

Testimony of Duanne Andrade
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Subcommittee on Clean Air, Climate, and Nuclear Safety
Hearing on National Climate Bank Act, S. 283

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Chairman Markey, Ranking Member Inhofe, and Members of the Committee, it is a pleasure to be here with you today for this important hearing. My name is Duanne Andrade, and I am the Chief Financial and Strategic Officer of Florida's green bank, Florida Solar & Energy Loan Fund (SELF). I am here today as a witness to the benefits that can be achieved through the passage of Senate Bill S.283, the National Climate Bank Act.

I want to begin by thanking the Biden Administration for supporting this idea in its American Jobs Plan. This would catalyze hundreds of billions of dollars in investments from private-public and philanthropic sources to create and support sustainable jobs; resilient, efficient, and affordable low-carbon housing; and clean transportation. Most importantly, on behalf of our organization, I'd like to commend Senator Markey and Senator Van Hollen, who sponsored the legislation we are discussing today, for thoughtfully requiring 40% of investments to benefit left behind and low-income communities.

As background, I have a Bachelor Degree in Political Science from NYU and a Master's in Business Administration (MBA), from the Bolivian Catholic University's Master for Development Program sponsored by the Harvard Institute of International Development; and I am a Development Finance Certified Professional (DFCP) by the Council for Development Finance Agencies, U.S.A.

I am from Bolivia, and I worked in banking and as a consultant in United States, Bolivia and then specialized in microfinance in Mexico where I managed a rural development micro finance program for a prestigious foundation in Veracruz, Mexico. That is when I was able to experience the power of innovative and sustainable financing models to unlock economic, social and environmental benefits for underserved populations. In Mexico, I deployed thousands of small, low-cost loans in rural areas for thousands of women and farmers with no credit, based on ability to repay. The results were transformative. I then moved on to work in Mexico City as a consultant, creating new microlending organizations to fund micro enterprises in urban, underserved and underbanked communities.

During my time working in low-to-moderate income (LMI) communities abroad, I learned an important lesson: That climate vulnerability and energy insecurity had to be addressed equally in strategies for social and economic development. Furthermore, I learned that credit scores and traditional underwriting methods do not capture true creditworthiness of underbanked and LMI clients and for that reason, there were huge opportunities to serve those markets with social and economic benefits that would create wealth. The biggest barrier to serving those markets with adequate financial products, however, was lack of low-cost flexible capital.

THE SOLAR AND ENERGY LOAN FUND – SELF

In 2012, I was introduced to SELF, a unique non-profit ‘green’ financing entity focused on helping LMI households access energy efficiency, clean energy and resilience upgrades, and its founder, Doug Coward. Mr. Coward is a visionary leader who, as a commissioner of St. Lucie County, Florida, had envisioned the Solar and Energy Loan Fund “SELF” as the first non-profit “green” Community Development Financial Institution. He led the effort to obtain a \$3 million seed grant to kick start SELF from the Department of Energy’s (DOE) Energy Efficiency Block Grant program embedded in the “American Recovery and Reinvestment Act” (ARRA) enacted in 2009 and designed to stimulate the economic recovery post-recession.

SELF is a Treasury certified, non-profit Community Development Financial Institution (CDFI), and a founding member of the American Green Bank Consortium. SELF is based out of Fort Pierce, Florida, with additional offices in the City of St. Petersburg, Hillsborough County, and Orange County in Florida and soon, in Atlanta Georgia. SELF also has small pilots running in South Carolina and Alabama.

SELF’s mission is to rebuild and empower underserved communities by providing access to affordable and innovative financing for sustainable property improvements, with the primary focus on energy efficiency, renewable energy, and climate resilience in low- to-moderate income communities.

In short, SELF makes unsecured loans for residential energy efficiency, clean energy, and resilience projects with a focus on low-and-moderate income homeowners, which are implemented through a network of approved contractors. Unsecured loans mean that the borrower does not face the threat of confiscation of their home or other assets if they fail to repay the loan. SELF underwrites these loans based on the customer’s ability to repay, not their credit score. SELF has done business in Florida, South Carolina, Alabama, and Georgia.

When launched, SELF was the only community lender that was offering small unsecured loans for home energy efficiency upgrades in a community that would clearly benefit from affordable capital for energy efficient and climate resilience home upgrades. This is especially true in Saint Lucie County where SELF is headquartered, as 80% of the County is made up of working- class families. The challenge for SELF is not demand for these upgrades, especially with growing threats from climate impacts (e.g., extreme heat and storms). Rather, the challenge is raising enough capital to meet demand.

