

1 7535-01-U

2 NATIONAL CREDIT UNION ADMINISTRATION

3 [NCUA 2023-XXXX]

4 RIN 3133-XXXX

5 **Climate-related Financial Risk**

6 **AGENCY:** National Credit Union Administration (NCUA).

7 **ACTION:** Request for information and comment.

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

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

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

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

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

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

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31 **FOR FURTHER INFORMATION CONTACT:**

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

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

36 **SUPPLEMENTARY INFORMATION:**

37 **NCUA Overview**

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

42           The NCUA’s mission is to “protect the system of cooperative credit and its member-  
43 owners through effective chartering, supervision, regulation, and insurance.”<sup>2</sup> Consistent with  
44 these aims, the NCUA has statutory responsibility for a wide variety of regulations that protect  
45 the credit union system, members, and the SIF.

46 **Climate risk and its relevance in the financial sector**

47           Climate change is accelerating and the number – and cost – of climate-related natural  
48 disasters is rising. The economic effects of these events are clear. Each year, natural disasters  
49 like hurricanes, wildfires, droughts, and floods impose a substantial financial toll on households  
50 and businesses alike. The physical effects of climate change along with associated transition  
51 costs pose significant risks to the U.S. economy and the U.S. financial system.

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

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<sup>1</sup> Throughout this Request for Information, the term FICUs and “credit union” is used interchangeably.

<sup>2</sup> [NCUA Mission and Values webpage](#).

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

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

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

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<sup>3</sup> 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](https://doi.org/10.25921/stkw-7w73)

<sup>4</sup> 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 \(September 9, 2020\)](#).

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

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

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

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

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

#### 114 **REQUEST FOR COMMENT**

115           The Board seeks comments on the current and future climate and natural disaster risks faced by  
116 FICUs. The NCUA is broadly interested in understanding stakeholders’ views and experiences in

117 this area. Commenters are also encouraged to discuss any and all relevant issues they believe the  
118 Board should consider with respect to the financial risks associated with climate change. This  
119 includes, but is not limited to, risks posed to, or stemming from, field of membership, lending,  
120 investments, other assets, deposits, underwriting standards, insurance coverage, liquidity, and  
121 capital.

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

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

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

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

141 2. What risk management strategies could institutions implement to prepare for or minimize  
142 the effects of physical risk? Is there anything regulators should do to help institutions  
143 address physical risks?

144 3. What impact are physical risks expected to have on credit union members, particularly  
145 financially vulnerable populations, including lower-income communities, communities of  
146 color, Native American, and other under-resourced communities? What steps could credit  
147 unions take to mitigate physical risks to ensure continued lending to these populations?

#### 148 **Transition Risk**

149 4. Transition risks from climate change can come from government policy changes,  
150 including changes to zoning laws; other federal, state and local laws and regulations;  
151 technological changes; and consumer and market demand. What climate-related  
152 transition risks are affecting or could affect credit unions in the various areas of business  
153 activities, including, but not limited to, operations, real estate lending, commercial  
154 lending, and small business lending?

155 5. What risk management strategies could credit unions implement to prepare for or  
156 minimize the effects of transition risk? Is there anything regulators can do to help credit  
157 unions address transition risk?

158 6. What effects are transition risks expected to have on credit union members, particularly  
159 financially vulnerable populations, including lower-income communities, communities of



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

162 **Operations**

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

166 **Governance**

167 8. What role should a credit union's board of directors have in the oversight and analysis of  
168 financial risks due to climate change?

169 9. How can credit unions incorporate climate-related financial risks into their overall risk  
170 management and governance framework?

171 10. Do credit unions have board members, committees, or senior management functions that  
172 are responsible for climate-related financial risks? If yes, please provide examples.

173 11. What are the top barriers/challenges for credit unions in designating board members,  
174 committees, and/or senior management functions to be responsible for climate-related  
175 financial risks?

176 12. Do credit union boards and senior management have, or are they aware of and have an  
177 understanding of, the tools and resources necessary to evaluate and address climate-  
178 related financial risk? What, if any, are other barriers for addressing climate-related  
179 financial risks?

