

Expert Q&A on Community Climate Finance in 2026: From Mega-Programs to Mission Lenders

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An Expert Q&A with Kristin Niver of Robinson & Cole LLP offering a perspective on community climate finance. Affordable housing decarbonization remains viable in 2026, despite the unfavorable political environment, but only through more disciplined structures: subordinate debt sized to real project economics, locally anchored green lending, revised HUD retrofit tools, and time-sensitive clean energy tax credit execution. This Expert Q&A examines, from a practitioner's standpoint, the operational status of the federal Greenhouse Gas Reduction Fund and the Green and Resilient Retrofit Program, the compressed window for clean energy tax credits under the OBBBA, the continuing role of ITC bridge lending, and the CDFIs and mission lenders still moving transactions forward.

What is the current state of affordable housing finance?

Affordable housing finance has entered a new phase of climate-era dealmaking. For several years, the market assumed that decarbonization capital, funds for improvements that reduce housing's greenhouse gas emissions, would become steadily easier to source. Examples include federal green finance programs to provide catalytic funding, expanded HUD retrofitting tools, tax credits to improve project economics, and commercial lenders beginning to treat energy and resilience improvements as ordinary preservation features. As of 2026, nearly every part of that assumption has been strained.

Green affordable housing finance has not stopped, but it has moved into a more disciplined phase. Sponsors, Community Development Financial Institutions ("CDFIs"), green banks, housing agencies, and mission investors are still financing efficiency, electrification, resilience, and distributed generation, but they are doing so in 2026 through more thoroughly structured subordinate debt, more localized lending platforms, and more time-constrained tax credit bridge execution. Green subordinate lending is no longer a niche product in this space. It has become the principal mechanism through

which clean energy scope fits into affordable housing capital stacks without overwhelming first-mortgage economics or undermining preservation feasibility.

Why is subordinate debt considered the core green tool?

Affordable housing transactions have always been defined by constraint. Rents are regulated or politically sensitive. Operating margins are thin. Senior debt, debt that is paid off first in bankruptcy or liquidation, is underwritten conservatively. Public soft funds carry use restrictions and layered approvals. Utility savings do not always flow neatly to ownership. At the same time, aging properties increasingly need envelope improvements, HVAC modernization, ventilation upgrades, water savings, backup power, flood, or heat resilience, and in some cases on-site generation or storage. Many of those measures create long-term value. Few produce a repayment stream a conventional permanent lender will underwrite.

Subordinate green lending fills that gap. A green subordinate loan is junior capital directed toward energy, water, or resilience measures. It is structured around repayment sources that are softer, slower, or more contingent than senior debt can accept, including

surplus cash, retained utility savings, sponsor support, soft takeout proceeds, tax-credit monetization proceeds, or some combination. In affordable housing, that flexibility is not a luxury. It is often the only way to finance improvements that sit outside the first mortgage.

The policy case for subordinate debt includes lower energy use, reduced resident utility burden, improved asset durability, and better positioning for future building performance requirements.

The transaction case is simpler still. Without junior capital that absorbs timing gaps and irregular repayment, many clean energy scopes die in underwriting before they reach construction closing.

What changed with the new federal administration in 2025 and 2026 was not the structure of the problem, it was the disruption of the narrative that federal mega-programs would solve it. With the Greenhouse Gas Reduction Fund frozen and contested and the tax credit market compressed by hard statutory deadlines, the subordinate debt instrument has moved from supporting tool to load-bearing structure. Practitioners who can originate, document, and close these instruments are the ones still doing green transactions.

What is the current status of the Greenhouse Gas Reduction Fund and what are the practical implications for lenders?

No current discussion of green affordable housing lending can avoid the Greenhouse Gas Reduction Fund (GGRF). GGRF appeared to offer a transformative source of catalytic climate capital, \$27 billion appropriated under the Inflation Reduction Act (IRA) in 2022 to flow through nonprofit and community-based channels into low-income and disadvantaged communities. That promise has been significantly disrupted. On March 11, 2025, EPA Administrator Lee Zeldin terminated \$20 billion in National Community Investment Fund ("NCIF") and Clean Communities Investment Accelerator ("CCIA") grant awards. On July 4, 2025, the President signed the One Big Beautiful Bill Act (OBBBA), repealing Section 134 of the Clean Air Act, which established the GGRF, and rescinding unobligated GGRF balances. On August 7, 2025, EPA terminated Solar for All. As a currently operational federal funding channel, GGRF is not available in mid-2026 for new transaction execution.