In January of 2013, I joined the team to help lay out the organization’s long-term sustainability plan and soon we adopted and adapted the microlending methodology to underwrite SELF’s small unsecured loans based on ability to repay rather than credit scores. This approach makes SELF loans more accessible and inclusive for underserved and underbanked homeowners and also helps advance financial inclusion.

When I joined SELF, I assumed that an innovative “green loan fund” focused on providing unsecured, affordable loans for energy upgrades to LMI households - which account for 42% of all households¹ - would attract more capital without any problem. However, I soon learned that the “average” working-class American frequently also has low credit scores, which investors refer to as “sub-prime” connoting “high risk.” LMI households often live in older homes that are more likely to be inefficient and in need of

¹ NREL, “Low- and Moderate-Income Residences Can Help Modernize the U.S. Electric Grid,” April 25, 2018, see <https://www.nrel.gov/news/program/2018/lmi-residences-can-help-modernize-us-electric-grid.html#:~:text=While%20Census%20data%20has%20provided,of%20their%20total%20electricity%20need>

structural upgrades to help withstand climate impacts. This population is also referred to by United Way as “ALICE”² (Asset Limited, Income Constrained, Employed). ALICE is not rich enough to access fair priced capital nor poor enough to benefit from grants or subsidies and, is credit impaired.

Because of the false perceived risk in serving this population, SELF is limited in its ability to attract traditional capital sources to scale its loan programs. Traditional investors would not underwrite the broader social and environmental impacts which include: financial inclusion; asset preservation; energy savings; healthy environments conducive to productivity and carbon emission reductions. All of this limits SELF’s ability to raise additional capital.

The traditional financial system relies heavily on credit scores to assess risk, rather than ability to repay. This system precludes “average working-class Americans” - who during Covid19 proved to be our unsung heroes - from gaining access to affordable capital that could unlock multiple social and economic benefits - including energy savings that could help repay the loan.

Furthermore, efficiency upgrades (like insulation, weatherization, high efficiency air conditioners and heaters), rooftop solar panels, water heaters, and more, coupled with resiliency upgrades (like fortified roofs, impact windows and hurricane shutters) not only save money, but greatly improve quality of life and health in homes. These improvements help keep families safe during climate or health events as we experienced in 2020. The score-based system also prevents credit-worthy people from gaining financial inclusion for future access to fair capital.

From an economic stimulus perspective, lack of access to capital also prevents contractors from doing more business where there is great need. SELF’s contractors have expressed that they lose anywhere between 20 to 40% of business due to lack of financing available for LMI clients. When contractors sign up for SELF’s network, they are able to do business in new markets without taking any financial risk, and expanding their businesses to support new and existing jobs. One local Ft. Pierce family-owned business, Sea Coast Air Conditioning has done over \$1 million in projects with SELF financing. Currently SELF has 600 vetted and approved contractors in our network.

SELF innovated in the “green” lending space by creating a “micro-lending” model focused on helping LMI homeowners access capital for energy, climate and sustainable home improvements based on ability to repay rather than credit scores. SELF loans can be used for a variety of sustainable home improvements including high efficiency air conditioners; impact windows, hurricane shutters, rooftop solar PV, fortified roofs and more.

Finally, these energy efficiency and clean energy upgrades also help curb carbon emissions, benefitting our environment and advancing local sustainability goals. A report from the U.S. Department of Energy’s National Renewable Energy Laboratory (NREL) stated:

“Pairing solar photovoltaics with rooftops of low and moderate-income housing represents an opportunity to help modernize the U.S. electric grid and improve energy affordability in low-income communities.”³ “Understanding the potential size of the LMI market in detail offers new insights and opportunities to serve these communities,”

² <https://www.unitedforalice.org/>

³ NREL, “Low- and Moderate-Income Residences Can Help Modernize the U.S. Electric Grid,” April 25, 2018, see <https://www.nrel.gov/news/program/2018/lmi-residences-can-help-modernize-us-electric-grid.html>

Mooney said. *“The potential electric bill savings from the adoption of rooftop solar would have a greater material impact on low-income households compared to their high-income counterparts.”*

IMPACT

Contractor Testimonials:

“We wanted to thank the team at SELF for your efficient assistance throughout this process. The Bell family is in a much better position because of the financing that SELF was able to offer them. I related with their daughter’s fear for her parents over the threat that Covid placed on their financial well-being and home throughout this past year. It was helpful for us here at Dynasty as well being able to offer them a solution and some hope. Thank you for granting us the opportunity to do so.” – Dynasty

“Urban Enterprise Construction has been working with the SELF program for almost a year. As a contractor, being able to offer an alternative to residents who may have trouble securing traditional financing has been essential. Not only has this given us another tool to help people protect what is normally their largest investment, but in some cases this has been their only option to repair their home.