180 **Business Strategies**

181 13. How should credit unions consider climate-related financial risks in developing business  
182 strategies? How do these risks impact product and service offerings?

183 14. In what ways may credit unions need to incorporate climate-related financial risks into  
184 business strategies and product and service offerings?

185 15. If you are a credit union, has your board and management assessed the impact of climate  
186 change on the credit union's products and services? If yes, please briefly describe how  
187 you have assessed the impact of climate change on your credit union's products and  
188 services.

189 16. What barriers or challenges do credit unions face in considering climate change in  
190 business strategies and product offerings? Does your board or senior management believe  
191 climate change is a material risk to the credit union's business?

192 17. Do credit unions have sufficient expertise or are they aware of and have an understanding  
193 of the tools and resources necessary to address the financial risks and opportunities  
194 associated with climate change and their impact on credit union performance? Do you  
195 think considering climate-related financial risks may put credit unions at a competitive  
196 disadvantage?

197 18. Do credit unions take steps to assess, reduce, or mitigate its climate impact? If you are a  
198 credit union answering this question, please describe what your credit union has done. If  
199 your credit union has not taken such steps, do you plan to do so and what is your time  
200 frame? If your credit union does not plan to take such steps, please briefly describe the  
201 reason(s) for not doing so. What barriers exist that prevent your credit union from taking  
202 such steps?

203 **Risk Management**

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

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

240 **Reporting and Targets**

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

245 **Climate-Related Opportunities**

246 29. Climate change and efforts to address climate change may also present new opportunities  
247 for credit unions. What products and services do credit unions offer in response to  
248 physical and transition risk (for example renewable energy loan products and services,  
249 such as loans for solar power generation or biodiesel development)? What are the top  
250 drivers for offering these products and services?

251 30. Are you aware of credit unions or does your credit union finance clean energy projects  
252 such as residential or commercial energy efficiency upgrades and solar installations? Is  
253 this financing of clean energy products just one of many services provided by the credit  
254 union or part of an overall business strategy? If you provide clean energy products, please  
255 provide the estimated size of your clean energy portfolio and what percent it represents of  
256 your overall lending. If no, please briefly describe any challenges for credit unions to  
257 offering this type of lending. Please also discuss the barriers to underwriting clean energy  
258 loans within under-resourced communities.

259 31. Each type of lending involves various areas of expertise such as underwriting, guidance  
260 for loan loss reserves, and/or technical assistance such as how to lend or acquire interest  
261 in climate-related and environmentally conscious loan products. What kind of support do  
262 credit unions need to expand products and services? Please describe any barriers to entry  
263 as well as the types of information or resources needed to facilitate a credit union's  
264 ability to offer climate-related and environmentally conscious loan products.

265 32. Are there any climate-related opportunities, in addition to renewable energy, that credit  
266 unions should consider?

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

270 **Suggestions for NCUA**

271 34. The NCUA understands that managing the financial risks of climate change is an  
272 evolving field and new to some credit unions. The NCUA is exploring several options to  
273 support credit unions in these efforts, including sharing industry best practices, providing  
274 guidance on how to manage the potential financial risks from climate change, convening  
275 workshops with the industry to discuss climate-related financial risk topics, and hosting  
276 educational seminars on how climate change may impact the financial system and  
277 individual credit unions. What efforts would be the most beneficial to credit unions?

278 35. Should the NCUA modify its examination procedures and supervisory posture in relation  
279 to climate-related financial risk? This would be including, but not limited to, Flood  
280 Disaster Protection Act, Disaster Preparedness reviews, CAMELS ratings, and  
281 assessments of the level and direction of the various areas of risk.

282 **Data Gathering**

283 36. How can the NCUA support efforts to develop standards of classification and data  
284 reporting on climate-related financial risks?

285 37. What data could the NCUA collect to improve credit unions' understanding of climate-  
286 related financial risks and support credit union efforts to manage these risks?

287 **Questions for NCUA**

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

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

292 By the NCUA Board on April 20, 2023

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Melane Conyers-Ausbrooks  
Secretary of the Board