

California IBank Climate Financing: Financial Products Supporting the National Clean Investment Fund (NCIF)

June 2024

Introduction

The California Infrastructure and Economic Development Bank ("IBank"), in collaboration with the State Treasurer's Office ("STO") and jointly serving as California's "Green Bank," issued the Climate Financing Request for Information (RFI) in December 2023 to inform the state's strategy for lending under forthcoming climate programs emanating from the Inflation Reduction Act of 2022. Informed by the RFI process, this document summarizes the proposed financial products IBank plans to offer in California's market for climate infrastructure. Details regarding the RFI can be found [here](#).

Eligible project sectors, set by the US Environmental Protection Agency's ("US EPA") National Clean Investment Fund ("[NCIF](#)"), are (1) **Distributed Energy Generation and Storage**, (2) **Net-Zero Emissions Buildings**, and (3) **Zero-Emission Transportation**, and are described in greater detail at the RFI link above. We expect to add additional categories over time.

The RFI process sought to "identify where financing gaps exist to maximize the impact of public resources and effectively meet the market's needs." In meeting those needs, IBank also seeks to deploy capital quickly and efficiently while building a durable program that can support California for years to come¹.

Pending further internal refinement, finalization of US EPA requirements, and final approval of IBank's Board of Directors, we anticipate offering the following products at the launch of our program under the National Clean Investment Fund:

- A Climate Loan Guarantee product,
- A Climate Loan Participation product, and
- A Climate Incentives Bridge Loan product.

Invitation for Eligible Climate Finance Transactions

IBank invites potential borrowers, capital providers, and other clean energy market participants to submit transactions that could be financed with these products. Parties may also provide input on these products, particularly where they reflect the needs of specific eligible transactions. Intake can be received at climatefinancing@ibank.ca.gov. A template for the provision of initial project information can be accessed on the IBank website: [Pipeline Template](#).

¹ IBank also notes the requirement to integrate multiple federal requirements into our lending products and practices, including conformity with Justice 40 goals, Davis-Bacon and Related Acts, Build America-Buy America, and technical elements in the construction of the investment portfolio to be stipulated by USEPA. Resolution of these issues is pending at this time, and the final form of the investment products described here may require adjustment to conform with final rulings.

I. Climate Loan Guarantee

In the **Climate Loan Guarantee Program (Guarantee)**, enrolled lenders would receive a partial guarantee on NCIF-eligible loans.

Guarantee Structure

The Guarantee will address working capital and project finance gaps. In working capital and general business loans, the guarantee shall be for the life of the loan.

For construction and project financing, the guarantee will remain in place through, at minimum, initial operation and an early performance period sufficient to demonstrate performance, establish project de-risking, and/or identify refinancing opportunities. The goal of this structure is to accelerate capital recycling within the Guarantee program via a transparent and agreed-upon decline in coverage levels on a percentage basis. Such options will be evaluated on a case-by-case basis.

Guarantee Size

IBank will provide guarantees ranging from \$1M-\$20M.

Coverage

The Guarantee will cover 70% of a loan's value for a standard loan, increasing to 80% for loans qualifying as a Justice40 investment. All lenders seeking to enroll a loan must evaluate whether their loan meets Justice40 requirements and provide supporting documentation to IBank to receive Guarantee approval.

Fees and Charges

The Guarantee will have two fees:

- 1) An origination fee that covers operational and transactional costs, anticipated to be 1-2.5% of the amount guaranteed.
- 2) An annual servicing fee to support the program.

Loan Requirements

Loan Interest Rates: Loans receiving a guarantee shall have an interest rate determined by the lender, provided that the rate takes into account the guarantee, and must not be exorbitant.

Seniority: Loans receiving a Guarantee must be senior loans and may not be subordinate to other financing, including subsequent financing.

Other government programs: A Guarantee may not support a loan that is already receiving a different public credit enhancement or loan guarantee. A borrower receiving a Guarantee may receive support from governmental incentives, including grants and tax credits.

Secondary Market Restrictions: Originators must retain at least 20% (subject to change) of the loan and continue to service the loan for the life of the guarantee. This ensures that IBank has a consistent point of contact in the event of a default.

Collateral, Security and Claims Process: Any notification of delinquency must be provided by the lender to IBank at the same time of notification to the delinquent borrower. Lenders

should apply the same standard of care for collateral and a security interest as they do in the ordinary course of business.

