Center for American Progress

The Green Bank 101

A short guide to understanding how a publicly owned bank would invest in clean-energy technologies to boost U.S. innovation and jobs growth

John D. Podesta and Karen Kornbluh argue that a new Green Bank could help finance the transition to a clean-energy economy, creating millions of good domestic jobs and reducing U.S. dependence on foreign oil.

A new Green Bank would be a critical part of an integrated strategy to build a strong foundation for broad-based economic growth and prosperity while allowing the United States to take the lead in transforming the global economy to one powered by low-carbon energy. But how exactly would it work? And what specifically would it accomplish?

We answer those questions below.

What is the Green Bank?

The Green Bank would be a publicly owned bank designed to open credit markets and motivate business to invest in clean-energy technologies. Its mission would be to use well-understood financial tools to work flexibly with the private sector to develop and deploy clean-energy and energy-efficiency technologies.

The Green Bank would work closely with private banks to provide loan guarantees, credit enhancements, and other financing tools to stimulate private-sector lending and investment in projects that cannot access commercial financing on economically feasible rates and terms.

Who would own and operate the Green Bank?

The Green Bank would be structured as an independent, tax-exempt corporation, wholly owned by the U.S. government. It would be governed by a board of directors of relevant Cabinet members and additional members with relevant industry and finance experience. The President would appoint the directors with staggered terms.

How much would the Green Bank cost?

Funding the Green Bank would require an initial investment of $10 billion, with additional capital of up to $50 billion over five years. After that, it would cover its own operational costs through fees charged for its services. The Coalition for a Green Bank estimates that $50 billion of initial capital could enable the Green Bank to support up to $500 billion in loans over 20 years. This, matched with equity investments, could ultimately translate into $1 trillion worth of clean-energy investments.

Has the United States ever made this type of investment before?

Yes, but not with clean energy. There is a strong precedent for public investment in development aimed at modernizing the country's economy. Government support for private canals and railroads in the 19th century allowed products to find markets and knit together the new national economy. Beginning in the 1930s, the Tennessee Valley Authority developed the infrastructure to deliver electricity and drive economic development in rural Appalachia. And government spending during the space race led to new technologies and services that power our economy today, including the command-and-control systems that led to the invention of ARPANET, the precursor to the Internet.

Who gets money from the Green Bank?

The Green Bank would help finance diverse set of technologies with appropriate safeguards to protect taxpayers. Concerns that capital-intensive investments in nuclear power could come to dominate the portfolio would be addressed by limiting the bank's portfolio to any single technology. The bank's maximum leverage for an individual project as well as total government exposure would also be capped.

The Federal Credit Reform Act and Budget Enforcement Act would ensure the bank's accountability to Congress and provide assurance that the bank will not be taking on excessive credit risk whose potential losses could be borne by American taxpayers.

Why do we need the Green Bank?

The federal loan guarantees and tax incentives already in place are critically important, but they are not enough given the scale of the clean-energy transition ahead and the financing obstacles in our path. Loan guarantees and tax incentives are subject to extensions and appropriations by Congress, and they have been allowed to lapse in the past. They lack the certainty that medium- to long-term debt financing by the private sector requires.

The Green Bank would also address the lack of a financing track record for new clean-energy projects, the absence of a fully built-out transmission infrastructure, and the risk created by fluctuating fossil-fuel prices.

Can we wait to start the Green Bank?

No. Our economic competitors around the world are already deploying policies to create new standards and new financing vehicles to help transform their own economies with clean energy. China is investing over $220 billion of its economic stimulus package in green programs—over 3 percent of its total gross domestic product of $4.4 trillion. South Korea is investing 1.2 percent of its total GDP, or about $30 billion, into new green strategies to drive their own economic recovery. And the World Bank recently issued "green bonds" to raise funds for low-carbon programs in developing nations.

Meanwhile, the United States is investing less than one-half of 1 percent of our GDP on clean-energy stimulus programs. A new Green Bank would help the United States steal a march on these clean-energy efforts abroad, enabling our economy to lead the world in clean-energy solution and delivering new economic growth and new jobs across our country.