Litigation remains active, however, and the future of GGRF is uncertain. In *Climate United Fund v. Citibank*, the D.C.

District Court in April 2025 issued a preliminary injunction against the Trump Administration's financing freeze, which EPA appealed (*Climate United Fund v. Citibank*, N.A., 154 F.4th 809 (D.C. Cir. 2025)). A three-judge panel ruled 2-1 in EPA's favor on September 2, 2025. The D.C. Circuit granted rehearing en banc in December 2025, vacated the panel decision, and heard oral argument in February 2026, with the partial administrative stay in effect. The ultimate resolution, on the merits of grant termination, fund recovery, and the scope of EPA's authority, remains open.

Practitioners should track this litigation carefully, both because its outcome will shape how grantees recover disbursed funds and because a favorable ruling could restore meaningful capital to organizations that have already built the infrastructure to deploy it responsibly. That infrastructure deserves recognition. Whatever the litigation's ultimate resolution, GGRF grantees built something real. Climate United, Justice Climate Fund, Power Forward Communities, Rewiring America, and the NCIF and CCIA awardees that stood up lending platforms did not simply receive grant awards, they hired staff, developed underwriting frameworks, built BABA compliance protocols, established lender networks, and began originating transactions.

This organizational capacity does not disappear when a federal funding channel is frozen. It gets redirected. The community development finance institutions, green banks, and mission lenders that built GGRF-era infrastructure are now among the most sophisticated green lending platforms in the country. That is a durable result of the GGRF program, regardless of how the litigation concludes.

The practical conclusion for transaction execution is clear, GGRF cannot be treated as dependable closing capital at this time. Whatever its ultimate legal fate, it is presently frozen and contested. Affordable housing deals must be built to close on dependable sources, such as low-income housing tax credit equity, first mortgage debt, state housing agency soft funds, utility incentives, and mission lender subordinate debt, with any potential GGRF recovery treated as contingent upside.

The GGRF disruption also teaches a structural lesson. The suspension of a large federal program makes incremental clean-energy scope more dependent on smaller, stackable, mission-driven subordinate lending. CDFIs, green banks, and housing agencies cannot rely on a single federal channel. The community development lending platform has survived because it is built on relationships, regulatory knowledge, and deal-by-deal documentation, not on a single programmatic stream.

How does the revised GRRP provide a useful precedent for long-term capital in affordable housing?

HUD's Housing Notice H 2026-01, issued January 26, 2026, did not merely revive the Green and Resilient Retrofit Program. It modified and re-implemented it in ways that materially change how the program operates. The revised notice superseded Notices H 2023-05 and H 2024-01, stripped out greenhouse-gas-reduction measurement requirements and the prior Climate Resilience Assessment (replacing the latter with a Risk Mitigation Assessment focused on weather and natural disaster hazards) and shifted the program to a debt-centered structure, effective on March 1, 2026.

The most consequential change is that the revised program requires conversion of many open awards into Surplus Cash Loans. Awardees that had not reached closing or submitted a closing package before March 1, 2026, must convert grant awards to surplus cash loan form or face termination. The loan term runs to the earlier of 30 years after closing or six months after first-lien maturity, at simple annual interest of not less than 1%. The debt is secured, patient, and designed to live within a preservation capital stack without displacing senior financing.

The significance of this change extends beyond GRRP. This structure reflects a federal recognition that green retrofit lending in affordable housing works best as soft, long-dated, cash-flow-responsive debt, and not conventional amortizing financing. CDFIs, state housing agencies, and green banks designing green subordinate products have a federal template to point to, this kind of instrument is bankable, legally defensible, and appropriate for HUD-assisted properties.

