

November 21, 2023

Chairman Harper and the Board of Directors  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314–3428

**RE: Staff Draft 2024–2025 Budget Justification**

Docket # NCUA-2023-0117; Federal Register #2023-24032

On behalf of Americans for Financial Reform Education Fund, Green America, National Coalition for Asian Pacific American Community Development, National Fair Housing Alliance, New York Communities for Change, Public Citizen, and The Greenlining Institute—organizations with missions to further financial inclusion, fair and affordable housing, and racial and climate justice, we appreciate the opportunity to comment on the National Credit Union Administration (NCUA)’s staff proposed 2024-2025 budget.

Effective financial regulation depends on regulators having adequate resources to monitor their supervised institutions and tackle emerging risks like climate change. The banking crisis of 2023 revealed further vulnerabilities in the financial system that must be addressed swiftly. For these reasons, the staff’s proposed budget increases are reasonable and should be fulfilled including supplemental staffing to adequately address climate-related financial risk (CRFR) and climate-related opportunities.

The NCUA plays a critical role as the independent federal agency created by Congress to regulate, charter and supervise federal credit unions, protect the system of cooperative credit and its member-owners, as well as operate and manage the National Credit Union Share Insurance Fund (SIF).<sup>1</sup> Credit unions vary in size, but a significant portion of them are small, and therefore have minimal staff and resources to address emerging risks to their members and the communities they serve. For the NCUA to accomplish its mission and address growing CRFR to credit unions, the NCUA must have adequate resources to promote the safety and soundness and consumer and fair lending compliance of its supervised institutions, serve as a central hub of information, resources, and tools to support risk management and compliance for green lending needs for credit unions and their members across the country, and ensure ongoing solvency of the

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<sup>1</sup> “Mission and Values,” *National Credit Union Administration*. <https://ncua.gov/about/mission-values>

SIF. In doing so, the NCUA should recognize that credit unions have expertise and local knowledge of the needs and risks within their own communities, and act in partnership with them.

## **Background**

According to the Fifth National Climate Assessment—The estimated annual direct cost to the US economy from extreme weather events exacerbated by climate change is currently \$150 billion, which includes droughts, floods, severe storms, tropical cyclones (i.e., hurricanes), wildfires, and winter storm events. Based on this research coordinated by 14 participating federal agencies, the U.S. now experiences, on average, a billion-dollar weather or climate disaster (adjusted for inflation) every three weeks, compared to once every 4 months in the 1980s.<sup>2</sup> Further global warming will cause these events to become more severe, frequent, and costly over the coming years.

The NCUA recognized that climate risk is financial risk with the release of its climate-related financial risk request for information in April 2023, saying that “the physical effects of climate change along with associated transition costs pose significant risks to the U.S. economy and the U.S. financial system,” and that “weaknesses in how a credit union identifies, measures, monitors, and mitigates physical and transition risks could adversely affect a credit union's safety and soundness.”<sup>3</sup>

The NCUA’s Office of the Chief Economist found that 25 percent of credit unions are in communities at relatively high or very high risk of experiencing negative outcomes from natural hazards and that this accounted for 34 percent of systemwide assets, or approximately \$750 billion, at the end of 2021.<sup>4</sup> Climate risk is increasing across all regions,<sup>5</sup> even those currently in the low to relatively low-risk categories should monitor their exposure to climate risk. All 11,000 credit union branches in 668 counties across the U.S. face potential physical risk related to

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<sup>2</sup> Jay, A.K., A.R. Crimmins, C.W. Avery, T.A. Dahl, R.S. Dodder, B.D. Hamlington, A. Lustig, K. Marvel, P.A. Méndez-Lazaro, M.S. Osler, A. Terando, E.S. Weeks, and A. Zycherman, “Fifth National Climate Assessment (NCA5),” *U.S. Global Change Research Program*, 2023. <https://doi.org/10.7930/NCA5.2023.CH1>; <https://nca2023.globalchange.gov/>

<sup>3</sup> National Credit Union Administration (NCUA). "Climate-Related Financial Risk - Request for Information" *Federal Register*, June 15, 2023. <https://www.federalregister.gov/d/2023-08715>

