Financing Climate Resilience

A Scalable CDFI Tax Credit Model for Home Hardening

Jesse Ibarra, Chief Business Officer, NPHS

Ryan Sears, Policy and Advocacy Lead, NPHS

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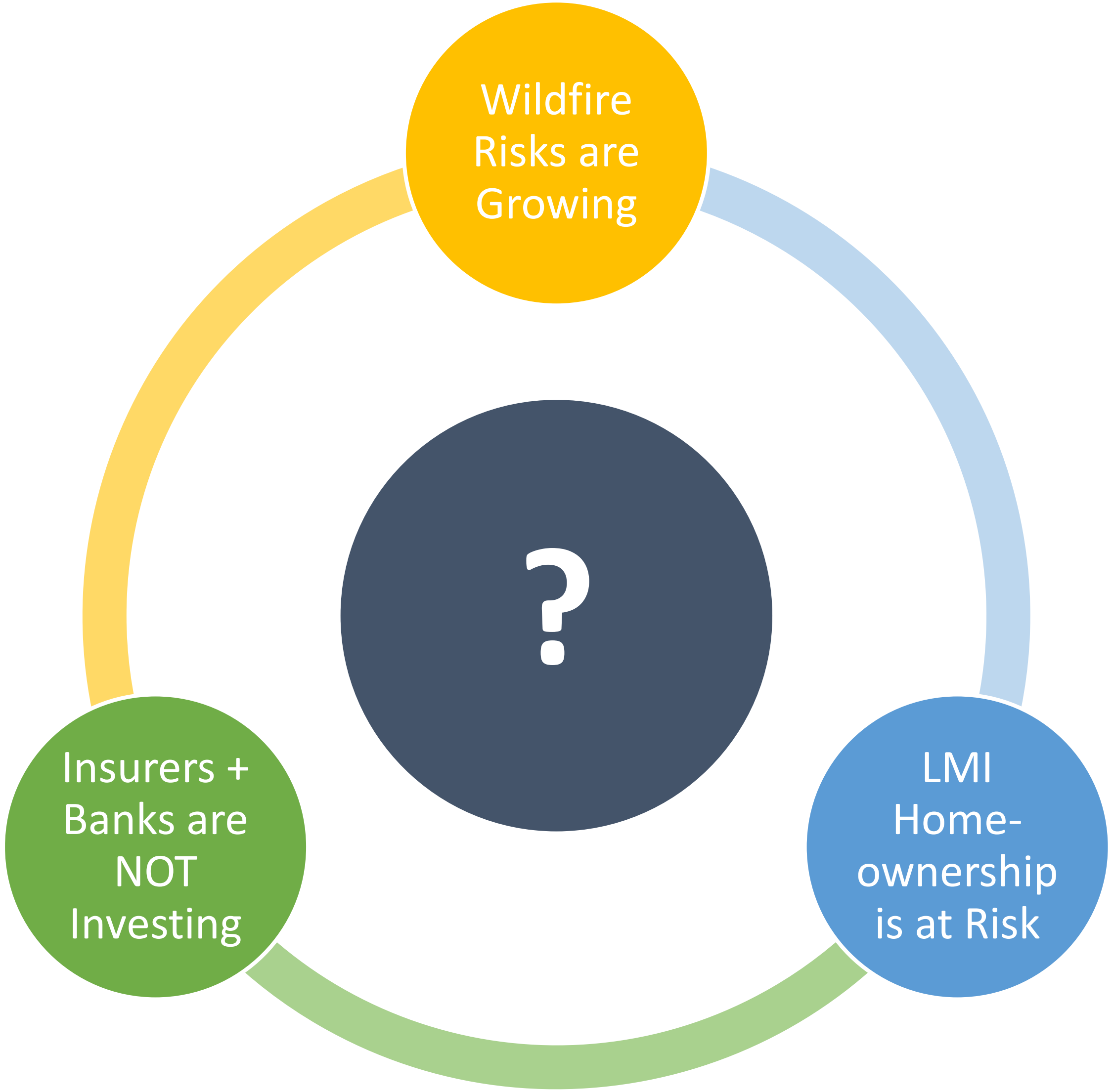
Why We're Here



