California CREDIT UNION LEAGUE NEVADA CREDIT UNION LEAGUE

June 24, 2023

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

RE: Climate Related Financial Risk – Docket No. NCUA-2023-0045

Dear Ms. Conyers-Ausbrooks:

I am writing on behalf of the California and Nevada Credit Union Leagues (Leagues), whose combined strength makes up one of the largest state trade associations for credit unions in the United States, representing the interests of approximately 285 credit unions and their more than 13.6 million members — in both states combined.

On April 25, 2023, the National Credit Union Administration (NCUA) issued a Request for Information (RFI) seeking public feedback 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 (NCUSIF). 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.

The Leagues acknowledge the importance of addressing climate change and its potential impact on credit unions. Although we commend the NCUA for its proactive approach in seeking feedback and insights on this important matter, we have serious concerns regarding the RFI and respectfully offer the following comments.

Background

According to the RFI, the NCUA divides climate-related financial risks into two broad categories:

1. **Physical Risk** – 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.

2. **Transition Risk** – 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.

The NCUA indicates in the RFI that "…[e]conomic and financial disruptions and uncertainties arising from both the physical and transition risks could affect the credit union industry across many dimensions."

In addition, prior to issuing the RFI, the NCUA's Office of the Chief Economist released a Research Note (Research Note)[1] finding that roughly one-quarter of federally insured credit unions, particularly those in California, are in communities classified as having a relatively high or very high risk of experiencing negative effects due to natural hazards.

- **Compliance and Regulatory Concerns**

While we recognize the need for an ongoing assessment of emerging risks and supervisory approaches, we firmly believe that additional regulations and supervisory measures specific to climate-related financial risks are unnecessary at this time. Climate change is a complex and evolving issue, and projecting its financial impacts over the long term can be challenging. There may be concerns about the reliability and accuracy of long-term projections and their potential influence on credit union strategies and decision-making.

Moreover, in regard to the Research Note, the League is extremely concerned about the potential for increased regulatory action or supervisory examination burdens resulting from the implementation of comprehensive and potentially costly climate-related risk management practices and systems, particularly for smaller credit unions. They may lack the necessary resources, expertise, and technology to conduct sophisticated risk assessments and respond effectively to climate-related challenges.

- **California and Nevada Credit Unions Recognizing Climate-Related Challenges**

California is highly susceptible to a variety of climate-related challenges, including wildfires, droughts, sea-level rise, and coastal erosion. To that end, California is already beginning to set ambitious goals at the state level to combat climate change. For example, California's recent move to achieve 100% zero-emission vehicle sales by 2035 is significant, with a potential to impact auto lending practices.[2]

While acknowledging the importance of addressing climate-related challenges and looking ahead to resulting public policy changes, it is crucial to recognize that many credit unions in California have already taken significant steps to implement sustainable practices and are becoming leaders in promoting an environmentally friendly ethos in financial services. These credit unions are responding to climate change in a number of creative ways, such as:

- Adopting environmentally friendly policies and practices within their operations, such as an emphasis on paperless/digital practices, recycling, and reducing their carbon footprint.
- Offering loans and financial products that encourage environmentally friendly projects, such as eco-friendly vehicles, renewable energy installations, solar, and energy-efficient home improvements.

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[1] NCUA Research Note: Estimating Credit Union Exposure to Climate-Related Physical Risks (Apr. 19, 2023), available at https://ncua.gov/news/publication-search/climate-financial-risk/estimating-creditunion-exposure-climate-related-physical-risks.
[2] California Air Resources Board: Advance Clean Cars II (March 2022), available at https://ww2.arb.ca.gov/our-work/programs/advanced-clean-cars-program/advanced-clean-cars-ii.

- Incorporating environmental, social, and governance (ESG) criteria into their investment decisions.
- Collaborating with community organizations, non-profits, and green businesses to promote sustainable projects and initiatives that benefit the local community and the environment.
- Educating their members and the community about sustainability and environmental issues.

The above examples illustrate how credit unions in California are already moving in the right direction when it comes to combatting climate change without the need for regulatory action.

Consideration for the NCUA

As noted above, climate-related financial risks are complex and multifaceted, with unique regional characteristics and impacts. A one-size-fits-all regulatory approach may not be suitable, as it may fail to account for the diverse circumstances and risk profiles of credit unions across the country, or even within a single state. Instead, we encourage the NCUA to focus on supporting credit unions through guidance and education, allowing them to have the flexibility to voluntarily develop tailored approaches based on their specific circumstances, geographic locations, unique risk profiles, and member needs.

Conclusion

We believe that additional regulations and supervisory approaches are not currently necessary. We recommend that the focus should instead be on fostering collaboration and knowledge sharing among credit unions, the NCUA, and industry stakeholders. Encouraging best practices, developing educational resources, and facilitating dialogue can be far more effective in promoting climate resilience within the credit union sector than increasing an already heavy regulatory burden. By leveraging existing networks and partnerships, credit unions can continue to enhance their risk management practices and ensure the long-term sustainability of their operations.

Thank you for considering our perspective. We remain committed to working closely with the NCUA to effectively address climate-related financial risks and help ensure the long-term success of our credit unions. If you have any questions regarding our comments, please do not hesitate to contact me.

Sincerely,

Diana R. Dykstra
President and CEO
California and Nevada Credit Union Leagues