



Justice
Climate Fund

Bridging Institutional Capital and Community Climate Investments

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Executive summary

Community lenders provide a clear value proposition to institutional investors, but they have been underleveraged because of a historic gap caused by perceived constraints about risk and scale. As demand for resilient housing, infrastructure, and small-business financing grows, community lenders offer a clear route to sustainable returns.

The Gap: Why Community Lending has been Underleveraged

- Small loan sizes and few mechanisms for aggregating loans
- Return expectations that do not take into account mission economics
- Liquidity and exit constraints
- Perceived credit risk and lack of ratings
- Limited operational resources and non-standardized reporting

What Investors Want

- Competitive risk-adjusted returns
- Predictable cash flows
- Diversification
- Liquidity pathways
- Systemic risk management

What Community Lending Delivers

- Senior loans with historically low default rates
- Asset-backed cash flows
- Blended structures that de-risk exposure
- Access to incentives and public co-investment
- Climate and resilience investments

How to Bridge the Gap: 4 Strategies

Drawing on insights from interviews with over 40 investors, community lenders, and industry experts, we identify four strategies to bridge institutional capital with community lending and address barriers to scale, liquidity, and risk management.

- Traditional Financing Tools
- Innovative Financing Models
- First-Loss or Low-Cost Capital Strategies
- Outside-the-Box Collaborations





For many institutional investors, one of the most overlooked opportunities in financial innovation lies in their own backyards – their communities.

Community lenders, ranging from community loan funds and community banks to credit unions and green banks, provide a clear value proposition: profitable investments that strengthen local economies and address systemic financial vulnerabilities.

Strategic investments through community lenders offer investors a practical opportunity to unlock new sources of sustainable, long-term returns, while diversifying portfolios and addressing systemic financial risks.

The opportunity

Demand for housing, infrastructure, small business financing, and climate resilience in rural and underserved communities is rising. These investments not only generate returns but also reduce risks from flooding, heat, wildfires, and drought. Strategic funding in clean energy and resilient infrastructure unlocks policy incentives, public co-investment, and durable local projects.

The challenge

Institutional investors often perceive community lender investments as unable to deliver competitive risk-adjusted returns. Historical barriers include limited deal scale, liquidity constraints, and credit risk misperceptions, though community lenders are adopting tools and structures designed to meet institutional investors' expectations.

The solution

Emerging models are proving this gap between opportunity and challenge can be closed.

Drawing on insights from over 40 investors, community lenders, and industry experts, we identify four strategies to bridge institutional capital with community lending and address barriers to scale, liquidity, and risk management.

4 key approaches



Traditional Financing Tools

Conventional debt-based tools used by community lenders to attract capital.

Examples

Insured deposits • Certificates of deposit • Promissory notes • Direct loans

Best suited for

Conservative investors seeking stable, predictable returns with limited complexity.

Value to investors

Provides predictable, fixed returns through widely understood and accessible instruments.



Innovative Financing Models

Creative, customizable financing tools designed to expand investor participation and risk-structuring options.

Examples

Loan pooling and securitization • Equity-equivalent investments • Loan participations

Best suited for

Institutional and impact investors willing to take on modestly higher risk for tailored exposure.

Value to investors

Enables customizable risk-return profiles, greater leverage, and access to otherwise hard-to-reach loan portfolios.



First-Loss or Low-Cost Capital Strategies

Structures that use philanthropic, public, or impact-driven capital to provide low-cost, first-loss protection or guarantees.

Example

First-loss capital • Guarantees • Concessional or catalytic capital

Best suited for

Clean energy, climate resilience, housing, and community development projects.

Value to investors

Absorbs early risk to make community investments more attractive to private capital. Crowds in private capital and supports the scaling of proven community investment models. May include participation from insurers, corporations, or pension funds when aligned with financial objectives.



Outside-the-Box Collaborations

Cross-sector partnerships that extend community lending beyond capital alone.

Examples

Co-investment • Joint programming • Operational or technical support

Best suited for

Corporations, philanthropies, and social enterprises.

