June 26, 2023

Ms. Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Climate-Related Financial Risk (RIN 3133-AF52)

Dear Ms. Conyers-Ausbrooks,

On behalf of its member credit unions, the Cooperative Credit Union Association, Inc. ("Association") appreciates the opportunity to comment in response to the National Credit Union Administration's (NCUA) Request for Information on Climate-Related Financial Risk. The Association is the state trade association representing approximately 200 state and federally-insured credit unions (FICUs) located in the states of Delaware, Massachusetts, New Hampshire, and Rhode Island, which further serve over 3.6 million consumer members. The Association has developed these comments in consultation with our members.

The Association's High-Level Comments

- Climate-related risks—such as damage from storms in coastal or mountain areas—have always been a significant concern to credit unions in Delaware, Massachusetts, New Hampshire, and Rhode Island. The Great Hurricane of 1938, for example, caused a storm surge of 18-25 feet in Rhode Island and southeastern Massachusetts.[1] Best practices on climate-related financial risks should be integrated into NCUA's general risk-management guidance instead of being developed separately.

- The Federal Credit Union Act requires FICUs with more than $10 million in assets to follow Generally Accepted Accounting Principles (GAAP). Under GAAP, general risk reserves are not permitted, and future losses from climate-related events are not usually recognized because their chances are remote and liabilities cannot be reliably estimated.[2] NCUA guidance on climate-related financial risks should be consistent with GAAP.

The Association's Comments in Response to NCUA's Questions

[1] *See* "National Weather Service (NWS) Boston—The Great Hurricane of 1938;" https://www.weather.gov/box/1938hurricane (last visited June 26, 2023).
[2] *See* Financial Accounting Standards Board, ASC Codification Topic 450-20 ("Loss Contingencies").

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(1) 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?

Any credit union in a natural disaster area is subject to physical risk. Hurricanes, wildfires, tornados, and snowstorms can all cause catastrophic damage including damage to property and injury to those in the area. Our member credit unions' branches are mostly located in states where natural disasters that cause great physical risk are predictable and are generally seasonal in nature (e.g., hurricane season is in the summer and autumn). In a climate related emergency, if the credit union is going through the same emergency conditions as the members, banking services, including access to money, may be temporarily unavailable.

(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?

Management should have plans in place to operate the credit union remotely if access to the primary physical location is unavailable. Institutions should implement a thorough Business Continuity Plan that addresses natural disasters and the implications of the damage that could be caused. A Business Continuity Plan that anticipates a skeleton crew of credit union staff in the event of a natural disaster can prepare teams on what priority items must be addressed in order to stay operational. The Business Continuity Plan should also address backup locations for servers and vital records that are in a different geographical area should a natural disaster strike in a branch location.

(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?

Any physical risk due to natural disasters can create financial strain due to medical and rebuilding expenses, etc. Such physical risks exist for all credit union members. Credit unions may be able to provide low-interest loans and/or small-dollar, short-term loans to help members deal with long term and/or immediate financial needs. Re-construction financing and home improvement loans are other viable options to support adversely impacted members.

(4) 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?

One climate-related transition risk the Association's members highlighted was the potential for loan collateral to go down in value. As electric vehicle automobile mandates increase, the value of gas-powered vehicles may decline. Such a decline would negatively impact credit union auto-loan collateral values. Housing values may also decline if natural gas and oil heating systems are

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outlawed, especially if a homeowner is not legally permitted to sell their home without first implementing such upgrades (as can be the case currently in some jurisdictions with respect to properties that have old underground storage tanks for oil on the premises). Requirements that businesses must meet certain carbon footprint levels will negatively impact profitability and the businesses' ability to repay their debts.

In addition, our members cited state electronic signature laws and the federal E-SIGN Act because these laws do not take into consideration the advancements of recent technology. While this is not on its face a direct climate-related risk, being able to deliver messages electronically cuts down on paper usage and mailing and also can make communications with members easier in the event of a large-scale natural disaster.

(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?

Transition risk is largely a political risk because it results from regulatory mandates. For example, credit unions may have to start limiting the number of loans and leases made on gas-powered automobiles because these vehicles' values are likely to decline because of fuel efficiency rules intended to promote electric vehicles (which is especially concerning for credit unions with lease exposures to vehicles that have low fuel efficiency). Similarly, the valuation for all real estate related loans may have to be discounted for the costs to convert from oil, gas, or kerosene heat to electric heat because of similar regulatory requirements.

Given that these risks are under the control of the political process, regulators should provide sufficient time for institutions to adjust to policy changes that occur without imposing undue compliance costs.

(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?

As credit unions implement new technologies, these offerings may not be as easily accessible to financially vulnerable populations. Additionally, credit unions reducing their branch profiles while relying on digital banking services could reduce accessibility to financial services to low and moderate-income individuals. Making digital services fast and easy to use should continue to be something that all institutions strive towards.

(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?

