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NATIONAL CREDIT UNION ADMINISTRATION

[NCUA 2023-XXXX]

RIN 3133-XXXX

Climate-related Financial Risk

AGENCY: National Credit Union Administration (NCUA).

ACTION: Request for information and comment.

SUMMARY: The NCUA is seeking public input on current and future climate and natural disaster risks to federally insured credit unions (FICUs), related entities, their members, and the National Credit Union Share Insurance Fund (SIF). The NCUA also seeks input of any interested parties on the development of potential future guidance, regulation, reporting requirements, and/or supervisory approaches for FICUs' management of climate-related financial risks.

DATES: For consideration, comments must be received on or before [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: You may submit comments by any one of the following methods. Please send comments by one method only.

- Federal eRulemaking Portal: https://www.regulations.gov. Follow the instructions for submitting comments for NCUA Docket [2023-XXXX].

- Fax: (703) 518-6319. Include “[Your name] Comments on “Request for Information and Comment on Climate-Related Financial Risk.”
- Mail: Address to Melane Conyers-Ausbrooks, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428.
- Hand Delivery/Courier: Same as mailing address.

PUBLIC INSPECTION: You may view all public comments on the Federal eRulemaking Portal at https://www.regulations.gov as submitted, except for those we cannot post for technical reasons. NCUA will not edit or remove any identifying or contact information from the public comments submitted. If you are unable to access public comments on the Internet, you may contact the NCUA for alternative access by calling (703) 518-6540 or e-mailing OGCMail@ncua.gov.

FOR FURTHER INFORMATION CONTACT:

Policy and Analysis: Rachel Cononi, Deputy Chief Economist (703) 303-2437 and Lisa Roberson, Deputy Director, Office of Consumer Financial Protection (703) 548-2466.

Legal: Marvin Shaw, Senior Staff Attorney, (703) 518-6540; or by mail at National Credit Union Administration, 1775 Duke Street, Alexandria, VA 22314.

SUPPLEMENTARY INFORMATION:

NCUA Overview

The NCUA is an independent federal agency that insures shares at FICUs[1] and charters and regulates federal credit unions (FCUs). The NCUA is charged with protecting the safety and soundness of FICUs and, in turn, the SIF through regulation and supervision. The NCUA also works to protect credit union members and consumers.

The NCUA's mission is to "protect the system of cooperative credit and its member-owners through effective chartering, supervision, regulation, and insurance."[2] Consistent with these aims, the NCUA has statutory responsibility for a wide variety of regulations that protect the credit union system, members, and the SIF.

Climate risk and its relevance in the financial sector

Climate change is accelerating and the number – and cost – of climate-related natural disasters is rising. The economic effects of these events are clear. Each year, natural disasters like hurricanes, wildfires, droughts, and floods impose a substantial financial toll on households and businesses alike. 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.

In 2021, the United States experienced 20 separate billion-dollar weather and climate disaster events, which caused an estimated $153 billion in damage. Overall, 2021 was the third

[1] Throughout this Request for Information, the term FICUs and "credit union" is used interchangeably.
[2] NCUA Mission and Values webpage.

most costly year on record for these types of events and it was the seventh consecutive year in which 10 or more billion-dollar weather and climate disaster events have occurred in the United States. In 2022, there were an estimated 15 billion-dollar disaster events making it the eighth straight year with 10 or more billion-dollar disaster events. Together, these events caused an estimated $165 billion in damage.[3]

Climate-related financial risks can be grouped into two broad categories—physical risk and transition risk.[4] Physical risk refers to harm to people and property caused by discrete, climate-related events like hurricanes, wildfires, and heatwaves, as well as longer-term, chronic phenomena, including changes in precipitation patterns, sea level rise, and higher average temperatures. Transition risk refers to stress on institutions or sectors caused by measures taken to move towards a less carbon-intensive economy. This includes responding to public policy changes, adopting new technologies, and adapting to shifts in consumer and investor preferences, which may lead to higher costs and substantial shifts in asset values. If these changes occur in a disorderly fashion, the effect on individuals, businesses, communities, and financial institutions could be sudden and disruptive.

