June 26, 2023

Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Request for Information on Climate-Related Financial Risk / Docket ID NCUA-2023-0045

Dear Secretary Conyers-Ausbrooks,

On behalf of Public Citizen, a national public interest advocacy group, and more than 500,000 members and supporters, we welcome the opportunity to comment on the National Credit Union Administration's (NCUA) request for information on climate-related financial risk.[1] We appreciate NCUA for taking a first step to address climate-related financial risk. We encourage NCUA to integrate the consideration of climate change, environmental issues, and racial justice from this RFI into supervisory expectations, regulation, and deposit insurance for credit unions.

In 2022, eighteen natural disasters caused severe damage to homes, business, and infrastructure and produced over $165 billion in losses.[2] The increasing frequency of extreme weather events like these will result in significant economic disruptions and financial instability, which will impact credit unions' operations and hurt credit union members. Glimpses of this threat already exist. Hurricane Katrina, for example, resulted in the closure of Orleans Public Schools Federal Credit Union and Chalmette Refinery Federal Credit Union due to member displacement and operational challenges.[3]

According to an analysis by the NCUA's Office of Credit Union Engagement (OCE), around 25% of federally insured credit unions, representing approximately one-third of all credit union assets, are situated in communities that have a relatively high or very high probability of experiencing climate disasters, particularly in California, Texas, and Florida.[4] Additionally, a Ceres analysis estimates that more than 60% of all credit unions and $1.2 trillion of credit union

[1] National Credit Union Administration (NCUA). "Climate-Related Financial Risk - Request for Information" Federal Register, June 15, 2023. https://www.federalregister.gov/d/2023-08715.
[2] Milman, Oliver. "Extreme Weather Caused 18 Disasters In US Last Year, Costing $165Bn." *The Guardian*, January 10, 2023.
https://www.theguardian.com/environment/2023/jan/10/extreme-weather-climate-crisis-us-deaths-financial-damage.
[3] NCUA."Estimating Credit Union Exposure to Climate-Related Physical Risks," NCUA, April 4, 2023,
https://ncua.gov/news/publication-search/climate-financial-risk/estimating-credit-union-exposure-climate-relatedphysical-risks.
[4] *Id.*.

assets are exposed to physical risk due to chronic climate-related weather events.[5]

In particular, NCUA's analysis found that minority depository institution (MDI) credit unions are even more vulnerable to physical risk, facing a significantly higher risk than credit unions as a whole. More than 50% of MDIs are located in areas that have a relatively high or very high probability of suffering negative effects from climate disasters.[6] A history of discriminatory housing, lending, and land use policies has left communities of color and low-income households more vulnerable and less resilient to harms of all stripes. At the same time, the legacies of redlining and environmental racism put minority communities and the credit unions that serve them at a higher risk of impacts from climate disasters.

As credit unions face losses and risks from climate-related physical impacts, they also face intensifying transition risks. The Inflation Reduction Act, for example, is creating rapid technological change that will expedite the adoption of renewable energy and create risks for credit unions that are providing financing for local fossil fuel industry companies. Real estate and motor vehicle loans make up a large portion of credit union portfolios.[7] The transition to a low-carbon economy will require credit unions to adjust lending practices, such as offering financing for electric vehicles and retrofits for buildings to comply with energy efficiency standards.[8]

Some credit unions face greater climate-related financial risk compared to larger financial institutions due to their portfolio concentration in at-risk geographies and relatively climate-vulnerable sectors such as residential mortgages and commercial real estate. And, unlike larger and more geographically diversified financial institutions, credit unions cannot easily relocate or significantly adjust their portfolios since they primarily cater to the needs of local communities.