The revised notice also addressed one of the hardest underwriting problems in assisted housing, the split incentive. When tenants pay utilities, owners may invest in efficiency improvements but fail to retain commensurate economic benefit since lower bills can alter utility allowances and subsidy calculations, effectively transferring savings away from ownership. The Shared Savings Retainer mechanism responds by authorizing owners to retain a defined portion of projected utility cost reductions for a set term. For practitioners structuring retrofit transactions in assisted properties, this is a meaningful structuring tool.

One significant program boundary is for awards not yet at closing as of March 1, 2026; for these awards, GRRP funds may not directly pay for photovoltaic systems or EV chargers. This forces capital stack segmentation, HUD-supported building systems run on one track, while solar or storage financing runs on a separate track, and utility incentives and tax-credit monetization run on a parallel track. For experienced practitioners, this is merely a structuring challenge, not a barrier.

What is the current state of clean energy tax credits in affordable housing transactions?

Clean energy tax incentives remain important to affordable housing transactions, but they now require a precision the pre-OBBA market did not demand. Treating federal energy credits as a broad and durable tailwind is no longer sufficient, or professionally defensible. As of 2026, credit usefulness turns on technology, timing, labor compliance, ownership structure, and monetization pathway. Getting any one of those wrong might cost a project its eligibility.

The relevant credit for affordable housing solar and storage is now Section 48E, the Clean Electricity Investment Credit, which replaced technology-specific Section 48 for property placed in service after 2024. The base credit is 6%, rising to 30% with prevailing wage and apprenticeship compliance, with further increases available through domestic content and energy community bonuses. Section 48E supports transferability and, for eligible projects, elective pay. Small renewable energy projects serving low-income residential buildings may qualify for the Section 48E(h) low-income communities bonus. In a well-structured transaction, solar and storage still improve project economics.

The credit landscape is now defined as much by termination deadlines as by headline percentages. The OBBA accelerated credit termination for wind and solar, projects that do not begin construction by July 4, 2026, must be placed in service by December 31, 2027, or lose eligibility under Sections 45Y and 48E. IRS Notice 2025-42 had eliminated the 5% cost safe harbor for utility-scale solar (above 1.5 MW AC) and all wind projects, leaving the physical work test as the only available method for most projects that had not yet broken ground, while preserving the 5% safe harbor for small rooftop or community solar below 1.5 MW. On June 6, 2026, however, the US District Court for the District of Columbia vacated Notice 2025-42 in full as arbitrary and capricious, restoring the 5% safe

harbor pending appeal or revised guidance. The statutory July 4, 2026 begin-construction deadline is unaffected, and prudent practitioners should document beginning of construction under both tests. The OBBBA also introduced Prohibited Foreign Entity material sourcing restrictions that add compliance complexity across supply chains.

One phaseout point practitioners must get right concerns the OBBBA's modification of the IRA's technology-neutral credit phaseout framework. For technologies other than wind and solar, including storage, geothermal, nuclear, and fuel cells, the Section 48E phaseout now begins in 2032, stepping down through 2036. The emissions-based variable threshold from the original IRA no longer operates the same way. Pre-July 2025 credit summaries should not be relied upon.

Several other affordable-housing-relevant incentives have also narrowed sharply:

- Section 45L terminated for homes acquired after June 30, 2026.
- Section 179D terminated for property beginning construction after June 30, 2026.
- Sections 25C and 25D terminated after December 31, 2025.
- Section 30C terminated for property placed in service after June 30, 2026.

A project that closes or places in service on the wrong side of any of these dates can lose significant value.

What are some new developments concerning ITC bridge lending?

Clean energy credits do not eliminate the need for interim liquidity; they create it. Construction costs are incurred before a credit is monetized, whether through elective pay, transfer, or conventional tax return filing. That timing mismatch is the continuing engine of Investment Tax Credit ("ITC") bridge lending, now running primarily under Section 48E, rather than the Section 48 framework practitioners used for years.

The bridge fills the gap between capital outlay and tax credit monetization. In affordable housing, where the permanent capital stack may already be fully committed, senior debt, low-income housing tax credit equity, local soft funds, and utility incentives in place, there is often no other liquidity to carry a solar or storage tranche until the credit is realized or sold. The bridge is one of the cleanest

ways to integrate tax incentives into an affordable housing capital stack.