In the event of a default, a lender seeking the guarantee will need to make a good faith effort to make itself whole through its customary workout process. These processes will be outlined and agreed to during the Guarantee underwriting exercise. IBank, upon confirming that the lender has complied with all terms of the guarantee, will pay the lender the guaranteed portion of the outstanding loan balance.

Eligible Lenders

The following lenders are eligible to enroll loans in the Guarantee program:

- Federal or State-chartered Bank.
- Savings Association.
- Certified Community Development Financial Institutions (CDFI).
- Credit Union.
- Farm Credit System Insurance Corporation (FCSIC).
- Other Financial Institutions with IBank Exception.

II. Climate Loan Participation

In the **Climate Loan Participation Program (Participation)** lenders ("Lead Lenders") would submit loans to IBank for the purchase of a participation. Following IBank's review of the Lead Lender's underwriting and programmatic approval, IBank may purchase up to 50% of an eligible loan. In support of Justice40 initiatives, IBank may increase its participation up to 60% of an eligible loan.

Participation Structure

Participations will constitute a proportionate share of the loan and associated fees, but will not be considered an extension of credit to the Lead Lender. The Lead Lender will conduct origination, underwriting, closing, and servicing of the loan. IBank will implement its own due diligence review of the Lead Lender's underwriting prior to purchasing a portion of the loan.

Loan Eligibility

Term loan for purposes including but not limited to: bridge financing, predevelopment, acquisition, construction and permanent financing.

Participation Size

Preliminary range: \$1M-\$30M. IBank may revise based on additional guidance.

Loan Requirements

Seniority: IBank will participate *pari passu* with the Lead Lender on terms and economics. Loans may be senior or subordinate to other debt, provided that IBank's position remains *pari passu* within the loan. If subsequent financing is to be more senior than the Participation Loan, IBank requires consent rights/right of first refusal.

If IBank increases its participation above 50% in support of Justice40 initiatives, both parties will remain *pari passu* with respect to any other loan terms.

Interest Rates: The Lead Lender will determine the interest rate for the loan. IBank will receive its *pro rata* share of interest payments based on the Lead Lender's rate. For loans that qualify as Justice40 investments, IBank may offer a reduced interest rate on its share of the loan to be passed on as a lower blended rate to the borrower. IBank's offer of a reduced interest rate will not change the *pari passu* nature of the participation with respect to any other loan terms.

Loan Tenor: Varies by loan and asset type, up to 25 years.

Fees and Penalties: The Lead Lender will implement all eligible fees and charges according to its loan policies, including application fees, closing fees, annual fees, servicing fees, and penalties, with an appropriate *pro rata* share accruing to IBank.

Capital Contribution: Lead Lender must have its own capital contribution of at least 20% and have firm commitments for the remaining balance.

Secondary Market Restrictions: IBank may sell or assign its position. Lead Lender must retain at least 20% of the loan and continue to service the loan for the duration of IBank's participation. This ensures that IBank has a consistent point of contact in the event of a default.

Use of Funds: Eligible use of funds includes, but is not limited to: predevelopment, land acquisition, construction, working capital, equipment, materials, facilities, startup costs, and inventory. Conformity with Prohibited Uses to be stipulated.

Collateral, Security and Default: Lead Lender to apply the same standard of care for collateral and security interest as they do in the ordinary course of business. Any notification of delinquency must be provided by the lender to IBank at the same time of notification to the delinquent borrower.

In the event of default, IBank's position is *pari passu*, even in instances when IBank offers below-market interest rates. If Lead Lender and IBank cannot agree on proposed workouts, Lead Lender has the obligation to buy out IBank's proportionate share of outstanding balance and unpaid interest and fees.

Eligible Lenders

The following types of lenders are eligible to become approved lenders under the Participation program:

- Federal or State-chartered Bank.
- Savings Association.
- Certified Community Development Financial Institutions (CDFI).
- Credit Union.
- Farm Credit System Insurance Corporation (FCSIC).
- Other Financial Institutions with IBank Exception.

III. Climate Incentives Bridge Loan

The **Climate Incentives Bridge (Bridge)** would provide bridge financing for public, private, and non-profit sector borrowers seeking to utilize anticipated incentives, such as utility and state agency rebates, federal clean energy tax credits, and reimbursable grant funds, to finance project costs. By allowing projects to monetize a portion of their anticipated

incentives at the beginning of the construction phase, the product would “bridge the gap” between project capital formation and the incentive payment date – solving a key market barrier and expanding access to available incentives.