Economic and financial disruptions and uncertainties arising from both the physical and transition risks could affect the credit union industry across many dimensions. Climate-related physical and transition risks tend to manifest as traditional financial risks, including credit risk,

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[3] NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2023). https://www.ncei.noaa.gov/access/billions/, DOI: 10.25921/stkw-7w73

[4] See, *e.g.*, Basel Committee on Banking Supervision, Climate-related Risk Drivers and Their Transmission Channels (April 2021); Financial Stability Board, The Implications of Climate Change for Financial Stability (November 23, 2020); and Market Risk Advisory Committee of the Commodity Futures Trading Commission, Managing Climate Risk in the U.S. Financial System (September 9, 2020).

liquidity risk, market risk, and operational risk. For example, disruptions in economic activity caused by climate-related weather events like flooding or wildfires may affect household income and the ability to stay current on household financial obligations. The property damage associated with such events could affect the value of homes and the mortgages collateralized by residential real estate. These events pose similar risks to businesses and mortgages collateralized by commercial real estate.

The policy and technological changes needed to reduce the environmental impact of human activities and move towards a less carbon-intensive economy may also have a wide range of effects on the economy, businesses, consumers, and thus credit unions. For instance, the collateral value of motor vehicles may be affected as consumer preferences shift from gasoline-powered vehicles to electric and hybrid vehicles. Efforts to reduce greenhouse gas emissions could lead to significant adjustments in sectors of the economy that are greenhouse gas-intensive, including the energy, transportation, manufacturing, and agricultural sectors. Such adjustments may create new business opportunities, such as the creation of biodiesel products. Households, businesses, and credit unions with direct or indirect ties to these sectors would also be affected. Thus, any weaknesses in how a credit union identifies, measure, monitors, and mitigates physical and transition risks could adversely affect a credit union's safety and soundness.

Credit unions need to consider climate-related financial risks, and how they could affect their membership and institutional performance. For instance, a credit union's field of membership is often tied to a particular industry or community. To remain resilient and retain the ability to offer their members access to safe, fair, and affordable financial services, credit unions may need to consider adjustments to their fields of membership as well as the types of loan products they offer.

Low-income and minority communities are particularly vulnerable to climate-related financial risk. Climate-related disasters can cause property damage and can also lead to job losses and undermine economic output, reducing already limited household income and wealth and diminishing access to capital. Additionally, absent any mitigating actions, changes in government policy, programs, or guidelines to transition to a less carbon-intensive economy may unintentionally increase the cost of homeownership in vulnerable communities. Financially vulnerable households and communities are the least able to absorb the costs associated with climate-related disasters, so these consumers may have more difficulty adapting to changes in government policies and the natural environment. Thus, climate-related financial risks may be amplified for FICUs serving these communities.

Climate change presents several complex conceptual and practical challenges not only for credit unions, but also for the NCUA. Just as credit unions must continue to adapt to account for climate-related financial risks, the NCUA will need to evolve its understanding of the impact on credit unions, credit union members, the credit union system, and the SIF. The information collected from the responses to the questions below will assist the agency in developing tools to identify and assess current and future risks to FICUs and the SIF. Stakeholder feedback will also inform the agency's future decisions on the best way to address these risks. And, the responses of interested parties will allow the agency to better understand how credit union members may be affected by these risks.

REQUEST FOR COMMENT

The Board seeks comments on the current and future climate and natural disaster risks faced by FICUs. The NCUA is broadly interested in understanding stakeholders' views and experiences in this area. Commenters are also encouraged to discuss any and all relevant issues they believe the Board should consider with respect to the financial risks associated with climate change. This includes, but is not limited to, risks posed to, or stemming from, field of membership, lending, investments, other assets, deposits, underwriting standards, insurance coverage, liquidity, and capital.

The Board's request for information should not imply any intention to modify any existing requirements applicable to FICUs and does not grant FICUs any new authorities or limit any existing authorities. The request for information does not speak to the permissibility or impermissibility of any specific activity. Additionally, any information provided by credit unions as part of this RFI will not be used in the examination and supervision of individual credit unions. Any new requirements for credit unions associated with climate-related financial risk would require changes to examination and supervision procedures and Board action and approval before implementing.

