Creating a Green Niche to Bank On

lending business customers ESG

Summary: When CFIs create "green niches" that support fast-growing companies with environmental-friendly business models, it can prove to be quite profitable. Then add the bonus of delighting investors and satisfying regulators, well then, the trifecta can bring great dividends indeed. We share several ways that your institution can create a green niche through real industry examples.

The idea of driving an all-electric car is enticing – especially as gas prices continue to skyrocket. But right now, there's only so far you can go. But what if the highway itself could recharge your car as you drive on it?

That's exactly what the Indiana Department of Transportation is aiming to do on some of the Hoosier State's highways, in partnership with Purdue University and the German startup Magment GmbH. The partnership is developing the world's first contactless, wireless charging pavement, using Magment's patented magnetizable concrete. The pavement will not only charge EV cars and EV four-wheelers and help the environment, but the project could also help boost the economy of the communities along those routes, says Nadia Gkritza, the Purdue civil engineering professor spearheading the endeavor.

Community financial Institutions (CFI) love a good niche, particularly if it proves to be quite profitable. Add the bonus of delighting investors and satisfying regulators, well then, that's a trifecta that can bring great dividends indeed. Such is the case when CFIs create "green niches" that support fast-growing companies with environmental-friendly business models. The niche not only can enhance the CFI's bottom line, but it can also attract more customers and investors who are looking for institutions who "walk the walk" of meeting ESG goals. Plus it meets approval with regulators that are seeking ways for the financial industry to reduce climate-related risk.

With that in mind, here are several ways that your institution can create a green niche:

1. **Loans and lines of credit.** A CFI in the Midwest has developed a separate digital brand to take in deposits across the country, which are then used to lend to companies involved in energy efficiency or renewable energy products. The profitable niche not only diversifies its loan portfolio, but also its geographic reach.

"*A lot of community banks are working on trying to find growth strategies that go beyond their own geographies,*" and the CFI is "no exception," says the virtual branch's president. When lending to green companies, ideally find those with established cash flow, including venture capital investors, government grants or partnerships with well-funded environmental organizations, to ensure repayment.

2. **Credit cards.** A CFI on the West Coast partners with a credit card company to issue a "climate-neutral" credit card. The card's annual fee and customer purchases using the card go toward planting more trees to offset carbon footprint. Moreover, customers receive cash back on qualifying purchases after so many trees are planted.

When offering such cards, be sure to actively market your sustainability mission, like the West Coast CFI does on its website. "We see a future where all banks embrace a triple bottom line practice – one focused on investing in people, planet, and prosperity…characterized by governance in the public interest and lending practices designed to shape a new economy. Our bank is proof that doing good and doing well are not mutually exclusive. In fact, aligned finance is the only thing that will enable economic justice for all."

3. **Green bonds.** A CFI along the Mid-Atlantic last year issued the first green bond for a bank its size, to fund solar power and energy efficient programs. The CFI was able to attract investors, who were looking to partner with ESG-focused institutions – investors who might have otherwise passed on more commonly-issued bonds for general corporate purposes.

"T*here is evidence that many sustainable bonds issued in the last few years have been oversubscribed at higher levels compared to their vanilla counterparts,*" says a sustainable finance analyst at a rating agency. Issuing green bonds can help cement your institution's bonafides as a truly sustainable-minded institution, which, in turn, can enable you to better compete in the growing ESG space.

"*Telling your story over and over again is extremely important. It's extremely important for stakeholders to hear it,*" says the head of another institution's sustainable finance practice. "*We continue to hear how investors are asking more and more nonfinancial questions.*"

Consider launching a green niche and your institution could be rewarded with the gratitude of customers, investors and regulators alike – not to mention a better bottom line!

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ECONOMY & RATES

Rates As Of: 06/08/2022 05:38AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.26	0.10	1.20
6M	1.75	0.11	1.56
1Y	2.24	0.15	1.85
2Y	2.77	0.21	2.03
5Y	3.04	0.22	1.78
10Y	3.04	0.19	1.52
30Y	3.18	0.14	1.28

FF Market	FF Disc	IORB
0.83	1.00	0.90
SOFR	**Prime**	**OBFR**
0.77	4.00	0.82