January 24, 2022

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

Re: Comments on NCUA 2022-2026 Draft Strategic Plan / Docket ID NCUA-2021-0100

Dear Ms. Conyers-Ausbrooks,

We are replying to your request for comment regarding the National Credit Union Administration (NCUA) draft 2022-2026 strategic plan. We appreciate the inclusion of climate-related financial risks as "Longer-Term Risks" in your strategic plan, and we encourage further incorporation and consideration of climate change, environmental, economic, and racial justice within your strategic goals and your regulatory agenda.

Economic impacts resulting from climate change and decarbonization are already occurring and will continue to grow over the coming years.

The latest Intergovernmental Panel on Climate Change (IPCC) report released in 2021 made clear that climate change is accelerating and intensifying.[1] With each new report released it becomes more certain that global warming will continue to result in physical changes and more extreme weather and natural disasters affecting all regions of the US.[2]

Since 1980, the National Oceanic and Atmospheric Administration (NOAA) has tracked billion dollar weather and climate disasters across the US that have caused severe and often lasting damages to infrastructure, homes, businesses, and local economies. The 40-year trend has shown an accelerating increase in the number of damaging events annually as well as an increase in resulting total costs to Americans.[3] These direct economic damages caused by climate-related natural disasters are a fraction of the total impacts experienced by communities and households as they seek to rebuild and recover amid financial hardship.

In addition to rising climate economic impacts, the clean energy transition will cause significant economic dislocation and financial destabilization for communities and households that depend

[1] IPCC, "AR6 Climate Change 2021: The Physical Science Basis," 2021. https://www.ipcc.ch/report/ar6/wg1/
[2] See E.g., Washington Post, "More than 40 percent of Americans live in counties hit by climate disasters in 2021," https://www.washingtonpost.com/climate-environment/2022/01/05/climate-disasters-2021-fires/
[3] NOAA, "Billion-Dollar Weather and Climate Disasters: Events 1980-2021 (CPI-Adjusted)", https://www.ncdc.noaa.gov/billions/time-series

on carbon intensive industry. The International Energy Agency (IEA)'s "Net Zero by 2050 - A roadmap for the global energy sector" shows that to meet the goals of the Paris Agreement, which require net zero emissions by 2050, there is no need for new investments into fossil fuel supply. If the United States follows through on its commitment to align with the other 192 countries which have ratified the Paris Climate Agreement's goal for no more than a 2℃ increase in global temperatures with ambition to limit warming to 1.5℃, then the IEA finds that there is no need for further oil or gas field development or coal mines beyond 2021. Even if these efforts fall short, the trend globally away from fossil fuels will result in transition risks for communities, consumers, and financial institutions that serve those sectors.

Financial institutions are exposed to climate risks, and protecting the safety and soundness of the credit union system will require immediate action from NCUA.

Beyond climate-induced macroeconomic impacts like rising inflation,[4] employment shocks,[5] lowered GDP,[6] and risks to the financial system broadly,[7] individual credit unions also face microprudential risks that could threaten their safety and soundness.

In 2021, the European Central Bank (ECB) became the most recent financial regulator to complete an economy-wide climate stress test of companies and financial institutions, and found that:

> *"Euro area banks would face higher expected losses if climate risks were not mitigated by an orderly transition scenario. Additionally, losses on loans would be the highest for banks located in countries with either low levels of collateral protection or high exposure to physical risk. The results also confirm that if climate change is not mitigated, the consequences of physical risk on banks' losses would increase in the long run in a non-linear fashion. Due to the irreversibility of climate change those losses would only become greater over time."*[8]

As credit unions' field of membership is often tied to a specific business or community, many will face significant concentration risk as compared to more diversified and larger institutions, as well as greater vulnerability to climate-induced asset impairment characteristic of the collateral for common credit union products: home mortgages, auto and small business loans. Credit unions need to understand the risks that they face, and thus need access to high quality climate and transition planning data and tools, and supervision and regulation from the NCUA to help them manage these growing risks and ensure safety and soundness.