Value to investors

Builds long-term investment pipelines while strengthening workforce systems, supply chains, and local infrastructure.

What problems are you trying to solve?

I want principal protection and predictable income

Traditional Financing Tools

- FDIC-insured deposits, CDs
- Community investment notes
- Promissory notes
- Senior private credit to CDFIs

I need scale and liquidity

Innovative Financing Models

- Securitization vehicles
- Bond issuances
- Secondary loan markets
- SPVs

I need diversification & steady private income

Innovative Financing Models

- Pooled CDFI funds
- Securitizations & bonds
- Aggregation vehicles
- Loan participation pools

I want exposure with managed risks

First-loss / low-cost capital strategies

- Credit-enhanced pools
- Subordinated tranches
- Guarantees
- Reserve funds

Options

I have strategic or non-financial objectives

Out-of-Box Collaborations

- Co-investment partnerships
- Employer-linked guarantees
- Corporate-CDFI platforms
- Programmatic collaborations

I want to reduce long-term systemic risk

Application of Mixed Models

- Climate & resilience lending
- Green banks
- Clean energy CDFIs
- Public-private de-risking structures

Financial Benefits for Institutional Investors



Stable Returns & Capital Preservation

3-5% yields on senior CDFI loans

Historically low default rates
(≈0.36% nationally)

Asset-backed cash flows (real estate,
small business, infrastructure)

Fixed-income-like products
(e.g. community investment notes)



Built-in Risk Mitigation & Flexible Capital Structure

Community lenders use guarantees,
Credit enhancements: guarantees,
reserves, subordinated capital

First-loss layers protect senior investors

Structured vehicles improve credit profile
and IC comfort

Proven blended-finance models already
operating at scale

Example 1: The California FreshWorks

Fund An 80/20 senior-subordinated structure, with the junior tranche plus a \$7.5M reserve to absorb the initial losses.

Example 2: The Philadelphia Industry

Development Corp Subordinated debt, covering 20% of project costs, which safeguards senior bank loans.



Portfolio Diversification

Exposure to uncorrelated geographies
and borrowers

Access to underserved markets missed
by traditional credit

Pooled CDFI vehicles to spread risk

Complements traditional fixed income
and private credit



Tax Advantages & Public Derisking

Federal and state tax credits in select
structures

Green banks and public programs share risk

State incentives and loan-loss reserves
boost returns

Public-private partnerships crowd in
institutional capital

Example 1: Connecticut Green Bank and NY Green Bank provide financing and credit enhancements.

Example 2: Michigan Saves offers loan loss reserves for clean energy lending.

Example 3: California and Colorado incentivize investment through tax credits.

Example 4: New Hampshire's Renewable Energy Fund supports rebates and grants for solar initiatives

Table 1: Comparison of the Four Models

	Traditional Financing ●	Innovative Financing ●	First-Loss/Low-Cost Capital ●	Outside-the-Box Collaborations ●
Return Profile	Fixed, predictable	Varies by structure (some fixed, some equity-like)	Below-market or concessionary	Can be blended or indirect
Risk Profile	Moderate to low	Varies by tranche or layering	High (absorbs risk for others)	Varies depending on partner role
Capital Providers	Retail, foundations, institutions	Institutional, foundations, DAFs	Foundations, DFIs, corporations	Corporates, philanthropic orgs
Primary Goal	Steady yield + impact	Unlock scale, reduce risk, attract new capital	De-risk investment for others	Advance shared impact goals
Typical Tools	CDs, notes, EQ2, direct loans	Securitization, SPVs, bond issuance, aggregation	Guarantees, first-loss grants, subordinated debt	Co-branded campaigns, technical assistance, operating grants
Innovation Level	Low to moderate	High	Moderate	High (strategic/mission-driven)
Investor Alignment	Impact-first and risk-averse	Risk-tolerant, structure-driven	Mission-aligned or catalytic	Strategic/corporate impact seekers





Table 2: Traditional Financing Tools (continue to next page)

CDFI banks and CDFI loan funds attract capital from non-bank investors seeking financial returns and social impact, but they do so through different products and structures. CDFI banks primarily offer insured deposit products and, to a lesser extent, subordinated debt and equity, whereas CDFI loan funds rely on unsecured notes, private loans, and other debt-based instruments. The table summarizes the key features, investor types, risk-return profiles, and average yields for each financing strategy.