<sup>4</sup> “Estimating Credit Union Exposure to Climate-Related Physical Risks,” *NCUA*, April 2023. <https://ncua.gov/news/publication-search/climate-financial-risk/estimating-credit-union-exposure-climate-related-physical-risks%23~:text=%3DOCE%27s%2520analysis%2520suggests%2520that%2520roughly,effects%2520due%2520to%2520natural%2520hazards&sa=D&source=docs&ust=1700511011232127&usg=AOvVaw3m-qbCA0PVnhJDCh2-VJj>

<sup>5</sup> Jonathan Woetzel et al., “Climate Risk and Response: Physical Hazards and Socioeconomic Impacts,” *McKinsey Company*, January 16, 2020, <https://www.mckinsey.com/capabilities/sustainability/our-insights/climate-risk-and-response-physical-hazards-and-socioeconomic-impacts>.

ongoing climate disasters and chronic conditions; however, the risk is not distributed equally.<sup>6</sup> Black, Indigenous, and people of color (BIPOC), low-income, immigrant, and Indigenous communities in particular, are disproportionately burdened by climate disasters in ways that can directly or indirectly impact borrowers' ability to repay their loans.

### **Federal Regulatory Action on Climate-related Financial Risks & Opportunities**

In order to fulfill its mandate, the NCUA can be a leader in helping smaller institutions in our financial system address CRFR. Other financial regulators in the U.S. and internationally are already making substantial progress and developing policies and tools that the NCUA should use and tailor to its authorities and mandate. Progress has been made in the following areas:

- Research and data
  - The Federal Housing Finance Agency has dedicated one of its economic summits each year to CRFR.<sup>7</sup>
- Disclosure
  - The Securities and Exchange Commission's climate disclosure proposal is expected to be finalized shortly,<sup>8</sup> and
  - The Federal Insurance Office has advanced its data call to assess how climate change is affecting the affordability and availability of homeowners insurance.<sup>9</sup>
- Risk management
  - The Department of the Treasury has published Principles for Net-Zero Financing and Investment;<sup>10</sup>
  - The Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have published final interagency bank guidance on climate-related financial risk management.<sup>11</sup>

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<sup>6</sup> Hofheimer, George, Taylor C. Nelms, and Jim Scott. "The Changing Climate for Credit Unions" *Filene Research Institute*, (2022). <https://filene.org/learn-something/reports/the-changing-climate-for-credit-unions>

<sup>7</sup> "Fall 2023 Econ Summit," *FHFA*, 2023.

<https://www.fhfa.gov/Media/Documents/Fall-2023-Econ-Summit-Save-the-Date.pdf>

<sup>8</sup> "SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors," SEC, March 21, 2022. <https://www.sec.gov/news/press-release/2022-46>

<sup>9</sup> "Treasury's Federal Insurance Office Advances First Insurer Data Call to Assess Climate-Related Financial Risk to Consumers," *U.S. Department of the Treasury*, November 1, 2023.

<https://home.treasury.gov/news/press-releases/jy1867>

<sup>10</sup> "Treasury Releases Principles for Net-Zero Financing & Investment, Applauds \$340 Million Philanthropic Commitment and Other Pledges," *U.S. Department of the Treasury*, September 19, 2023.

<https://home.treasury.gov/news/press-releases/jy1744>

<sup>11</sup> "Principles for Climate-Related Financial Risk Management for Large Financial Institutions," *Office of the Comptroller of the Currency (OCC), Treasury; Board of Governors of the Federal Reserve System (Board); and Federal Deposit Insurance Corporation (FDIC)*, October 30, 2023.

Financial regulators are also recognizing the need to provide guidance and support for their regulated entities and consumers on green lending which can help build climate resilience and serve as a financial opportunity for consumers and credit unions. Progress has been made in the following areas:

- Climate resiliency:
  - The Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have recently finalized a Community Reinvestment Act rule that makes disaster recovery and weather resiliency projects in vulnerable communities eligible for CRA credit;<sup>12</sup>
- Consumer protections
  - The Consumer Financial Protection Bureau will be finalizing its proposed rule on residential Property Assessed Clean Energy (PACE) financing.<sup>13</sup>

There is also a need for the NCUA to build capacity to support credit unions in seeking green lending opportunities for their members, many of which will come from the Inflation Reduction Act.<sup>14</sup>

## **Recommendations**

The NCUA needs robust funding to address climate-related financial risks and opportunities for credit unions, and must have the resources needed to achieve at least the following outcomes over the 2024-2025 budget period:

1. *Climate Resilience Office at NCUA*: The NCUA should create a climate resilience office with full-time staff. Dedicated staff capacity is essential to (1) collect data and complete research and analysis, (2) provide guidance/toolkits/best practices documents, technical assistance, and training to credit unions on CRFR and opportunities, and (3) help with compliance and reporting including in coordination with examiners. Climate resilience staff are necessary for the NCUA to systematize disaster recovery, climate resilience, and green lending opportunities for credit unions and their communities, including in coordination with other agency and Administration efforts.