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[4] Reuters, "Analysis: Climate change: Central banks' new inflation puzzle," June 2021. https://www.reuters.com/world/uk/climate-change-central-banks-new-inflation-puzzle-2021-06-08/
[5] International Labor Organization, "The employment impact of climate change adaptation," 2018. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_645572.pdf
[6] Swiss Re Institute, "World economy set to lose up to 18% GDP from climate change if no action taken, reveals Swiss Re Institute's stress test analysis," 2021. https://www.swissre.com/media/news-releases/nr-20210422-economics-of-climate-change-risks.html
[7] Center for American Progress, "Climate Change Threatens the Stability of the Financial System," 2019. https://www.americanprogress.org/article/climate-change-threatens-stability-financial-system/
[8] Alogoskoufis *et al.*, " ECB economy-wide climate stress test: Methodology and results," 2021. https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op281~05a7735b1c.en.pdf

Notable among the challenges that credit unions face: the use of historical data and local knowledge to predict climate disaster vulnerability will not suffice in a future with fast changing conditions. The biggest climate-related floods and fires of the upcoming decades will be far bigger and more destructive than the events of the past, with new records set regularly. What will happen as it becomes the norm that a '500-year-flood' occurs not once every 500 years but once every decade? What if these events happen every year, as recently happened in Houston[9] over a three year stretch, or more frequently still? Households and financial institutions are unlikely to be able to continually absorb greater losses and remain viable, so climate stress tests need to incorporate events in series and in parallel, rather than as discrete perturbations, and reflect the fact that previous resilience following disasters does not ensure future solvency.

Communities and consumers served by credit unions will also need to contend with chronic issues resulting from climate change like higher temperatures and altered precipitation patterns which can disrupt industries like agriculture, fishing, and tourism. Climate migration will also negatively affect many communities which have already been burdened by climate change impacts leading to a feedback loop of depopulation and decreased demands for goods and services, according to the U.S. Commodities Future Trading Commission (CFTC) report on managing climate risk. These economic burdens will continue to be heaviest on frontline and low-income communities and communities of color. The CFTC also lists (Table 3.1) sectors such as hospitality, power generation, transportation, and energy-intensive industrial sector's equities and debts as being likely to face physical or transition risk impacts.[10]

Additionally, there will continue to be an increase in public health impacts which will both increase costs and decrease economic productivity.[11] Outdoor workers are a portion of urban and rural workforces across the country and extreme heat will harm productivity and health, increasing the need for public services and public health measures, decreasing local and state tax revenue, and potentially disrupting essential services such as infrastructure development and maintenance, law enforcement, and food harvesting.

Regulatory solutions must remedy rather than exacerbate existing racial, economic, and environmental inequalities.

The strategic plan states: "To remain resilient credit unions may need to consider adjustments to their fields of membership as well as the types of loan products they offer." These changes will require careful consideration of disparate impacts.

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[9] The Washington Post, "Houston is experiencing its third '500-year' flood in 3 years. How is that possible?" 2017.https://www.washingtonpost.com/news/wonk/wp/2017/08/29/houston-is-experiencing-its-third-500-year-flood-in-3-years-how-is-that-possible/

[10] CFTC, MRAC Subcommittee on Climate Related Risk, "Managing Climate Risk in the U.S. Financial System," 2020. https://www.cftc.gov/PressRoom/PressReleases/8234-20

[11] See E.g, Union of Concerned Scientists analysis on impacts to outdoor workers from climate change found that, "extreme heat would cause tens of millions of outdoor workers in the US to risk losing a collective $55.4 billion in earnings each year by midcentury."

Credit unions cannot manage their climate risks by simply withdrawing from serving vulnerable areas and segments of consumers, as this process will exacerbate existing inequalities. Decades of racist housing, lending, and siting policies that denied households and communities of color equitable access to financial services have resulted in massive racial and economic disparities in climate vulnerability, environmental justice, and public health for these neighborhoods.