Bridge Structure

Term and Payment Schedule: Term range is 12 – 24 months. IBank and the borrower will determine the loan term based on the projected incentive payment date. Interest will accrue from the date of closing, with principal and interest repaid at maturity.

Security: As IBank can only achieve its objectives to mitigate this market barrier by efficiently recouping and recycling its funds, all borrowers must demonstrate the ability to meet standard debt service coverage requirements from net operating cash flows over the reasonable amortization term, in the event an incentive does not materialize.

Eligible Borrower

All incentive eligible public and private entities, including not-for-profit entities.

In addition, eligible borrowers:

- Must be accessing financing for a project within California or financing the general needs of any sponsor or participating party for operations or activities within California that are consistent with, and intended to, further California's climate goals, activities that reduce climate risk, and the implementation of low-carbon technology and infrastructure.
- Be seeking financing for an eligible project, as outlined in the Eligible Project criteria.
- Be in good standing with the Secretary of State.
- Demonstrate positive cash flow and minimum DSCR of 1.2x.

Loan Type – Incentive Bridge loans will take two forms, dependent on the status of the incentive.

- If incentive is earned, borrower will be eligible for a short-term bridge loan.²
- If incentive is not yet earned, borrower will be eligible for an entity-backed loan secured by a revenue source or other assets.³

Loan Amounts

Preliminary range: \$1M-\$25M.

IBank Position

Senior, *pari passu* with other lenders supporting the project beyond the incentive component.

Principal repayment sources include incentive assignment to IBank or the deposit of federal tax credit direct payment into a control account. If the incentive is not yet earned,

² The incentive is earned once all applicable activities are deemed complete by the incentive provider, and the borrower is awaiting incentive payment. An incentive assignment does not qualify an incentive as earned.

³ The incentive is not yet earned if all applicable activities are ongoing and have not been deemed complete by the incentive provider.

borrowers will be required to pledge a revenue source sufficient to service the full loan amount. IBank may consider UCC-1 filings on eligible hard assets.

Interest Rate

Rates will vary by loan term and credit quality. If a borrower arranges coverage for the lender via tax credit insurance, the rate will decrease. Projects aligned with the Low-Income and Disadvantaged Communities Criteria (defined in [Justice40 Definition and Requirements](#)) will receive an additional subsidy of 25 bps.

Fees

Origination fee: 1% of incentive loan value, paid one time at loan closing.

Addendum: Justice40 Definition and Requirements

The [federal Justice 40 initiative](#) requires that at least 40% of capital supports projects in or provides benefits to disadvantaged communities. Based on existing guidance, a loan qualifies for Justice40 if it is made to a business or project in:

1. Areas identified as disadvantaged by the [Climate and Economic Justice Screening Tool \(CEJST\)](#).
2. Areas identified by [EJScreen](#) as (a) in the [90th percentile for any of EJScreen's supplemental indexes](#) when compared to the nation or state or (b) within tribal lands on EJScreen.
3. Properties providing affordable housing, defined as:
 - a. Multifamily housing with rents not exceeding 30% of 80% average median income (AMI) for at least half of residential units and with an active affordability covenant from one of the following federal or state housing assistance programs:
 - i. Low-Income Housing Tax Credit;
 - ii. A housing assistance program administered by HUD;
 - iii. A housing assistance program administered by USDA under Title V of the Housing Act of 1949;
 - iv. A housing assistance program administered by a tribally designated housing entity;
 - v. Any other housing assistance program designated by the EPA Administrator.
 - b. Or; Naturally-occurring (unsubsidized) affordable housing with rents not exceeding 30% of 80% AMI for at least half of residential units.
4. Individuals and households with incomes at or below the greater of:
 - a. For Metropolitan Areas: (1) 80% AMI and (2) 200% of the Federal Poverty Level.
 - b. For Non-Metropolitan Areas: (1) 80% AMI; (2) 80% Statewide Non-Metropolitan Area AMI; and (3) 200% of the Federal Poverty Level Individuals and households currently approved for assistance from specified income-verified federal assistance program within the last 12 months.

[US EPA continues to clarify these guidelines](#) and IBank will reflect additional information in its offerings.