NATIONAL HOUSING TRUST

Administrator Michael Regan
US Environmental Protection Agency
Via email: ggrf@epa.gov

May 12, 2023

Dear Administrator Regan,

National Housing Trust (NHT) applauds the work of EPA to develop the Greenhouse Gas Reduction Fund (GGRF) Implementation framework (Framework). The GGRF will be a critical source of funding to advance climate justice in low-income and disadvantaged communities. NHT strongly supports several aspects of the Framework, including:

- **EPA's inclusion of decarbonization retrofits of existing buildings as a priority project category**, and EPA's identification of investments in affordable multifamily housing as an example under this category. Investments in decarbonization – including electrification, building shell efficiency, and renewable energy – in affordable multifamily housing provide co-benefits to residents and their communities. These include increasing resiliency (e.g., ensuring passive survivability during power outages), lowering property operating and resident energy costs, creating healthier living environments (e.g., reducing indoor air pollutants), and improving resident comfort.

- **The expectation that EPA will incorporate affordable housing located outside of geographies identified by the Climate and Economic Justice Screening Tool in the definition of low-income and disadvantaged communities.** Defining a community at only a geographic level like a census tract will deny opportunities for low-income households to benefit from GHGRF investments when they may reside in higher-income communities. Many localities and states seek to preserve existing affordable housing in high-opportunity locations where there is typically a significant undersupply of low-cost housing.

- **Allowing the use of funds for predevelopment activities.** Affordable housing owners don't have access to capital to pay for predevelopment costs such as financial and technological feasibility studies. Predevelopment loans for affordable rental housing projects are often the hardest resources for developers and owners to obtain because early-stage soft costs are riskier from a financing perspective.

- **The goal of ensuring that a wide variety of community lenders benefit through the Clean Communities Investment Accelerator**.

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NHT provides the following recommendations on the Framework to build on these strengths:

Ensure that capitalization funding requirements do not inadvertently limit the participation of a range of CDFIs

As stated above, NHT supports EPA’s goal of ensuring that a wide variety of CDFIs can participate in the GGRF through the capitalization grants under the Clean Communities Investment Accelerator competition. NHT encourages more flexibility while ensuring an approach to allow community lenders across the country to access significant funding and transform how they do the work. To that end, we are concerned that the components of the capitalization funding plan that EPA may require will be overly burdensome to the applicants and community lenders. The plan for providing capitalization funding should acknowledge the wide variety in experience among lenders. For example, smaller community lenders in disadvantaged communities may not meet stringent requirements for liquidity, capital adequacy, or earnings -- but could benefit the most from receiving capitalization funding, including funding for technical assistance to develop their business plan and investment strategy.

In addition, while we support EPA's goal of spreading these funds among as many community lenders as possible, we would encourage some flexibility in allowing larger awards to be made.

Allow for a broader definition of financial products, including grants

The Framework states that EPA does not plan to consider grants as a financial product under the National Clean Investment Fund and the Clean Communities Investment Accelerator. (The Framework does state that subgrants, subsidies, and rebates are eligible forms of financial assistance under the Solar for All competition). Grants are an important tool for market development, lowering initial costs before the cost of capital comes down in the long term.

Particularly in efforts to decarbonize existing multifamily affordable housing, these investments do not generate the same sort of payback as energy-efficiency projects, requiring that more flexible sources of funds be utilized.

We encourage EPA to include more flexibility as needed to account for this, including grants in the definition of financial product. EPA has discretion under both the statutory text and OMB 2 CFR 200 regulations to also allow this financial assistance to be used for grants. In addition to allowing grants, EPA should also explicitly list other financing options like unsecured loans, soft loans, interest rate buy-downs, and recoverable grants in their list of allowed financial products.

Establish a minimum requirement on National Clean Investment Fund applicants for providing capital to community lenders

The potential power of GGRF is in providing community lenders the combination of capitalization grants and access to capital through the National Clean Investment Fund. The Framework notes that EPA expects community lenders will have access to additional capital to finance emissions and air pollution reducing projects from grantees of the National Clean Investment Fund competition. The application components for the National Clean Investment Fund require applicants to demonstrate how they will partner with community lenders. We recommend that EPA go further and set minimum requirements for providing community lenders access to capital.