The Problem

A lack of affordability in relatively insulated urban cores is forcing Californians to push further into wildlands and FHSZs to find affordable housing/homeownership

Growing losses from wildfires are putting pressure on insurers to be more selective in their underwriting, often pushing Californians onto the FAIR Plan

Recent remedies as part of Insurance Commissioner Lara's Sustainable Insurance Strategy incentivize better behavior from insurers, but has yet to stimulate widespread investment in home hardening

70%+ of insurance non-renewals in high-risk fire areas are in Low-to-Moderate Income (LMI) zip codes

Very few financing options exist for home hardening – while grant programs help, they are hard to scale.

A Potential Solution: NPHS Resilience Loans

- Resilience NOW
  - Immediate assistance up to $5,000 for homeowners facing notices from insurers
- Resilience
  - Up to $50,000 for long-term retrofits to achieve IBHS Wildfire Prepared Designation
- Resilience Rebuild
  - Potential loan product to fill the gap in financing between rebuilding and rebuilding with resilience (meeting IBHS Designation)

The Capital Gap

- Traditional Lenders
  - Lack of Initiative, Mission
  - No Clear Secondary Market for "Riskier" Loans
- Community Development Financial Institutions (CDFI)
  - Mission to Serve Under-Capitalized, Low-to-Moderate Income Communities
  - Play Critical Role in Allocating Capital to Buildout Climate Resiliency
- State Subsidies
  - State Support = Adds Legitimacy to Mission
  - State Funding = Provides Catalyst for Expansion at Increased Pace & Scale
  - State Secondary Market Creation = Exponential Loan Growth Factor

The Proposed CDFI Tax Credit Model

- **Tax Credit Rate:** 25%-30% tax credit for CDFI investors
- **CDFI Investor Returns:** Generating 6.0%–7.4% annualized return to investors (needed to attract investors considering current interest rate environment)
- **Tax Credit Pool:** $12.5-$15 million per year in tax credits to investors in CDFIs making Home Hardening Loans
- **Capital Raised Annually for CDFIs:** $50 million
- **Leverage on CDFI Capital for Home Hardening Loans:** 5 times
- **CDFI Home Hardening Loan Capacity:** $250 million annually, $1.25 billion over 5 years
- **Targeted Use:** Home Hardening Loans for Wildfire Resilience

* A number of CDFIs in California make personal loans to individual homeowners in LMI communities, and would share in any tax credit program to make Home Hardening Loans available throughout the State.

CDFI Tax Credit Program Comparison: COIN vs Home Hardening Model

Factor	COIN Historical Model	Proposed Home Hardening Model
Tax Credit Rate (annual $ amount)	20% ($10 million)	25% – 30% ($12.5 – $15 million)
Investor Return	~4.6%	~6.0% – 7.4%
Use of Funds	LMI Broad Lending/LIHTC Eligible	LMI Home Hardening Loans/No LIHTC
Leveraged Loan Target (5 times)	$1.25 billion over 5 years	$1.25 billion over 5 years
Reason for Higher Tax Credit Rate	Lower interest rates in past	Higher interest rate environment

How NPHS Would Deploy Capital

- Aggregate CDFIs to deploy capital with a standardized loan product
  - Utilize bonds, SPVs, or alternative financing methods to boost loan capital
  - Utilize existing mechanisms like COIN to create a secondary marketplace to boost liquidity in lending
- Direct lending to LMI Homeowners – Resilience Loans
  - Fire-safe retrofits: roofing, vents, defensible space
- Embedded technical assistance + partnerships with IBHS, local fire councils, etc.
- Cooperation with hyperlocal, local, and regional governments to promote home hardening

Stackable State Support

- CWMPA Grants to offset borrower costs
- The California State Treasurer's Office, California Pollution Control Financing Authority (CPCFA) administers the California Investment & Innovation Program (Cal IIP): funding boost to support CDFI lenders with loan loss reserves, rate buydowns, etc.
- Support for the secondary market in home hardening loans
- Creating "carrots" for insurers to invest more heavily in mitigation
  - Utilizing legislation to create incentives that insurers can unlock upon investing in home hardening