Credit unions are central to providing financial services for underbanked communities.[9] The majority of federally insured credit unions have low-income designation, and 30% of Community Development Financial Institutions (CDFIs) are credit unions.[10] Because of this, it is crucial for NCUA and these institutions to identify and mitigate climate-related financial risks that could threaten these credit unions' ability to serve their communities—and to mitigate risk in a manner that does not exacerbate existing inequalities. Financial institutions mitigating their

---

[5] *The Changing Climate for Credit Unions.* Boston, MA: Ceres. https://www.ceres.org/sites/default/files/reports/2022-05/561_The%20Changing%20Climate%20for%20Credit%20Unions.pdf at 10.
[6] Estimating Credit Union Exposure to Climate-Related Physical Risks, *supra* note 3.
[7] DuPlessis, Jim. "Report Finds Credit Unions Building Auto, Home Portfolios." *Credit Union Times*, May 9, 2022. cutimes.com/2022/05/09/report-finds-credit-unions-building-auto-home-portfolios/.
[8] The Changing Climate for Credit Union*, supra* note 5 at 33.
[9] Chen, Tim. "Credit unions are crucial to building racial equity in access to financial services." *Fortune*, April 18, 2021. https://fortune.com/2021/04/18/credit-unions-financial-services-racial-inequality-nerdwallet/.
[10] "Community Development Financial Institutions (CDFIs): Overview and Selected Issues." *Congressional Research Service,* August 16, 2022. https://crsreports.congress.gov/product/pdf/R/R47217.

exposure to climate risks, for example, may engage in "bluelining": the reduction of investment, coverage, and lending in at-risk communities. NCUA's and credit unions' efforts to mitigate climate-related financial risk should alleviate, not exacerbate, existing racial and economic inequalities.

Finally, risks to credit unions are relevant to financial stability.While the risks most relevant to credit unions are typically associated with a specific geographic region, asset class, or sector, they can still have a significant impact on the broader financial system. Repeated "sub-systemic shocks" can gradually accumulate, causing a "systemic crisis in slow motion."[11] NCUA should coordinate with the Financial Stability Oversight Council (FSOC) to identify, monitor, and mitigate climate-related financial risks relevant to credit unions that could lead to broader systemic stress.

NCUA should incorporate the following recommendations to support credit unions and their members to manage climate-related financial risks.

1. Issue supervisory guidance on identifying and mitigating climate-related financial risk.

NCUA should issue climate supervisory guidance to credit unions establishing the expectation that, just like any other type of risk, they integrate climate-related risk mitigation into their governance, strategic planning, and risk management processes across various risk categories, including credit, market, operational, liquidity, and reputational risks. Climate-related risk considerations should be integrated in CAMELS ratings. Additionally, NCUA should specify ways credit unions can do this, detailing measures credit unions can take to mitigate physical and transition risk in the context of the specific regional and sectoral climate risks they face. Measures include, but are not limited to, reducing financed emissions, investing in climate resiliency, and strengthening disaster preparedness.

NCUA can take a page from New York Department of Financial Services' recent climate guidance to banks by directing credit unions to incorporate climate risk mitigation strategies that are proportional to their size and complexity.[12] NCUA should update Part 702 of its Rules and Regulations to require large credit unions, tier II or III with over $15 billion in assets, to start conducting scenario analyses and climate stress tests.[13] Smaller credit unions may lack resources

[11] Climate-Related Market Risk Advisory Subcommittee, "Managing Risk in the U.S. Financial System." *Commodity Futures Trading Commission*, https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf at 27.

[12] New York Department of Financial Services (NYDFS). 2022."Proposed Guidance for New York Regulated Banking and Mortgage Organizations Relating to Management of Material Financial Risks from Climate Change." NYDFS, December, 2022. https://www.dfs.ny.gov/system/files/documents/2022/12/dfs_proposed_guidance_banking_mortgage_climate_change_202212.pdf

[13] 12 CFR § 702

to conduct the most robust versions of these analyses but can develop approaches that do not rely on excessively technical modeling.

2. Create tools to mitigate climate-related financial risk for resource-constrained credit unions.

Resource-constrained credit unions need support to mitigate climate-related financial risks, and NCUA should support them by providing relevant data and tools. Credit unions' historical data and local knowledge are insufficient to predict climate vulnerability in a future with rapidly changing conditions. NCUA can aid smaller institutions by developing in-house climate risk analysis and by collecting climate risk data in coordination with federal regulators.