Moreover, as a prudential financial regulator, the NCUA does not have expertise in climate science. As set forth in the questions below, the NCUA is seeking input that would strengthen its ability to identify and assess credit unions' current and future climate and natural disaster risk. The NCUA is also seeking input on opportunities to enhance the agency's supervision and regulation of each regulated entity's management of such risks.

1. Physical RiskClimate-related events, including floods, sea level rise, hurricanes, winds, wildfires, and drought, may affect credit union operations (for example, office buildings, supply chain); commercial and residential real estate; agricultural, commercial, and industrial lending; and small business lending. What climate-related physical risks, if any,

are affecting the industry? How might physical risks and the impact of these risks on credit unions and their members change over time?

2. What risk management strategies could institutions implement to prepare for or minimize the effects of physical risk? Is there anything regulators should do to help institutions address physical risks?
3. What impact are physical risks expected to have on credit union members, particularly financially vulnerable populations, including lower-income communities, communities of color, Native American, and other under-resourced communities? What steps could credit unions take to mitigate physical risks to ensure continued lending to these populations?

Transition Risk

4. Transition risks from climate change can come from government policy changes, including changes to zoning laws; other federal, state and local laws and regulations; technological changes; and consumer and market demand. What climate-related transition risks are affecting or could affect credit unions in the various areas of business activities, including, but not limited to, operations, real estate lending, commercial lending, and small business lending?
5. What risk management strategies could credit unions implement to prepare for or minimize the effects of transition risk? Is there anything regulators can do to help credit unions address transition risk?
6. What effects are transition risks expected to have on credit union members, particularly financially vulnerable populations, including lower-income communities, communities of

color, Native American, and other under-resourced communities? What steps could credit unions take to mitigate transition risks to ensure continued lending to these populations?

Operations

7. What adjustments should credit unions make to their operations (including relationships with supply chain and third parties, new product and service offerings, among others) in response to climate-related financial risks?

Governance

8. What role should a credit union's board of directors have in the oversight and analysis of financial risks due to climate change?
9. How can credit unions incorporate climate-related financial risks into their overall risk management and governance framework?
10. Do credit unions have board members, committees, or senior management functions that are responsible for climate-related financial risks? If yes, please provide examples.
11. What are the top barriers/challenges for credit unions in designating board members, committees, and/or senior management functions to be responsible for climate-related financial risks?
12. Do credit union boards and senior management have, or are they aware of and have an understanding of, the tools and resources necessary to evaluate and address climate-related financial risk? What, if any, are other barriers for addressing climate-related financial risks?

Business Strategies

13. How should credit unions consider climate-related financial risks in developing business strategies? How do these risks impact product and service offerings?
14. In what ways may credit unions need to incorporate climate-related financial risks into business strategies and product and service offerings?
15. If you are a credit union, has your board and management assessed the impact of climate change on the credit union's products and services? If yes, please briefly describe how you have assessed the impact of climate change on your credit union's products and services.
16. What barriers or challenges do credit unions face in considering climate change in business strategies and product offerings? Does your board or senior management believe climate change is a material risk to the credit union's business?
17. Do credit unions have sufficient expertise or are they aware of and have an understanding of the tools and resources necessary to address the financial risks and opportunities associated with climate change and their impact on credit union performance? Do you think considering climate-related financial risks may put credit unions at a competitive disadvantage?
18. Do credit unions take steps to assess, reduce, or mitigate its climate impact? If you are a credit union answering this question, please describe what your credit union has done. If your credit union has not taken such steps, do you plan to do so and what is your time frame? If your credit union does not plan to take such steps, please briefly describe the reason(s) for not doing so. What barriers exist that prevent your credit union from taking such steps?