“The process of notification of approval and submitting invoices is simple and straightforward and we receive our funds quickly! In addition, the staff is accessible, informative, helpful, and truly care about not only the homeowners that they are helping but the contractors that are providing services as well.

“We are always grateful for the opportunity to assist the community and are glad that we have been given the chance to do so as an approved vendor of the SELF program.” – Joe Pennella, Managing Partner, Urban Enterprise Construction

“SELF is helping rebuild and empower underserved communities, break down technological and financial barriers, to generate immediate and long-term clean energy solutions”

– Doug Coward, Executive Director, SELF

Client Testimonials:

Marine Combat Engineer Joe Hill: High Efficiency Air Conditioner



Pamela Turner: Roof Loan (Resilience)

Pamela Turner is a U.S. veteran, single-mother of four small children, and cancer-survivor, who works three jobs to try and make ends meet! Unfortunately, a large portion of her roof collapsed and she did not have the savings to pay for a new roof or have the credit score needed to qualify for a traditional loan. Pamela and her family were forced to suffer the consequences and she resorted to using dozens of buckets throughout her two-bedroom home to collect water seeping through the roof. Her home was deteriorating rapidly before her eyes and it was now unsafe and unhealthy for her and her children. She had a **“major problem”** on her hands and she said she **“felt defeated”**. Pamela learned of SELF and applied for a loan based on ability to repay. She was approved for SELF’s lowest interest rate (5%), which is available to veterans and women with poor credit. She now has a solid metal roof on her home, and her family is safer, the home is healthier, and her largest asset is now protected. Pamela also qualifies for home insurance again, with lower premiums, and she will rebuild her credit as she pays off the SELF roof loan.



Carol: Air Conditioner Loan (Energy Efficiency)



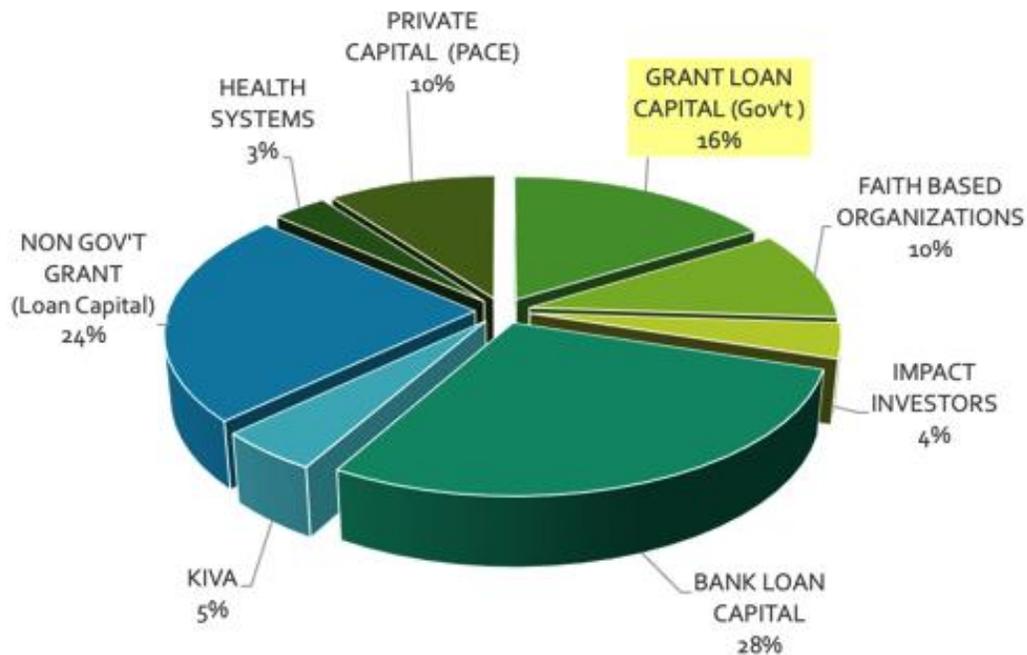
Carol is a widow who came to SELF for a small loan immediately after her back surgery last summer. The hot sweltering Florida heat and humidity had arrived and unfortunately Carol's AC broke down unexpectedly right after she was discharged from the hospital. She had not established much credit history during her married life and her credit score was too low to qualify for traditional financing from the contractor. Fresh out of surgery and desperate for help, she turned to SELF for access to affordable financing. And, despite her low credit score, SELF approved her loan application because Carol was able to prove her ability to pay. This picture shows Carol the moment she learned that she was approved, and the new high-efficiency AC was installed the next day. SELF's socially responsible lending programs provided immediate relief and helped improve Carol's health, quality of life, and well-being, while also increasing her home equity and energy efficiency and lowering her energy bills and carbon footprint.