EPA should also provide more clarity on how capital is provided to community lenders, including providing CDFIs long-term capital at a 0% interest rate. To remain financially sustainable and cover operating costs, CDFIs must earn a return on their loans. If EPA or its intermediaries expect a return on the capital provided, it will require CDFIs to charge a higher interest rate to borrowers to achieve a sufficient spread to remain operable. Higher-cost loans will be out of reach for many low-income borrowers.

If the capital is expected to be paid back to the intermediaries, it should be provided as long-term capital at a 0% interest rate. The National Housing Trust Community Development Fund (NHTCDF) provides financing for renewable energy projects and other greenhouse gas emission reduction measures for affordable multifamily property owners. NHTCDF has faced several obstacles in deploying these funds, including access to the low-cost, long-term capital needed to make such loans work. Underwriting loans against energy savings requires making loans that fully amortize over 15-20 years. CDFIs generally do not have adequate long-term capital to support this kind of project.

Expand the definition of Technical Assistance to include project execution and management support to building owners

The Framework specifies that community lenders will receive technical assistance for capacity-building. EPA states that these subawards should be used for activities, including but not limited to:

> "..Training for management and other personnel; developing new programs, products, and services; establishing technical assistance programs to create pipelines of financeable projects; making subawards to partner organizations eligible under the EPA Subaward Policy for organizational capacity-building; and other activities deemed appropriate by the grantee and approved by EPA in the grantee's assistance agreement."

While these activities are important to ensure that community lenders have the capacity to stand up and deliver financing programs, technical assistance is also needed for building owners to help them plan, execute, and manage decarbonization retrofits. GGRF should fund technical assistance providers that can provide one-stop-shop services to affordable housing providers. Funding should support existing one-stop-shops and be used to stand up new one-stop-shops that would:

- coordinate the process of applying to multiple incentive programs to leverage multiple funding sources;
- provide project development and technical assistance, such as initial assessments, audits, and project support;
- act as trusted partners to building owners and build relationships in the community to identify and recruit affordable housing providers to participate in the program; help the customer evaluate bids and select contractors, and facilitate scheduling to ease the administrative burden on the owner; and
- inspect contractors' work during installation when necessary and at project completion to ensure new equipment is properly installed.

To ensure sufficient funding is available to support a range of technical assistance services, EPA should increase the percentage of the capitalization award allowable for technical assistance from 12.5% to 25%.

In addition, EPA should encourage through project scoring criteria that grant recipients support partnerships with technical assistance providers to ensure that borrowers have access to one-stop-shop services. Partnerships between CDFIs and energy efficiency technical assistance providers can streamline the retrofit process and ensure owners have access to financing and project services.

- The Community Investment Corp (CIC) in Chicago works with Elevate, an energy efficiency technical assistance organization, to provide energy efficiency services to building owners. CIC and Elevate have supported energy efficiency upgrades in 42,000 units.
- Triple Bottom Line Foundation (TBL Fund) in Colorado provides development services and customized financial products for green projects for multifamily affordable housing and disadvantaged communities. Borrowers can work with the TBL Fund's partner organization, ICAST, to receive one-stop-shop services.

Definition of low-income and disadvantaged communities

EPA should build on the definition of low-income and disadvantaged communities in the Climate and Economic Justice Screening Tool to more fully account for underserved communities. In the census tracts that are identified in the Climate and Economic Justice Screening Tool as either "low income" or "disadvantaged," about 39% of census tracts in the country would qualify for the targeted GGRF funding. In terms of population, that's approximately 35% of the US population. Alternatively, if the EPA were to choose to define "low-income and disadvantaged communities" as census tracts that are identified in one of the CDFI Fund's "investment areas," roughly 46% of census tracts in the country (including approximately 43% of the US population) would qualify.

We recommend that the EPA add CDFI Fund target markets, particularly for Native American, Hispanic, and African American populations, to most effectively drive climate-forward financing to low-income and disadvantaged communities.

In conclusion, we appreciate the Agency's efforts to date to develop and disseminate the GGRF Framework, and the opportunity to further strengthen EPA's approach in implementing this significant and critically-important program. For more information, please feel to contact Todd Nedwick, Senior Director for Sustainability Policy, at tnedwick@nhtinc.org.