For instance, in coordination with the Federal Financial Institutions Examination Council (FFIEC), NCUA can develop a climate risk assessment toolbox modeled after the Cybersecurity Assessment Tool, which aims to support credit unions and community banks to identify their cybersecurity preparedness.[14] Additionally, NCUA can direct resource-constrained credit unions to tools and scenarios publicly available through the United Nations Principles for Responsible Investment and other relevant sources that can be incorporated into their existing in-house risk management.

3. Support data collection relevant to climate-related financial risk.

To better understand and assess the risks that credit unions face, the NCUA should direct larger institutions to start collecting data on direct and indirect greenhouse gas emissions and the geolocation of borrower infrastructure and loan collateral.[15] Some credit unions, like Clearwater Credit Union, Self-Help Credit Union, and Verity Credit Union, are already reporting their greenhouse gas emissions. While resource-constrained institutions may not have the capabilities to do comprehensive data collection, NCUA should facilitate data sharing between credit unions, help provide climate risk data for smaller institutions, and provide methodological guidance on greenhouse gas emissions and other issues.[16]

4. Train examiners on climate-related financial risk and green lending.

NCUA should collaborate with FFIEC and other federal financial regulators to update examination manuals and train examiners to evaluate climate-related risk and green loans. This can be achieved by incorporating climate risk into existing CAMELS ratings.[17] For resource-constrained credit unions, NCUA examiners can serve as a first source to understand

---

[14] Federal Financial Institutions Examination Council (FFIEC). "Cybersecurity Assessment Tool." FFEIC. https://www.ffiec.gov/cyberassessmenttool.htm

[15] The Changing Climate for Credit Union, *supra* note 5 at 60.

[16] *Id.* at 24.

[17] *Climate Risk and CAMELS.* Boston, MA: Ceres. https://www.ceres.org/sites/default/files/ACC_ClimateRisk%26CAMELS_May23.pdf

their climate risk and how to manage it, aiding smaller institutions with fewer in-house capabilities in minimizing risk while still supporting at-risk communities.

In addition, credit unions that have started to provide new green loan products have expressed that examiners overly penalize green portfolios.[18] Green loans promote portfolio diversification, mitigate climate-related financial risk in credit unions, and have lower default rates.[19] NCUA should train examiners on how to evaluate the risks and benefits of new green portfolios properly, without overestimating the risk of green products due to their novelty.

5. Educate and engage members on physical and transition risk.

A credit union's climate-related financial risk is a function of how the energy transition and climate change will impact its current and future members. NCUA should provide resources and training to help credit unions educate and engage with their members on their physical and transition risk. NCUA should include information on climate risk in its financial education resources and tools to help credit union members understand how climate change could impact the value of their assets and financial security.

Additionally, NCUA should provide resources and support to help credit union members manage risks associated with natural disasters, especially in flood-prone or other disaster-prone areas. This could include integrating climate risk tools and data into resources in the Minority Depository Institution Preservation Program, which provides technical assistance and educational information to MDIs, and the ACCESS Initiative, which gives resources for financial inclusion and literacy to credit unions in underserved communities.

6. Promote green lending opportunities.

NCUA, in coordination with the Internal Revenue Service and Department of Treasury, can support credit unions in utilizing tax credits and other incentives for green lending from the Inflation Reduction Act (IRA). Increases in solar, electric vehicle, and energy efficiency lending opportunities will help credit unions diversify assets to avoid concentrated risk, and provide more opportunities and services to credit union members. NCUA should provide educational materials on how to ensure new green products do not have adverse consequences, such as residential displacement, higher utility costs or energy burdens, elevated levels of pollutants, or increased exposure to toxins by workers or residents.[20]