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Just as FICUs must have disaster-recovery Business Continuity Plans, credit unions should ensure that their key partners have plans in place to operate should they be negatively impacted by extreme weather-related issues. Moving towards a digital friendly environment should also help reduce climate risks in a variety of manners, such as by reducing the number of branches opened, reducing emissions from vehicles having to drive for banking services, and reducing the amount of paper used.

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

We believe that the credit union's board should have the same oversight role they do with all of their credit union's risks (e.g., interest rate risk, credit risk, compliance risk, reputation risk, etc.). Board members should be familiar with the credit union's Business Continuity Plan. Senior leadership should be tasked with understanding and planning for any climate change related regulations and policy changes that go into effect.

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

Credit unions can analyze the location of collateral in relation to the ocean shoreline, inland waterways prone to flooding, and in relation to paths of repetitive tornados ("tornado alleys"), which are higher risk areas. A thorough Business Continuity Plan also helps mitigate risks. Concentration risk policies should consider any climate-change vulnerable assets.

(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.

The Association's members report that they do not currently have formal climate-related financial risk staff or board positions. Instead, these risks fall under the credit union's general enterprise risk management (ERM) framework managed under the board's oversight.

(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?

At the moment, it is would be difficult for credit unions' boards and management to construct a meaningful climate-related risk policy if risk limits cannot be established because the chances of any particular climate-related financial risk occurring in any particular place and time are remote and the potential liabilities too speculative to estimate reliably.

This means that requiring a special climate-related risk management framework separate and apart from a FICU's general ERM framework would be suboptimal because it could result in climate-related risks being considered to be undersized or outsized risks vis-à-vis more common risks such as credit risk, operational risk, liquidity risks, etc., especially considering that the

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climate-related risks are fundamentally components of these other financial risks such as credit risk (e.g., loan collateral damaged by a storm), operational risk (e.g., credit union operations disrupted by a storm), and so forth.

Credit unions have Business Continuity Plans that address steps they need to take should a natural disaster hit.

(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?

The Association's members report that their institutions' senior management typically stay aware of important industry topics such as climate-related financial risks and stand prepared to address these risks when necessary. Senior managers are also typically made aware of their credit union's Business Continuity Plans that help preserve the credit union's operations should any type of natural disaster risk occur.

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

Climate-related risks should be addressed in a Business Continuity Plan as well as in the credit union's concentration risk policy where appropriate. When new strategies are established, these programs should be updated to reflect them. Vendor due diligence and ERM risk assessments should also incorporate climate-risk related factors to present a full risk picture.

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

Credit unions may need to take into consideration what strategies are essential for the continued daily activity of the credit union and safe and sound lending. This analysis should be used that to determine what operational steps are needed should a disaster strike in order for that strategy to remain operational, as well as to maintain effective credit risk management.

(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.

Some of our member credit unions report incorporating climate risk factors into their risk assessments, where applicable, although this has not been a pressing need.

(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?

None of the Association's members that responded to our survey reported that their credit unions considered climate change to be a material risk to the credit union's business. Risks related to storm damage are largely mitigated through insurance coverage for loan collateral such as flood insurance for homes in flood-prone areas.

(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?

Our members report that, if such tools are available, they are not marketed enough for most credit unions to be aware of them. It would be important for regulators to provide clear guidance around these tools and all the functions they could be used for. Small credit unions may not have a wide branch footprint to rely on other geographic locations to maintain daily operations should their locations be hit with a disaster.

Regarding competitive issues, yes, considering climate-related financial risks may put credit unions at a competitive disadvantage unless other financial institutions, such as community banks and financial technology companies, are subject to the same requirements.

(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?

The Association's members report that they attempt to reduce their carbon footprints by considering green efforts when establishing new branches, favoring digital records over paper ones, and bettering the communities they are in with volunteer efforts, which can include town clean ups or creating community gardens. These efforts assist in making a positive change to the environmental changes occurring.

(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.

In general, most credit unions do not currently have a specific risk management process for climate-related risks because these risk are not easily identified or quantified. Instead, climate-

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related risks such as potential flooding are evaluated during the credit unions' annual reviews of their Business Continuity Plans.

(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?

Weather related risks may impact credit and operational risks and our members typically evaluate climate risk during their annual reviews of their Business Continuity Plans. FICUs must have disaster recovery plans in place that addresses the operational risk issues, however, the impact on credit risk is still undetermined and so speculative that any action would be imprudent.

(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?

In addition to placing credit union offices on high ground not prone to flooding, credit unions should make sure that they have Business Continuity Plans that are compliant with vital record rules, have backup equipment available for employees to be remote when possible and be prepared to offer solutions to members that may be impacted by disaster as soon as possible.

There are costs associated with these steps, however, with these measures in place a credit union can get back up in running as quickly as possible, making financial resources available to credit union members who need it more than ever during a difficult time.

(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?

Yes, our members believe it is important to consider vulnerable populations and locations when taking steps to avoid potential climate risks, as risk is not a one-size-fits-all proposition.

(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.