IMPACT – CAPITAL & OUTCOMES

SELF Capital Raised:

- \$19.5m in loan capital for unsecured microloans
- \$5m in grant capital for operations
- \$5m from JP Morgan Chase for Housing and Community Impact Fund which will leverage \$65m for green affordable housing units
- \$200,000 from a Lowenstein grant leveraging \$800,000 to pilot the first rooftop solar PV on a Miami Dade Public Housing Building

Currently SELF has 24 investors including faith-based organizations (mostly Catholic Nuns); non-profit health systems; foundations (JP Morgan Chase); impact investors and bank CRA investments. Federal funding from ARRA only accounts for 16% of the total capital.



SELF recently created a “Housing and Community Impact Fund” to meet a growing demand for flexible capital to finance energy efficient and resilient affordable housing rehabs and new construction. To kick start this fund, in 2019 SELF received a \$5 million grant from JP Morgan Chase that will be used to leverage \$65 million in additional private and public capital. This will be used to finance a total of \$300 million of energy efficient and resilient affordable housing units that will be placed in land trusts near transit stations in South Florida. **In order to grow this fund to help address the affordable housing crisis with more sustainable housing stock, SELF estimates the need for a minimum of \$50 million in flexible, long term capital over the next 10 years.**

SELF Loan Activity, Demographics and Default Rate:

- \$17 million closed in over 2,000 unsecured loans (average \$9,000 per loan)
- 74% of loans have been to LMI homeowners
- 50% of loans are to women
- Sixty two percent (62%) of SELF clients have credit scores below 680
- SELF’s average default rate has been 1.8% for the past 5 years

SELF Loan Impacts – Jobs, Energy Saving, and Emissions Reductions:

- SELF loans have helped finance approximately 48,000 job hours
- Reduced energy costs by an average 27%
- Helped avoid the equivalent of 1,300 metric tons of carbon emissions into the environment

THE NEED FOR INNOVATIVE GREEN BANK FINANCING SOLUTIONS

Forty-two percent of American households are LMI and cannot afford the cost of household basics.⁴ These LMI households are where our “average” working-class Americans live; the nurse, the teacher, the grocery store worker, the janitor, the bus driver, the delivery person.

The lower the income, the more likely the household is in an older stock housing unit which is more likely to need resilience upgrades (roofs, hurricane shutters, impact windows) and, the more likely there are inefficiencies causing more spending per square foot on energy.

LMI populations have also continuously suffered from limited or lack of access to fair affordable capital due to having little and or poor credit according to traditional banking standards. The result is the cost of capital in these income brackets is typically 3 to 40 times that for a non-LMI person.

LMI households pay 3 to 16 times the proportion of their income for energy, compared to non-LMI households. They also pay more for home insurance due to older stock homes. LMI households also stand to lose more during climate events due to structurally weak and inefficient dwellings and many times can never recover financially. It is a daunting situation to be in – and an expensive one – not only them, but for all of us. This lack of ability to prevent losses ends up costing more in emergency funds, which in most cases are never enough to fully reimburse the losses.

Proof of the disproportionate burdens that 42% of American households bear has been further exposed during this ongoing global pandemic health crisis. We saw how Covid-19 disproportionately affected Blacks, Hispanics, Native Americans as well as elderly people on fixed incomes. Those same groups are disproportionately affected during extreme climate events.

During the pandemic, SELF experienced first-hand the enormous need of these households for capital to make energy efficiency and climate resilience upgrades – *not for the sake of climate change, but for the sake of preserving their homes, their families’ health, and quality of life with affordability.*

These “Average” working class people are the ones we hailed as heroes during this health crisis and should be able to afford healthy and safe homes, especially in a developed country.

GREEN BANKS, CLIMATE AND HEALTH

During the Covid-19 global pandemic in 2020, SELF broke all-time lending records, surpassing the previous 10-year record of loan volume in 9 of the last 10 months. As people were forced to work, study, play and rest at home, people had to run air conditioners all day – and, be able to afford it. People had to replace roofs to prevent health risks caused by mold caused by leaking roofs. And, they had to ensure their homes were safe and sturdy as the hurricane season approached and the pandemic’s death toll continued to rise.