The Ask

Support policy for a Home Hardening Tax Credit Program for CDFIs

- Redirect a portion of CWMP funding towards grants to lenders that adopt a standardized, state-supported loan framework

Use CWMPA + CPCFA (Cal IIP) to fund a demonstration project with NPHS

- Deploy Resilience loans to LMI communities in FHSZs in the Inland Empire

Consider scaling based on loan performance + insurance outcomes

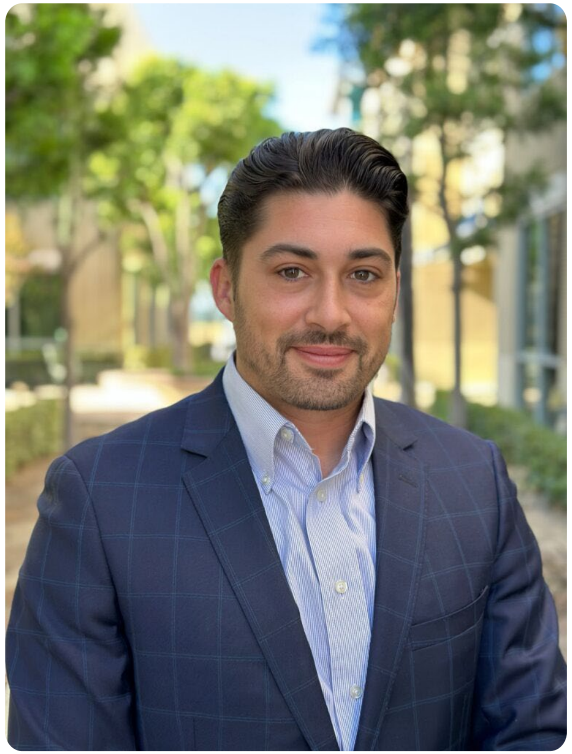
Why it Works

- Proven CDFI Infrastructure
- Investor-friendly returns
- Immediate benefit to vulnerable households
- Scalability – signals to market-rate lenders that home hardening loans should be something they offer more proactively
- Building resilience as widely as possible helps ensure equitable wealth preservation across all homeowners
- More hardening = a stronger and more stable insurance market

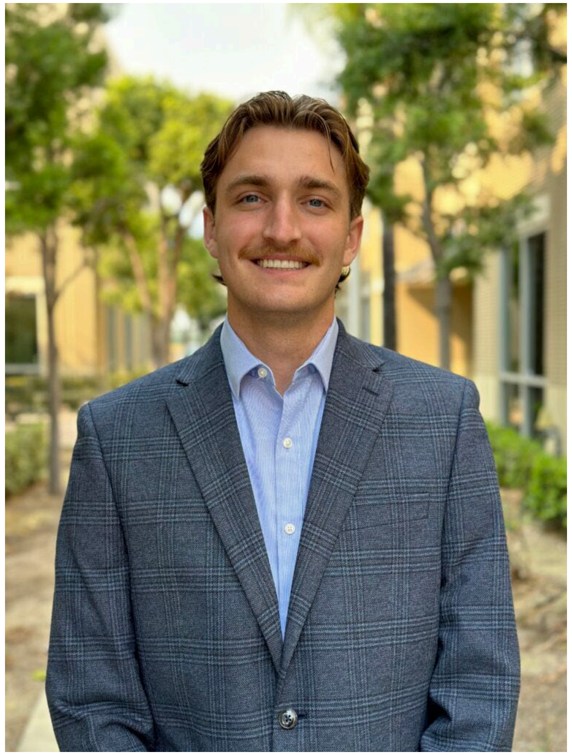
Next Steps

- Organize with other California CDFIs to offer Home Hardening Loans to under-capitalized communities throughout the State
- Submit pilot proposal
- Coordinate with State Treasurer’s Office + California Department of Insurance
- Identify legislation and budget vehicles to scale

Questions?



Jesse Ibarra
Chief Business Officer
jesse@nphsinc.org
(562) 879-3899



Ryan Sears
Policy and Advocacy Lead
ryan@nphsinc.org
(909) 360-3967