC, utility rebates), or gap financing where traditional debt is unavailable. Pilot programs and charitable-purpose projects by 501(c)(3) sponsors.	0% interest, typically 1–5-year term. Repaid at repayment date from take-out source (incentives, permanent financing, or project cash flow). Unsecured → focus on sponsor strength and take-out certainty. Partial vs. full recovery; and returned / partial returned funds recycle back to funder / philanthropy / DAF.

* These are considerations only. Loan terms will depend on the cost of the funds being loaned, funding source criteria, project type, the lender's risk tolerance, current market rates, community goals, and other factors.



Predevelopment Loans*

Energy predevelopment loans provide essential early-stage capital that enables thorough planning and reduces execution risk for complex decarbonization projects.

Overview	Potential Terms	Underwriting Considerations
• Supports early-stage costs: feasibility, energy modeling, environmental review, certification prep, and incentive applications. • Repaid at financial close (from construction / perm loan closing or equity)	• 4–8% interest rates, and interest-only or deferred • Flexible Structure: terms designed to support predevelopment timelines for climate projects (6–24 months) • Amounts between \$50k–\$500k	• Programmatic Complexity: increase predevelopment complexity and timeline • Higher risk → lender focuses on sponsor strength • Take-Out Risk Analysis: critical assessment of project’s ability to ultimately meet green certification criteria • Technical Expertise: evaluate borrower’s capacity to navigate complex climate requirements

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Construction / Bridge Loans*

Energy incentive bridge loans solve critical timing mismatches between project funding needs and energy incentive payment schedules, enabling smoother project execution.

Overview	Potential Terms	Underwriting Considerations
• An Energy Bridge Construction Loan is structured as a short-term, interest-only loan designed to finance energy-related improvements—such as solar installations, heat pump conversions, or building envelope upgrades—during the construction or rehabilitation phase of a project. • The loan “bridges” the period between when the energy improvements are installed and when the project receives long-term funding or incentive proceeds. • It provides immediate capital while waiting for rebate and credit payments and is designed to be repaid by anticipated energy incentive receipts.	• ~5% interest only during construction • Bridge-to-Permanent: converts to permanent financing upon receipt of energy rebate payments • Flexible Timeline: terms align with expected energy incentive payment schedules (typically 12 to 36 months) • With Loan to Cost 70–90% • Security depends on the project’s capital stack: collateral, UCC lien, assignment of incentive or tax credit receivables, or a subordinate mortgage	• Technical Risk Assessment: requires progress / certification monitoring and certainty of tax credit or rebates • Taken out or converted into permanent mortgage at stabilization or upon receipt of energy rebates or tax credits • Incentive Security: requires strong documentation and certainty of energy rebate and credit eligibility • Performance Risk: projects must meet technical specifications to qualify for anticipated incentives • Timing Coordination: must align loan terms with incentive program payment schedules

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Green First Mortgage*

Green loans bridge the gap between traditional commercial lending and climate goals, offering familiar structures with enhanced terms for qualifying sustainable projects. Community foundations can stack into these loan products as subordinate sources of capital.

Overview	Potential Terms	Underwriting Considerations
- Acquisition, refinancing, or long- term financing for stabilized green properties - Specifically targets projects implementing comprehensive carbon reduction plans - Paid from rental income (NOI)	20–50 basis points below market rates for certified green projects Term: 15–40 year, fully amortizing Incentives: lower rates, higher leverage if meeting green targets	Energy Savings Analysis: lenders underwrite and validate projected energy cost reductions Construction-to-Permanent Risk: permanent loan closing contingent on completed construction Performance Requirements: commissioning and testing must be passed before loan conversion Enhanced Due Diligence: on green building certifications and energy modeling

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Green Subordinate Second Mortgage*

Subordinate green mortgages provide crucial gap financing that makes comprehensive decarbonization economically viable while maintaining alignment with public climate programs. Community foundations can stack into these loan products as subordinate sources of capital.

Overview	Potential Terms	Underwriting Considerations
• Subordinate Structure: green second mortgage positioned behind primary financing • Gap Financing: provides additional capital for projects requiring extra funding for decarbonization • Often cash flow contingent • Common in affordable housing with LIHTC / public subsidies	• Coterminous with the first mortgage • Term: 15- to 30-year amortization periods • 1–5% interest rates reflecting mission-driven capital • Loan amount: 5%–15% of project financing, subordinate to senior lender	• Subordination Risk: secondary lien position requires careful evaluation of senior debt coverage • Energy Savings Analysis: lenders underwrite and validate projected energy cost reductions • Construction-to-Permanent Risk: permanent loan closing contingent on completed construction • Performance Requirements: commissioning and testing must be passed before loan conversion • Enhanced Due Diligence: on green building certifications and energy modeling

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Supplemental Term (Equipment) Loan*

Energy loans are designed to fill a financing gap for energy, water, or resiliency improvements that are not fully covered by the first mortgage or equity sources.

Overview	Potential Terms	Underwriting Considerations
• Specific improvements (boilers, solar, insulation, HVAC, windows) • Often sized to expected utility savings and may be secured by property or equipment	• Medium-term loan, dependent on equipment, or longer term if solar • 4%–6% (below market) rate, depending on risk and subsidy • Collateral; subordinate lien or project equipment, subordinate to senior loan	• Energy Savings Analysis: lenders underwrite and validate projected energy cost reductions • Enhanced Due Diligence: on energy modeling; energy production if solar • Timing Risks: incentive delays or interconnection schedules

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Recoverable Grant*

Recoverable grants are early stage, catalytic, bridge, or gap funding that comes from philanthropy. It is structured with an expectation of partial or full repayment. When returned, the funds recycle back to the foundation / donor-advised fund (DAF) to be regranting.

Overview	Potential Terms	Underwriting Considerations
• Philanthropic capital provided as a grant with a documented expectation of partial or full repayment to the funder • Best suited for program with realistic source of repayment / revenue-generating programs with clear financial and impact objectives (e.g., clean energy) • Returned funds recycle back to the foundation / DAF and can be regranting • Sourced from DAFs at community foundations and from philanthropy	• 0% Interest: no interest accrues during the grant period • Term Length: typically about 10 years, aligned to project milestones or expected take-out events • Grant Size: commonly \$25k–\$1m, sized to the specific funding gap and DAF or funder capacity • Repayment: full or partial repayment due at the repayment date; periodic prepayments permitted without penalty • Unsecured: foundation does not take collateral; funds may not be pledged by the grantee	• 501(c)(3) Status: grantee must be an IRS-approved public charity • Take-Out Source: evaluate the clarity and reliability of the repayment source • Sponsor Strength: assess grantee's financial health and execution track record • Reporting: financials and narrative report on project progress and use of funds

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