NCUA should work with credit unions to manage climate risk in ways that do not lead to disparate impacts based on race or economic status. *Expanding* fields of membership and working with their members to enhance climate resilience of property, infrastructure, and businesses are opportunities to mitigate climate risk and promote climate, racial, and economic justice.

NCUA should incorporate climate risk into current supervision, regulation, and consumer financial protection programs.

Climate risk should not be narrowly siloed into specific guidance documents, procedures, or committees. Climate change is a cross-cutting issue that should be considered across the strategic mission of the NCUA. We urge NCUA to consider climate risk, racial, and economic justice as they pertain to each of its strategic goals and objectives, including in the following ways.

Climate Supervisory Guidance

NCUA should swiftly publish climate supervisory guidance grounded in its statutory safety and soundness authority. This guidance should establish how credit unions must incorporate climate risk and associated racial and economic justice considerations into their governance, strategic planning, and risk management function across the traditional risk stripes, including operational risk, credit risk, market risk, liquidity risk, and reputational risk. NCUA should also work with the FFIEC to develop appropriate guidance and training for examiners to incorporate climate risk into examinations.

Fair Lending Considerations and the Community Development Revolving Loan Fund

NCUA should incorporate climate risks and associated racial and economic justice factors within its fair lending examination framework to ensure credit unions do not discriminate or pursue policies that yield disparate impacts on climate-vulnerable communities, but rather remedy these factors. NCUA should also incorporate climate into administration of the Community Development Revolving Loan Fund and start considering climate justice in selecting credit unions for loans and technical grants. NCUA should encourage and incentivize credit union recipients to enhance climate resilience for their own operations and for the communities and households they serve, including by expanding fields of membership to offset untenable concentration of climate risk, and by working with members and providing them with needed financial services with fair and appropriate terms to improve the climate resilience of their homes, vehicles, business operations, and local communities.

Scenario Analysis and Stress Testing

NCUA should develop climate scenario analysis and stress testing to better understand the risks facing the credit union system and to help credit unions manage their risks and ensure safe and sound operations. NCUA should begin by itself conducting a system wide 30-year climate scenario analysis exercise to assess the landscape of correlated physical and transition risks, to determine which types of credit unions and which regions face the most significant challenges, and where additional supervision or regulatory interventions will be required.

NCUA should also incorporate climate scenarios into its annual capital planning and stress testing resources and require credit unions covered by the stress testing requirement of Part 702 of the NCUA's Rules and Regulations to conduct climate stress tests extending 30 years into the future, and provide the needed support and resources to help credit unions run the exams, analyze the results, and where necessary develop remediation plans.

Share Insurance Fund

NCUA should incorporate climate considerations into administration and risk management of the Share Insurance Fund (SIF). NCUA should use the results from its system-wide climate scenario analysis exercise to assess the long term outlook for fund solvency under various conditions, and consider raising the capitalization rate for credit unions to reflect climate risk where appropriate, as well as the target equity ratio of the fund.

Enhanced Climate Financial Literacy and Stakeholder Engagement

NCUA should incorporate climate risk into their financial literacy resources and tools to help members understand how climate change could affect the valuation of their assets and their financial security. FEMA flood maps are notoriously out of date for example,[12] and consumers and credit unions will need the resources and support of NCUA to manage risks to real property and businesses as climate change and human development in flood-prone or other disaster-prone areas yields ever increasing annual damages. To that end, NCUA should add climate risk tools and data to its ACCESS program which seeks to "foster financial inclusion in minority, undeserved, and unbanked populations" —communities which also frequently face disproportionate climate vulnerability and lack access to financial services to prepare for and recover from disasters.

We appreciate the NCUA's prompt attention to climate risks to credit unions and their members. Please reach out to Alex Martin (alex@ourfinancialsecurity.org) and Jessica Garcia (jessica@ourfinancialsecurity.org) for more information.

Sincerely,
Americans for Financial Reform Education Fund

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[12] E&E News and Scientific America, "Studies Sound Alarm on "Badly Out-of-Date" FEMA Flood Maps," 2020.
https://www.scientificamerican.com/article/studies-sound-alarm-on-badly-out-of-date-fema-flood-maps