Instrument Type	Used By	Return Type	FDIC Insured	Typical Investor	Average Yield (2024-2025)	Notes/Features	Example
Certificates of Deposit (CDs)	CDFI Banks	Fixed interest	Yes	Individuals, Orgs	3%–4.5% APY	Most common, safe, accessible; principal and interest insured up to legal limits	
Savings/Money Market Accounts	CDFI Banks	Variable interest	Yes	Individuals, Orgs	0.5%–2%	Liquid, lower yield than CDs; insured up to legal limits	
Subordinated Debt/ Notes	CDFI Banks	Fixed interest	No	Institutions	4%–6% (estimated, varies)	Higher risk and yield; not insured; lower repayment priority	
Equity (Bank Holding Companies)	CDFI Banks	Dividends, growth	No	Institutional	N/A (dividends vary by issuer)	For large, sophisticated investors; less common; potential for appreciation	
Promissory Notes	CDFI Loan Funds	Fixed interest	No	Individuals, Orgs, Inst.	2.25% (3–4 yr), 2.75% (5–6 yr), 3.25–4.5% (7–30 yr)	Unsecured; regular interest payments; principal repaid at maturity	Pacific Community Ventures raises capital from family offices and corporate investors by issuing fixed-income promissory notes. These notes offer returns of 3–5% over a period of 5–7 years and are used to fund loans for small businesses in historically underserved communities. In addition to providing financing, PCV offers free business advising and monitors job quality outcomes. This approach attracts investors who are looking for both financial returns and investments that align their missions.



Table 2: Traditional Financing Tools *(continued)*

Direct Loans (Private Credit)	CDFI Loan Funds	Fixed interest	No	Institutions, Orgs	1.7%–2.8% (median 2.2%)	Structured loans; terms typically 5–7 years; higher yields for alternative asset managers	
Community Investment Notes/Bonds	CDFI Loan Funds	Fixed interest	No	Retail, Institutional	0.25% (1 yr), 3–4% (5–15 yr)	Publicly offered notes/bonds; pooled funds; accessible to small investors	Calvert Impact Capital raises retail and institutional funds through fixed-income notes, which are deployed to vetted CDFIs. Investors receive stable returns, while Calvert provides standardized reporting and liquidity. The model simplifies access and shows how platform trust can drive capital flows.
Securitizations	CDFI Loan Funds	Varies (by tranche)	No	Institutional	2.2% (rated notes avg.), 3.68% (bonds avg.)	Asset-backed securities; risk/return depends on structure; creates liquidity for CDFIs	LISC tested a new securitization model through the New York Forward Loan Fund by pooling loans originated by CDFIs into structured securities that were sold to institutional investors. The deal employed a multi-tranche structure, where the senior tranches provided lower risk returns, while the junior tranches took on the losses. This structure allowed CDFIs to sell loan portfolios to institutional investors, freeing up capital for reinvestment.



Table 3: Innovative Financing Models *(continue to next page)*

Community lenders are actively exploring and implementing a variety of innovative models to aggregate capital and manage risk beyond the traditional grant and debt approaches. These innovative tools are listed from least used to most used. This ranking reflects current trends in the community lenders sector, where true equity models are still emerging, while debt-based and collaborative strategies are more established and widely adopted.