Risk Management

19. What methods can credit unions use to identify, measure, monitor, manage, and report on their exposure to climate-related financial risks? Please provide a brief description of the risk management process credit unions should take. If you are a credit union, please provide a link to your climate policy. If you are a credit union and do not have a risk management process, do you plan to develop a process? What is the anticipated time frame for developing such a process? If you do not plan to develop such a process, please explain your rationale for this decision.
20. Credit unions typically evaluate credit risk, interest rate risk, liquidity risk, transaction risk, strategic risk, reputation risk, and compliance risk. How do climate-related financial risks impact these traditional risk areas? To what extent should a credit union consider climate change in analyzing these and other existing risk factors?
21. What risk mitigation strategies can credit unions use to transfer some or all of the financial risks associated with climate change? Are these mitigation tools cost effective?
22. When credit unions consider climate change in analyzing existing risk factors, should they include the risk of adverse effects of climate change on financially vulnerable populations, including lower-income communities, communities of color, Native American, and other disadvantaged or under-resourced communities? If you are a credit union, are you considering climate-related financial risks specific to financially-vulnerable populations?
23. If your credit union does not currently consider climate change in analyzing its existing risk factors, do you anticipate doing so? How long will it take to do so? If you do not plan to do so, please briefly describe your reasons or barriers.

24. What are the top barriers for credit unions to consider (or that credit unions have encountered) in creating a risk management process for climate-related financial risks and/or including climate change in its analysis of existing risk factors? Does your board or senior management not consider climate change as posing a material risk to your credit union's business?
25. What types of data or products are necessary to assist credit unions in evaluating exposure to climate-related financial risks?
26. Do credit unions have sufficient understanding of the climate-related risk management process? Do credit unions have sufficient understanding of how climate change affects existing risk factors? Please specify any other barriers credit unions face in assessing climate-related risk.
27. If your credit union is involved in the mortgage business, what tools does your credit union use to manage flood risk? What additional tools would be helpful to your credit union?

Reporting and Targets

28. What internal reporting systems are you aware of that would assist credit unions in evaluating climate-related financial risks? Please provide a brief description of these internal reporting systems. If provided by third parties, what are the costs of these reporting systems?

Climate-Related Opportunities

29. Climate change and efforts to address climate change may also present new opportunities for credit unions. What products and services do credit unions offer in response to physical and transition risk (for example renewable energy loan products and services, such as loans for solar power generation or biodiesel development)? What are the top drivers for offering these products and services?
30. Are you aware of credit unions or does your credit union finance clean energy projects such as residential or commercial energy efficiency upgrades and solar installations? Is this financing of clean energy products just one of many services provided by the credit union or part of an overall business strategy? If you provide clean energy products, please provide the estimated size of your clean energy portfolio and what percent it represents of your overall lending. If no, please briefly describe any challenges for credit unions to offering this type of lending. Please also discuss the barriers to underwriting clean energy loans within under-resourced communities.
31. Each type of lending involves various areas of expertise such as underwriting, guidance for loan loss reserves, and/or technical assistance such as how to lend or acquire interest in climate-related and environmentally conscious loan products. What kind of support do credit unions need to expand products and services? Please describe any barriers to entry as well as the types of information or resources needed to facilitate a credit union's ability to offer climate-related and environmentally conscious loan products.
32. Are there any climate-related opportunities, in addition to renewable energy, that credit unions should consider?

33. What regulatory changes would be necessary to encourage credit unions to develop products and services designed to capitalize on opportunities presented by the transition to clean energy and a less carbon intensive economy?

Suggestions for NCUA

34. The NCUA understands that managing the financial risks of climate change is an evolving field and new to some credit unions. The NCUA is exploring several options to support credit unions in these efforts, including sharing industry best practices, providing guidance on how to manage the potential financial risks from climate change, convening workshops with the industry to discuss climate-related financial risk topics, and hosting educational seminars on how climate change may impact the financial system and individual credit unions. What efforts would be the most beneficial to credit unions?
35. Should the NCUA modify its examination procedures and supervisory posture in relation to climate-related financial risk? This would be including, but not limited to, Flood Disaster Protection Act, Disaster Preparedness reviews, CAMELS ratings, and assessments of the level and direction of the various areas of risk.

Data Gathering

36. How can the NCUA support efforts to develop standards of classification and data reporting on climate-related financial risks?
37. What data could the NCUA collect to improve credit unions' understanding of climate-related financial risks and support credit union efforts to manage these risks?

Questions for NCUA

38. Please provide any questions or comments not covered in this request for information that you would like the NCUA to address regarding to climate-related financial risk.

Authority: 12 U.S.C. 1756 and 1784.

By the NCUA Board on April 20, 2023

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Melane Conyers-Ausbrooks
Secretary of the Board