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<sup>12</sup> “Community Reinvestment Act,” *Office of the Comptroller of the Currency, Treasury; Board of Governors of the Federal Reserve System; and Federal Deposit Insurance Corporation*, October 2023.  
<https://www.occ.gov/news-issuances/news-releases/2023/nr-ia-2023-117a.pdf>

<sup>13</sup> “CFPB Proposes New Consumer Protections for Homeowners Seeking Clean Energy Financing,” *CFPB*, May 1, 2023.  
<https://www.consumerfinance.gov/about-us/newsroom/cfpb-proposes-new-consumer-protections-for-homeowners-seeking-clean-energy-financing/>

<sup>14</sup> “Greenhouse Gas Reduction Fund Roundup,” *Inclusiv*, <https://inclusiv.org/ggrf-roundup/>

2. *Climate Risk & Resilience Toolkit*: The NCUA should develop a climate risk and resilience toolkit. Various stakeholders including examiners, credit unions, and credit union members would benefit from a toolkit and related guidance documents covering three critical areas – CRFR management (e.g., operational and credit resilience) that ensures compliance with fair lending laws, climate resilience for members, and green lending.
3. *Examiner training*: The NCUA should work with credit unions, examiners, and other stakeholders to update examinations and examiner training on CRFR and opportunities. This should be done in parallel with development of guidance and tools. On climate risk, NCUA staff should collaborate with FFIEC and other federal financial regulators to update examination manuals and develop examiner training to evaluate CRFR and green loan portfolios (e.g., electric vehicles).
4. *Climate scenario analysis for the largest credit unions*: The NCUA should begin conversations with its largest credit unions,<sup>15</sup> that have institutional capacity, on development of scenario analysis. Climate scenario analysis is a tool to explore various future financial scenarios that may significantly differ from “business-as-usual” assumptions as a result of climate change impacts.<sup>16</sup> The Network for Greening the Financial System, which includes many US financial regulators as members, continues to develop frameworks for scenario analysis.<sup>17</sup> In addition, the Federal Reserve Board recently conducted a pilot climate scenario analysis exercise with the six largest US banks<sup>18</sup> with the results to be published likely by the end of 2023.

We look forward to reviewing the NCUA’s final budget for 2024-2025 and its 2024 annual performance plan. It is our hope that the NCUA appropriately dedicates funding to support credit unions on climate-related financial risk mitigation and providing safe, equitable green lending for their members.

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<sup>15</sup> Cabello, Marcos. “The 10 Largest Credit Unions,” *Bankrate*, July 12, 2023. <https://www.bankrate.com/banking/credit-unions/biggest-credit-unions-in-america/>; “Credit Union Call Report Data,” *NCUA*. <https://ncua.gov/analysis/credit-union-corporate-call-report-data>

<sup>16</sup> “The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities,” *Task Force on Climate-related Financial Disclosures*. <https://www.tcfhub.org/scenario-analysis/#:~:text=The%20goal%20of%20scenario%20analysis.central%20part%20of%20the%20scenario>.

<sup>17</sup> “NGFS publishes latest long-term climate macro-financial scenarios for climate risks assessment,” *Central Banks and Supervisors Network for Greening the Financial System*, November 7, 2023. <https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-latest-long-term-climate-macro-financial-scenarios-climate-risks-assessment>

<sup>18</sup> “Federal Reserve Board provides additional details on how its pilot climate scenario analysis exercise will be conducted and the information on risk management practices that will be gathered over the course of the exercise,” *Federal Reserve Board*, January 17, 2023. <https://www.federalreserve.gov/newsevents/pressreleases/other20230117a.htm>

Sincerely,

*Americans for Financial Reform Education Fund*

*Green America*

*National Coalition for Asian Pacific American Community Development*

*National Fair Housing Alliance*

*New York Communities for Change*

*Public Citizen*

*The Greenlining Institute*