Model	Used By	Typical Investor	Average Yield (2024-25)	Description	Example
SPV with Preferred Equity Platform	CDFI Loan Funds	Institutional, Foundations	6–9% (estimated)	A CDFI creates a 100% owned Special Purpose Vehicle (SPV) for the purpose of issuing preferred stock to raise cash. The SPV has its own assets, liabilities, and legal status, separate from the parent CDFI organization. An SPV with Equity allows CDFIs to aggregate capital from multiple investors, often using preferred equity to attract institutional or philanthropic funding for targeted projects.	The University of New Hampshire Carsey School of Public Policy outlined a blueprint for how CDFIs could access conventional equity, but did not provide real-life examples of this approach in action. Separately, intermediaries for CDFI’s, such as the Justice Climate Fund, have the potential to use SPVs to aggregate capital from foundations and institutional investors. This structure could enable CDFIs to access larger-scale equity to finance clean energy projects.
Bank Partnerships (Direct Equity)	CDFI Banks	Banks, Institutional	4–7% (estimated)	Banks and institutional investors take direct equity stakes in CDFI banks, providing permanent capital and supporting regulatory requirements such as the Community Reinvestment Act (CRA). These partnerships can strengthen CDFI balance sheets and expand lending capacity.	Large commercial banks have made direct equity investments in CDFI banks to meet Community Reinvestment Act (CRA) goals, such as JPMorgan Chase’s equity stake in Optus Bank, supporting minority lending.
Secondary Market Development	CDFI Loan Funds	Institutional, Banks	4–8% (estimated)	CDFIs sell or securitize loans into the secondary market, freeing up capital for new originations and attracting institutional investors seeking impact and yield. This mechanism increases liquidity and scalability for CDFI lending operations.	CNote worked with CDFIs to package and sell seasoned small business loans to institutional buyers, freeing up balance sheets for new lending in 2024.



Table 3: Innovative Financing Models *(continued)*

Bond Issuances / Public Debt	CDFI Loan Funds, CDFI Banks	Institutional (e.g., FFB, Banks)	5–6% (fixed, 2024-2025)	CDFIs issue bonds or other public debt instruments, often with government guarantees, to raise large amounts of long-term capital from institutional investors. Proceeds are used for community development projects such as affordable housing, schools, or health centers.	In 2024, the CDFI Bond Guarantee Program approved \$498 million in bond issuances, with the Community Reinvestment Fund issuing bonds purchased by the Federal Financing Bank to finance affordable housing and schools.
Equity-Equivalent Investments (EQ2)	CDFI Loan Funds	Foundations, Banks	2–4%	EQ2s are deeply subordinated, long-term, and flexible investments that function like equity on a CDFI’s balance sheet but are structured as debt. They help CDFIs leverage additional capital and absorb losses, supporting higher-risk lending.	Wells Fargo provided \$500,000 in EQ2 to the Tampa-based nonprofit CDFI, Tampa Bay Community Development Corporation (TCHP). Wells Fargo’s long-term, low-cost, and unsecured EQ2 allowed TCHP to use the flexible funds as upfront capital to acquire and rehabilitate foreclosed properties into new homeownership opportunities for working families, demonstrating the catalytic impact of EQ2 capital on affordable housing and community revitalization.
Blended Capital Stacks	CDFI Loan Funds	Foundations, Philanthropy, Banks	3–7% (varies by layer)	Blended capital stacks combine grants, equity, and debt from multiple sources to finance complex projects, often layering concessionary and market-rate capital to achieve both impact and financial sustainability. This approach is common in affordable housing and community facilities.	The New Markets Tax Credit (NMTC) program enables institutional investors to make equity investments in CDFIs that are also Community Development Entities (CDEs), often using a combination of their own equity and leveraged debt (such as bank loans), to finance projects in low-income communities. Investors receive a federal tax credit equal to 39% of their equity investment, claimed over seven years.
Loan Participation Pools	CDFI Loan Funds, CDFI Banks	Banks, Institutional, CDFIs	4–7% (estimated)	Multiple CDFIs or banks pool loans and sell participations to other investors, sharing risk and expanding lending reach. This structure helps diversify portfolios and meet regulatory or impact goals.	Several CDFIs pooled loans for affordable housing and sold participations to banks seeking CRA credit, such as the Housing Partnership Network’s loan pool for multifamily housing.
Portfolio Diversification / Shared Services	CDFI Loan Funds	CDFI Loan Funds, Banks	3–6% (estimated)	CDFIs collaborate to diversify portfolios and share servicing or risk management functions, improving efficiency and resilience. Shared services can lower costs and enable smaller CDFIs to access best-in-class infrastructure.	The Justice Climate Fund will facilitate shared servicing and risk pooling among CDFIs, allowing smaller funds to diversify portfolios and reduce risk exposure.