As of 2026, originating that bridge responsibly requires more discipline than in earlier credit cycles. The lender needs confidence not only in construction completion and placed-in-service timing, but in labor compliance documentation, IRS pre-filing registration, transferability mechanics, sponsor capacity to execute a transfer, and technology-specific termination risk under the OBBBA. Prohibited Foreign Entity supply chain rules add another layer for projects beginning construction after July 4, 2025. As credit deadlines compress, diligence around the tax credit opinion, the transfer agreement structure, and lender remedies in a monetization failure scenario have only grown more important.

What role are CDFIs and local lenders playing in the current market?

CDFIs are still doing green work. The disruption to GGRF did not eliminate mission-driven clean energy lending, but changed its funding channels and pushed the market back toward the disciplined, deal-by-deal structures that community development lenders already execute. The CDFI Fund remains active; Congress maintained level fiscal year 2026 funding. Fiscal year 2024 CDFI Program awardees financed more than 45,000 affordable housing units and originated more than \$24 billion in loans and investments. The CDFI lending platform is intact even while certain federal climate-finance channels are frozen or contested. Four patterns stand out in current CDFI work:

- Some CDFIs offer direct multifamily energy products. For example, Capital for Change's LIME program provides acquisition, bridge, construction, rehabilitation, and permanent financing for multifamily energy improvements in properties meeting affordability thresholds, green lending as ordinary mission product, not federal demonstration.
- Some lenders pair capital with technical assistance. For example, the National Housing Trust pairs affordable housing preservation work with solar, retrofit, and advisory capabilities. For many borrowers, this is the essential combination. The bottleneck is rarely the money alone, it is translating engineering scope into a financeable, compliant transaction that a lender can document and close.
- Local and state platforms now matter more than before. For example, the District of Columbia's affordable housing

energy-efficiency revolving loan fund, administered through DOE and DC Green Bank, shows how local lending channels continue moving capital into affordable housing retrofits when broader national programs become uncertain. Local platforms are closer to the project pipeline, better calibrated to local property and utility markets, and less exposed to federal litigation risk.

- Network institutions such as Inclusiv grow green lending capacity through training, secondary market tools, and participation structures. Not every transaction will carry a climate-finance label; many effectively finance clean energy, resilience, and utility-burden reduction through ordinary community development channels, such as ITC bridge loans, subordinate retrofit lines, and mission-oriented predevelopment facilities. That is what green lending looks like when it operates as part of real community finance rather than a federal program narrative.

What are some lessons the US community lending market can take from the European affordable housing market?

European affordable housing decarbonization is not simply better funded than its US counterpart, it is more structurally integrated. The gap between the two systems reflects decades of policy choices about how governments treat housing as infrastructure, how energy performance is regulated, and how public and mission capital flow to the bottom of the capital stack. Understanding that gap is not merely an exercise in comparative policy. For US CDFIs, green banks, and mission lenders, it is a practical map of where the American system needs to go.

The EU Taxonomy for Sustainable Activities is the foundational difference. By establishing a legally binding classification system that defines what economic activities qualify as environmentally sustainable, the EU created a common language for green finance that flows from sovereign bonds to retail mortgage products. The Taxonomy's "do no significant harm" principle, the requirement that an activity advancing one environmental objective must not materially undermine any of the others, and its minimum social safeguards are not just aspirational, they are conditions for access to capital. A housing project that cannot demonstrate compliance with Taxonomy criteria cannot access certain pools of European public and institutional capital. That linkage between classification and capital access is what the

US currently lacks. GGRF attempted a version of it through BABA compliance requirements and low-income community targeting mandates, but without a durable statutory taxonomy, those standards remain program-specific and legally fragile.

Europe's Energy Performance Certificate ("EPC") system provides a second structural advantage. Nearly every EU member state requires energy performance disclosure at the point of sale or rental, and the EU's revised Energy Performance of Buildings Directive ("EPBD") now mandates minimum energy performance standards for residential properties, with phased compliance timelines. The result is that energy performance is embedded in property value, mortgage underwriting, and rental market pricing in ways that create natural demand for retrofit investment. Landlords and owners who fail to meet performance thresholds face declining asset values, restricted access to financing, and regulatory exposure. In the US, energy disclosure requirements remain patchwork, mortgage underwriting does not systematically account for energy performance, and utility savings do not reliably flow to ownership in a way that senior lenders will underwrite. European lenders can size green loans against a property's EPC improvement trajectory. U.S. lenders are still working around the edges of a system that does not treat energy efficiency as a first-mortgage-relevant variable.