---

[18] The Changing Climate for Credit Union, *supra* note 5 at 67.
[19] Cripps, Peter.“Bank loans for green project finance have lower default risk than non-green, finds Moody's.” *Environmental Finance*, September 19, 2018. https://www.environmental-finance.com/content/news/bank-loans-for-green-project-finance-have-lower-default-risk-than-non-green-finds-moodys.html
[20] Bouzarovski, S et al.“Low-Carbon Gentrification: When Climate Change Encounters Residential Displacement.” International Journal of Urban and Regional Research, June 9, 2018. https://doi.org/10.1111/1468-2427.1263

Inclusiv's Center for Resiliency and Clean Energy, which trains community-based credit unions to build capacity for green lending, reports that over 400 CDFI credit unions have originated $2.68 billion in green loans.[21] With the passage of the IRA, green lending is set to increase, and credit unions new to these products may need additional tools, training, and data to assess potential risks, returns, and loan loss reserves.

Through the Minority Depository Institution Preservation Program and the ACCESS Initiative, NCUA can provide training to under-resourced credit unions on how to take advantage of green lending to support the expansion of climate resiliency lending in at-risk communities. These resources could include webinars, guides, or workshops on building capacity, technical training on renewable energy, risk assessment for new green loans, and green lending best practices. In addition, to boost climate-related opportunities, NCUA should investigate reducing capital requirements for specific green loans, such as EV and energy efficiency loans.

7. Add environmental justice criteria to grants.

In its grantmaking programs, NCUA should prioritize grants to credit unions with membership subject to environmental racism: the discriminatory placement of concentrated sources of pollution and toxins, such as waste facilities, incinerators, and toxic industrial sites near marginalized communities. Racial and environmental justice considerations should be considered in administering the Community Development Revolving Loan Fund and other technical grants eligible to credit unions. Federal funds serving credit unions in disadvantaged communities who lack access to financial products and services should incorporate the following economic and wealth factors to assess grant recipients:

- high rates of downward economic mobility for households within the community;[22]
- high rates of sole proprietorships with limited access to traditional financial institutions;[23]
- lower credit scores and credit trajectories;[24]
- high percentages of net wealth held in depreciating assets or durable goods;[25]
- high rates of assets not transferring from one generation to the next after a death of a

[21] "Inclusiv Celebrates the Passage of the Inflation Reduction Act at The White House." *Inclusiv,* September 13, 2022. https://inclusiv.org/inclusiv-celebrates-the-passage-of-the-inflation-reduction-act-at-the-white-house/.

[22] Smith, Ember, et al. "Stuck on the ladder: Wealth mobility is low and decreases with age." Brookings. June 2022. https://www.brookings.edu/blog/up-front/2022/06/29/stuck-on-the-ladder-wealth-mobility-is-low-and-decreases-with-age/

[23] Liu, Sifan and Joseph Parilla. "New data shows small businesses in communities of color had unequal access to federal COVID-19 relief." Brookings. September 2020. https://www.brookings.edu/research/new-data-shows-small-businesses-in-communities-of-color-had-unequal-access-to-federal-covid-19-relief/#:~:text=Beyond%20the%20preexisting%20disparate%20access,due%20to%20outright%20lending%20discrimination.

[24] Garon, Thea. "Young Adults' Credit Trajectories Vary Widely by Race and Ethnicity." Urban Institute. August, 2022. https://www.urban.org/urban-wire/young-adults-credit-trajectories-vary-widely-race-and-ethnicity

[25] Carasso, Adam and Signe-Mary McKernan. "The Balance Sheets of Low-Income Households: What We Know about Their Assets and Liabilities." Office of the Assistant Secretary for Planning and Evaluation. October 2007. https://aspe.hhs.gov/reports/balance-sheets-low-income-households-what-we-know-about-their-assets-liabilities-1

parent or elder;[26]
- historic and current lack of access to consumer credit;[27]
- historic and current lack of access to financing for municipal projects;[28]

In addition, NCUA should prioritize grants to credit unions with membership experiencing environmental harms from the following factors:
- heat island effects;[29]
- exposure to particulate matter;[30]
- proximity to power generation facilities;[31]
- high infant mortality rates and low birth weight rate;[32]
- high maternal mortality rates;[33] and
- lead poisoning.