Table 4: Low-Cost or First-Loss Capital to CDFIs

Several non-bank investors may be motivated to provide low-cost or first-loss capital to community lenders when doing so aligns with their broader strategic, social, or financial interests. This table demonstrates how various non-bank investors, including insurance companies, have unique motivations for providing low-cost, first-loss capital or guarantees to community lenders, with each scenario offering both social impact and a strategic benefit to the investors.

Investor Type	Motivation	Example	Rationale
Insurance Companies	Reduce claims and payouts by supporting projects that increase community resiliency (e.g., disaster-resistant housing, climate adaptation, health initiatives).	Prudential Financial supports its hometown of Newark, N.J., by providing microgrants to local organizations for projects that strengthen community vitality. While it's not common for insurance companies to offer first-loss capital or guarantees to CDFIs, this is a promising opportunity.	By strengthening community resilience, the insurance company reduces the frequency and severity of insurance claims, which can lower its own risk exposure and future payout obligations. This aligns financial interests with social impact.
Foundations and Philanthropic Organizations	Advance mission-driven goals and catalyze private investment in high-impact sectors.	The California Endowment provided first-loss grants to support healthy food access in underserved communities, leveraging additional capital into the California FreshWorks Fund.	Absorbing early losses unlocks larger pools of private capital for projects with significant social impact, furthering the foundation's mission.
Government Agencies and Development Finance Institutions	Stimulate market development, address financing gaps, and advance public policy goals such as healthy food access, affordable housing, or small business growth in underserved communities.	The U.S. Treasury's CDFI Fund , along with The California Endowment and JPMorgan Chase Foundation, provided \$7.5 million in first-loss capital (in the form of grants) for the California FreshWorks Fund. This fund used a layered capital structure to attract \$100 million in senior debt from banks and insurance companies, with the first-loss capital protecting senior investors from initial losses on loans made to support healthy food retail in underserved areas.	By providing first-loss capital, government agencies reduce the risk for private investors, making it more attractive for them to invest in high-impact community projects. This approach leverages public and philanthropic funds to catalyze much larger sums of private capital, amplifying the impact of government resources while advancing policy objectives such as food security and economic development.
Corporations with Strategic Community Interests	Support local infrastructure or workforce development to benefit business operations.	A large employer offers guarantees for CDFI lending to local affordable housing or transportation improvements.	Improving local conditions stabilizes the workforce and operating environment, reducing costs and reputational risk.
Pension Funds, Institutional Investors and Donor Advised Funds	Enable participation in new impact asset classes while meeting fiduciary standards.	Tiedemann Advisors partnered with StoneCastle to offer an impact cash solution to its clients, integrating StoneCastle's platform to allocate cash to community banks and support community lending and reinvestment programs.	As an alternative to a custodian's money market account, pension plans and Institutional Investors may link existing cash balances to platforms that allocate the pension plan/investor's cash across a network of hundreds of FDIC-insured CDFI banks, keeping each deposit under the \$250,000 insurance limit per bank to maximize FDIC coverage while earning market rate returns (i.e. returns competitive with money market funds) and supporting local lending and economic development.
Educational or Health Institutions	Improve local education, health, or housing to benefit students, patients, or workforce.	A university or hospital offers first-loss capital for CDFI-supported community clinics or affordable housing.	Healthier, more stable communities can lead to a healthier workforce and student body, reducing healthcare costs for both the institution and its employees.