One lesson we learned from the pandemic is that in times of economic crisis, residents view the types of upgrades that SELF supplies as a money-saving quality of life imperative as opposed to a luxury, provided they can find affordable financing.

⁴ United for ALICE, “On Uneven Ground: ALICE and Financial Hardship in the U.S. – 2020 National Report,” December 2020, at https://www.unitedforalice.org/Attachments/AllReports/2020AliceReport_National_Final.pdf

In 2020, amidst the Covid-19 pandemic, SELF's overall lending activity increased by 84% in 2020 and surpassed \$5 million annually for the first time. SELF has now grown by 393% over the last three years and completed 2,000 sustainable home improvement projects totaling \$17million, with 74% of the lending activity in underserved markets and a default rate below 2%.

SELF has seen especially rapid growth in the past three years, as demand for our services has surged within our LMI customer base. SELF's loans receivable, a key metric across green banks, have grown at a compound annual growth rate of 59% over this period.

To meet this growing demand, SELF has continued to leverage public and philanthropic funds to raise private market-based capital. One example is the recent \$5 million revolving line of credit that SELF closed with BankUnited as a commercial client.

We are endlessly grateful for the support of the organizations that have provided our capital base and changed the lives of the residents in the 2,000 plus households that SELF has served thus far. We are proud of the progress that we have made through serving these households, and especially our growth in recent years. However, the stark truth is that there are 7.7 million households in Florida, of which 33% are ALICE households as defined by the United Way.⁵ That means there are approximately 2.5 million households in Florida that live above the federal poverty line but cannot afford basic household necessities and could benefit from the money-saving, lifestyle enhancing upgrades that we can provide. In order to make an impact at scale, SELF needs a capital at a scale and speed that does not exist in the market and can only come from the National Climate Bank.

WHY WE NEED THE NATIONAL CLIMATE BANK

SELF is experiencing a surge in demand, but without adequate low-cost long-term capital, there will be no chance for SELF to truly bring its impact to scale in Florida and surrounding states. I am testifying today to make clear the multiple benefits that can be delivered to households and communities across the country by passing the National Climate Bank Act.

With \$80 million from an Accelerator, SELF could expand SELF's Rebuilding and Empowering Underserved Communities program, which provides low- and moderate-income (LMI) homeowners with greater access to low cost financing for sustainable home improvement projects, including energy efficiency, solar technologies, climate resilience.

SELF provides unsecured personal loans based on the homeowners' ability to pay, not credit scores and equity, and the typical loan size is approximately \$10,000 with a 5-7 year term. The most common home improvement projects are high efficiency air conditioners, solar products, new roofs and repairs, impact windows, hurricane shutters, and more. Capital from the National Climate Bank would help SELF greatly expand existing LMI lending programs for these purposes and provide longer-term financing options (e.g., 10 years) to further advance the affordability of rooftop solar PV projects. The longer term loans would stretch out the repayment term and therefore lower monthly loan payments. Energy and insurance

⁵ U.S. Census, Quick Facts: Florida, at <https://www.census.gov/quickfacts/FL>; United for ALICE, "ALICE in Florida: A Financial Hardship Study – 2020 Florida Report," 2020, at https://www.hfuw.org/wp-content/uploads/2020/05/2020ALICEHighlightsReport_FL_FINAL-4.15.20.pdf

savings derived from these projects also help pay for the loans over time.

This funding represents only a small portion of the market opportunity to save money for and improve the lives of Florida homeowners that struggle to make ends meet on a daily basis. As noted above, there are 2.5m ALICE households in Florida. Given that that average project size of the work financed by SELF is \$9,000 a home, this represents a total investment opportunity of \$22.5 billion.

Finally, SELF would also be able to scale and expand its services into more Southeastern States that are eager and in much need of alternative financing options to make LMI communities more resilient.

SELF is one of many innovative green banks in the nation that have proven that financing energy efficiency, clean energy and climate resilience projects is financially, socially and environmentally viable. Green banks know how to leverage and blend public, private and philanthropic funding to maximize impacts and have the capacity to deploy millions of dollars prudently. They have sound underwriting methods that produce triple bottom line results. However, they need more flexible low-cost capital to scale, replicate and reach deeper into communities with financing options that will help transform our communities into safer, healthier, climate resilient and carbon neutral places where future generations can thrive.

SELF has just scratched the surface of what can be done. And the National Climate Bank Act will help us reach more families, and expand the network of green banks to every state in the country so no community is left out.

Thank you for the opportunity to testify today before this committee, and I look forward to answering your questions and discussing this policy.