European social housing operators, particularly those in the Netherlands, Denmark, France, and the United Kingdom, function as institutional borrowers of scale. Housing associations and social landlords access capital markets directly, issue green bonds under established frameworks, and negotiate with institutional investors on terms that reflect long asset lives and stable cash flows. The European Investment Bank and national promotional banks such as KfW in Germany, Caisse des Dépôts in France, and the United Kingdom's National Wealth Fund (formerly the UK Infrastructure Bank) provide patient, below-market capital explicitly designed to decarbonize the residential sector. KfW's energy-efficient building program, for example, has financed millions of residential retrofits through a simple product. low-interest loans and grants calibrated to energy performance improvement levels, delivered through a network of commercial banks. The US equivalent, CDFIs and green banks using mission capital to bridge the gap between conventional lending and green project economics, operates at a fraction of that scale and without the institutional infrastructure of a national promotional bank.

What should US CDFIs and mission lenders take from this? Three practical lessons emerge:

- Taxonomy-adjacent thinking is already available to sophisticated lenders. Even without a statutory US taxonomy, practitioners can apply taxonomy-aligned criteria, do-no-significant-harm screens, minimum energy performance thresholds, social co-benefit analysis, in their own underwriting and impact reporting frameworks. Doing so would position US green lenders to access ESG-oriented institutional capital from sources that are already taxonomy-fluent, including European institutional investors that might seek to deploy capital into US community development markets.
- Energy performance as an underwriting variable is achievable now. CDFIs and green banks that build energy performance improvement into their loan products, sizing proceeds against projected EPC-equivalent improvement, requiring energy audits as a condition of closing, tracking post-retrofit utility savings, are creating the US equivalent of EPC-linked lending. GRRP's revised structure, with its Risk Mitigation Assessment and Shared Savings Retainer, points in exactly this direction.
- The European experience confirms that patient, below-market subordinate capital is not merely a workaround, it is the right instrument for residential decarbonization at scale. The gap between European and American green affordable housing finance is not primarily a technology gap or even a political will gap. It is a capital architecture gap. Closing it requires exactly what the GGRF-era infrastructure began to build, mission-driven institutions with the documentation capacity, underwriting discipline, and policy fluency to operate at the intersection of housing, energy, and finance.

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What are the key takeaways for practitioners in today's green affordable housing finance market?

Green lending in affordable housing is not over. It is becoming more disciplined, more localized, and more dependent on practitioners who understand both public policy and project finance. Here are the key takeaways:

- Subordinate green debt works where repayment is tied to real project economics. Long-dated, low-cost, cash-flow-responsive instruments remain the right form for affordable housing. GRRP's revised structure confirms this, not just as a HUD program feature but as a broader template for mission lenders.
- Local and mission-driven channels are more dependable than legally contested mega-programs. Federal programs still matter, but transactions should close on dependable sources first. Contingent federal climate capital is upside, not a structural assumption.
- Solar and storage scopes still pencil, that is, the projected economics still support the investment, but only with tighter execution around Section 48E eligibility, prevailing wage and apprenticeship compliance, placed-in-service timing, and monetization pathway. The window is open, but it is narrower and more technical than at any point since the IRA's enactment.
- Bridge capital remains critical. Clean energy tax credits create the need for interim liquidity. The timing mismatch between expenditure and monetization survives every change to the statutory credit framework, and the bridge product survives with it. What has changed is the underwriting discipline required to originate it responsibly.
- Savings capture remains central. The Shared Savings Retainer in HUD's revised GRRP notice is the clearest current example of how to make retrofit economics work in assisted housing where the owner would not otherwise retain enough benefit to support financing. Practitioners should treat it as a structuring tool, not a program footnote.

The policy environment remains unsettled. The capital need does not. The institutions moving green affordable housing work forward are those that understand both dimensions and build transactions from the ground up, source by source, document by document, with the discipline the current market demands.