Table 5: Outside the Box Collaborations

These are examples of corporations collaborating with community lenders to create or improve jobs in the United States. They illustrate the diversity of corporate and philanthropic collaborations with community lenders, ranging from large-scale national campaigns to targeted local workforce initiatives, all focused on job creation, job quality, and economic opportunity. Here are some notable cases:

Collaborators	How It Worked	Rationale
Justice Climate Fund (JCF)	The Justice Climate Fund has built a network of trusted community lenders with deep experience in financing projects in under-resourced communities. JCF leverages public, private, and philanthropic capital to ensure financing for clean energy projects and climate solutions in under-resourced communities.	Focusing on accelerating the clean energy transition in under-resourced communities, this approach expands green finance markets, and improve outcomes for residents.
Kresge Foundation & Inclusiv (Southern Equity Fund)	Kresge Foundation & Inclusiv launched a \$45 million fund providing secondary capital loans to community development credit unions (CDCUs) across 17 Southern states. Kresge and other investors enabled CDCUs to expand lending and financial services to underserved communities.	Addresses financial exclusion and racial wealth gaps in the South by strengthening minority-led CDCUs and increasing access to equitable financial products.
Starbucks & Opportunity Finance Network (OFN)	Starbucks launched the “Create Jobs for USA” initiative with OFN in 2011, seeding the fund with \$5 million and encouraging donations from customers and other corporations. Each \$5 donor received an “Indivisible” wristband. OFN managed the fund and distributed capital grants to 120 CDFIs, which leveraged the funds to make loans to small businesses, creating or retaining over 5,000 jobs nationwide.	Combined Starbucks’ brand and customer reach with OFN’s CDFI network, rapidly mobilizing capital and leveraging each donation into significant job creation in underserved communities.
Gates Foundation & 11 CDFIs (Shared Success Program)	Since 2022, the Gates Foundation has partnered with 11 CDFIs in the “Shared Success” demonstration program. The program provides investment and technical assistance to help small business clients improve job quality (e.g., wages, benefits, work environment). CDFIs offer advice and incentives to business owners for making job quality improvements, supporting both business performance and worker outcomes.	Focuses on job quality as a driver of business success and workforce stability, addressing hiring and retention challenges while extending CDFI impact beyond business owners to workers.
First Step Staffing, NFF, Reinvestment Fund, LISC, PIDC	First Step Staffing, a social enterprise, received financing from a consortium of CDFIs (including NFF, Reinvestment Fund, LISC, and PIDC) to acquire a staffing firm in Philadelphia. This allowed First Step to expand its model of employing clients facing barriers to employment and providing wraparound services (job coaching, transportation, housing assistance), directly placing clients in jobs and increasing their housing stability.	Demonstrates how CDFIs can partner with social enterprises and leverage corporate-style acquisitions to scale job creation and workforce development for marginalized populations.
ICA Fund Good Jobs & Corporate Volunteers	ICA Fund Good Jobs leverages a network of corporate volunteers (often alumni of its programs) to provide subsidized professional services to small businesses. The CDFI uses its Good Employer Matrix to assess and improve hiring practices, company culture, and job quality, offering reduced interest rates as incentives for businesses that hire people facing barriers to employment.	Engages corporate expertise and volunteerism to help businesses create quality jobs, incentivizing employers to adopt inclusive hiring and employee engagement practices.

Acknowledgments

About Ceres

Ceres is a nonprofit advocacy organization working to accelerate the transition to a cleaner, more just, and resilient economy. With data-driven research and expert analysis, we inspire investors and companies to act on the world's sustainability challenges and advocate for market and policy solutions. Together, our efforts transform industries, unlock new business opportunities, and foster innovation and job growth — proving that sustainability is the bottom line.

For more information, visit ceres.org or contact at info@ceres.org.

About Justice Climate Fund

Justice Climate Fund (JCF) is a mission-driven nonprofit that mobilizes public, private, and philanthropic capital to accelerate climate and clean energy solutions in under-resourced communities. JCF partners with a national network of more than 400 CDFIs, community lenders, green banks, and local organizations to build and scale innovative financing solutions that deliver climate and clean energy projects that support cleaner air and water, promote healthier communities, and build economic and environmental resilience where it's needed most.

For more information, visit justiceclimatefund.org or contact at info@justiceclimatefund.org.

Acknowledgments

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