The Association's members report that they currently consider climate risk factors in their risk assessments as necessary, or plan to develop strategies, plans, and processes once the risk factors can be better measured and quantified.

(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

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management not consider climate change as posing a material risk to your credit union's business?

The Association's members report that their ERM programs incorporate risk factors related to climate change, where applicable, that management periodically reviews. It is difficult, however, to create a risk management process related to climate change because the risk factors cannot be better measured and quantified currently.

Climate is a "dynamical system" that is forced, dissipative, nonlinear, complex, and heterogeneous and must be evaluated using chaos theory, which makes accurate predictions difficult. Moreover, many of our members view climate-related financial risks as not being material to their operations due to their office locations and the industries of their member-bases.

(25) What types of data or products are necessary to assist credit unions in evaluating exposure to climate-related financial risks?

The Association's members believe that the best data currently available to credit unions for evaluating climate-related financial risks include long-range forecast weather information (which is published by the National Weather Service as well as by traditional almanacs), topographic flood maps produced by the U.S. Geological Survey, and reports on upcoming legislation and/or regulations that could affect credit union lending by, for example, outlawing gas-powered vehicles.

(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.

Principles-based best-practices guidance concerning climate-related financial risk management processes would help credit unions better understand these risks, however, we believe that climate-related risk management guidance should be integrated with NCUA's ERM guidance and guidance on credit risk, operational risk, and so forth, to maintain wholistic and proportional credit union risk management without imposing unreasonable compliance burdens.

(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?

Our member credit unions report that they follow all rules and regulations governing flood insurance requirements. This includes using projected flood maps that identify which low lying, coastal areas will become flooded in the future, and identify those regions as high-risk areas.

(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?

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The Association's members are not aware of internal reporting systems that would help them evaluate climate-related financial risks other than those previously included in these comments, such as looking at topographic flood maps of low-lying areas prior to making mortgages.

(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?

Examples include solar panel loans, home conversion loans (natural gas, oil to electric heat), and financing for charging stations (commercial and consumer). The key driver for offering these products and services is demand from members because they need financing in these areas. A better understanding of industry best practices in offering these products would also promote their availability.

(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.

As one of many services provided, some of the Association's member credit unions make loans for solar panels or home-heating related loans. One member credit union reported that it partners with a company that helps finance electric vehicles and the additional equipment members would need to charge those vehicles.

(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.

Clear and non-burdensome regulations on loan participations and purchasing loan pools as eligible obligations are important in this area. Credit unions can support other areas that are more at risk of climate change events if they are able to expand their participations and purchased loan portfolios.

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In this regard, the Federal Credit Union Act's limit on the term of most federal credit union loans to a maximum 15 years restricts federal credit unions' ability to help finance loans for solar panels, etc., unless the federal credit union can purchase loans as eligible obligations it is not eligible to make (as was the case curing the Covid-19 Pandemic) or as loan participations. Similarly, our members report that FNMA and FHLMC, etc., allowing debt related to solar panels to be a priority lien would help facilitate credit unions making these loans.

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

In theory, credit unions could finance the conversion of gas-powered cars to an electric vehicle if an electric engine can be transplanted into a gas-powered car's frame.

(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?

Our members believe that there is sufficient flexibility available already to establish new products along these lines. They do not believe that additional regulatory changes would be needed for credit unions to offer additional climate-related products.

(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?

Credit unions would likely benefit from understanding industry best practices and receiving guidance on how climate change may impact the financial system, however, it is important to keep in mind that the conversion to an all-electric society cannot occur before there is an adequate source of inexpensive electricity, which is not currently the case.

(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.

In general, NCUA should focus its examinations on the risks that have the highest likelihood to put the Share Insurance Fund in jeopardy, which may not currently include climate-related financial risk. Examinations involving climate-related financial risk should remain risk-based depending on the institution's exposure to the risk as well as based on the likelihood that the risk in question could impair the Share Insurance Fund.

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

With an evolving risk area like climate-related financial risks, it is important to take stock of the environment and challenges. Issuing guidance on best practices would be helpful in supporting the industry to develop classifications and data reporting. Until we understand what information would be truly valuable to capture, it would be pre-mature to establish new data points.

(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?

NCUA providing data concerning what members need after a natural disaster, such as general expense amounts and types of loans that may be requested, would assist credit unions' understanding of climate-related financial risks.

(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.

Climate risk for credit unions is largely specific to each credit union's unique geographic location and loan portfolio composition whether the risk in question is storm damage or the potential phase-out of gas-powered vehicles or non-electric home heating systems. While there are geographic areas that are impacted regularly, or expectedly, by natural disasters or climate risks, there are other regions that are not as impacted. NCUA guidance on climate-related financial risks should be principles-based so that it is flexible with respect to each credit union's unique circumstances.

The Association appreciates the opportunity to comment on the NCUA's Request for Information on Climate-Related Financial Risk. If you have any questions about our comments or require further information, please do not hesitate to contact the Association at govaff-reg@ccua.org.

Sincerely,

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