8. Strengthen fair lending enforcement.

To prevent credit unions from discriminating against or acting in ways that negatively impact climate-vulnerable communities, NCUA should strengthen its enforcement of fair lending law. By studying the effective approaches of lenders who go beyond conventional credit score criteria and possess expertise in responsible lending within vulnerable communities, the NCUA can offer guidance to credit unions on extending loans to communities that have traditionally faced challenges in accessing capital and financing crucial projects to tackle climate risk. This includes examining the practices of some Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs), such as Self-Help Credit Union, which have demonstrated success in these areas. Efforts to extend credit to low-income communities and communities of color, who are disproportionately impacted by climate disasters, can combat historic environmental racism, boost climate resiliency, and guard against bluelining.

---

[26] True, Sarah. "Debt After Death: The Painful Blow of Medicaid Estate Recovery." US News and World Report. October 2021. https://www.usnews.com/news/health-news/articles/2021-10-14/debt-after-death-the-painful-blow-of-medicaid-estate-recovery

[27] "CFPB Report Finds 26 Million Consumers Are Credit Invisible." Consumer Financial Protection Bureau. May, 2015.https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-finds-26-million-consumers-are-credit-invisible/

[28] Marohn, Charles. "Financial Fragility Is To Blame for Jackson's Water Crisis." Strong Towns. September, 2022. https://www.strongtowns.org/journal/2022/9/12/financial-fragility-is-to-blame-for-jacksons-water-crisis

[29] "Learn About Heat Islands." United States Environmental Protection Agency. https://www.epa.gov/heatislands/learn-about-heat-islands

[30] Ihab Mikati, BS, et al. "Disparities in Distribution of Particulate Matter Emission Sources by Race and Poverty Status." American Journal of Public Health. April, 2018. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5844406/

[31] "Power Plants and Neighboring Communities." United States Environmental Protection Agency. https://www.epa.gov/airmarkets/power-plants-and-neighboring-communities

[32] "Low Birth Weight Infants." California Office of Environmental Health Hazard Assessment. https://oehha.ca.gov/calenviroscreen/indicator/low-birth-weight-infants

[33] Boyles, Abee, et al. "Environmental Factors Involved in Maternal Morbidity and Mortality." Journal of Women's Health. February, 2021. https://www.liebertpub.com/doi/10.1089/jwh.2020.8855

9. Coordinate with other federal regulators to identify and mitigate systemic risk to depository institutions and the financial system.

NCUA should continue publishing research on climate-related financial risk to help credit union members and financial regulators understand financial stability risk. It should also seek to identify through qualitative and quantitative analysis which credit unions and regions will face significant challenges. NCUA's regional offices should coordinate with the Federal Reserve Banks to research and collect data on how regional physical climate risks will affect all depository institutions. This will aid NCUA in identifying credit unions and regions that require additional supervision or regulatory interventions to ensure safe and sound operations.

NCUA should work with FSOC and other member regulators to investigate climate-related financial risk to credit unions that could affect broader financial stability, as well as the drivers of climate-related risk to credit unions. It should advocate and work with FSOC members to mitigate the drivers of climate-related risk, particularly the financing of greenhouse gas emissions, which disproportionately threaten the safety and soundness of credit unions.

Conclusion

NCUA is taking an important step to being addressing climate-related financial risk to credit unions. Given their more concentrated portfolios and lower risk-management capacity compared to larger financial institutions, credit unions are particularly exposed to climate risks. NCUA can play a vital role in preserving and strengthening credit unions serving underbanked and marginalized communities that are vulnerable to climate risks. We look forward to working with you on next steps.

For questions, please contact Mekedas Belayneh at mbelayneh@citizen.org and Ishmael Buckner ibuckner@citizen.org.

Sincerely,
Public Citizen