February 6, 2023

VIA ELECTRONIC FILING

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Principles for Climate-Related Financial Risk Management for Large Financial Institutions
Attention: Docket ID OP-1793

To whom it may concern,

Americans for Financial Reform Education Fund and the 24 undersigned organizations welcome the opportunity to comment on the The Board of Governors of the Federal Reserve System's (the "Board") draft Principles for Climate-Related Financial Risk Management for Large Financial Institutions. We support this important step toward addressing climate risk in the banking system and urge the Board, jointly with the other federal banking regulators, to swiftly finalize these principles. Many of our organizations have also written in other comments to support strengthening the draft principles with respect to tailoring for banks of all sizes, ensuring robust climate scenario analysis, and aligning banks' climate commitments with their internal strategies and governance.

We write specifically here to urge the Board to ensure that financial institutions carefully consider the potential impacts of climate-related financial risks in the context of racial, economic, environmental, and climate justice and the financial institutions' obligations under the Fair Housing Act, the Equal Credit Opportunity Act, the Community Reinvestment Act, and the Board's own obligation under the Fair Housing Act to affirmatively further fair housing. The Board must consider how climate risk guidance will interact with fair lending principles and regulation and consumer financial protections, and how banks can leverage newly available resources–like those authorized by the Inflation Reduction Act[1]–to manage climate risk in fair and equitable ways. Prudential climate financial regulation is long overdue and is vital to protecting the banking system, but it must not result in additional burdens on vulnerable communities and households, the very consumers who are most at risk from climate impacts, and it must support the Administration's Justice40 goals.[2]

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[1] H.R.5376 - Inflation Reduction Act of 2022. https://www.congress.gov/bill/117th-congress/house-bill/5376/text
[2] The White House, *Justice40 Initiative*. https://www.whitehouse.gov/environmentaljustice/justice40/

To this end, it is critical that the Board–along with the other federal banking regulators–tailor this climate supervisory framework in a way that recognizes the important role credit and banking services should play in helping vulnerable communities in building resilience to and mitigating climate disasters. Such guidance should include how banks can and should maintain the operational resilience of the critical services they provide. It should also encourage banks to support community investment in adaptation and resilience instead of withdrawing credit, to finance green investment, and to protect consumers from unsafe "green" financial products that lack adequate consumer protections and/or do not deliver purported climate benefits.

The Board should also strengthen and finalize its recent proposal[3] on the Community Reinvestment Act (CRA) regulations to address the impact of climate-related financial risks on climate-vulnerable Black, Latino, Asian American and Pacific Islander, and Native Communities, Communities of Color, and low- to moderate-income (LMI) communities, discourage harmful investments that exacerbate climate change, and encourage lending for climate mitigation and resilience. The Board should harmonize this guidance with updated CRA regulations to establish cohesive, clear expectations for how banks can operate safely in this new context.

Black, Latino, Asian American and Pacific Islander, and Native Communities, Communities of Color, and LMI communities–and the banks that serve them–are more vulnerable to physical risks from climate impacts.

Black, Latino, Asian American and Pacific Islander, and Native Communities, Communities of Color and LMI communities face greater climate vulnerability, higher energy cost burdens, environmental injustices, and worse public health outcomes due to decades of racist housing, lending, and siting policies–many created and perpetuated by the federal government itself–that have denied them equitable access to financial services. "Redlining" policies in particular have segregated people of color and lower income households into neighborhoods that face not only higher levels of toxic pollution[4] (e.g., from fossil fuel infrastructure) but also far greater physical vulnerability to climate impacts like flooding[5] and extreme heat[6] that harm infrastructure, public health, and local economies.

In particular, the EPA finds in an analysis of "socially vulnerable groups" that people of color are most likely to live in areas that will face the worst climate impacts. Black individuals are 40 percent more likely to live in areas with the highest projected increases in mortality rates due to climate-driven changes in extreme temperatures. Hispanic and Latino individuals are 43 percent more likely to live in areas with the highest projected labor hour losses in weather-exposed

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[3] FDIC, OCC, FRB, "Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations," 5 May 2022. https://www.fdic.gov/news/financial-institution-letters/2022/fil22018.html

[4] Jbaily et al., "Air pollution exposure disparities across US population and income groups," *Nature* **601**, 228-233, 2022. https://www.nature.com/articles/s41586-021-04190-y

[5] See E.g., Redfin News, "A Racist Past, a Flooded Future: Formerly Redlined Areas Have $107 Billion Worth of Homes Facing High Flood Risk–25% More Than Non-Redlined Areas," 2021. https://www.redfin.com/news/redlining-flood-risk/

[6] Hoffman *et al.*, "The Effects of Historical Housing Policies on Resident Exposure to Intra-Urban Heat: A Study of 108 US Urban Areas," 2020. https://www.mdpi.com/2225-1154/8/1/12/htm

industries. American Indian and Alaska Native individuals are 48 percent more likely to live in areas where the highest percentage of land is projected to be inundated due to sea level rise.[7]

The connection between redlining and climate vulnerability is clear; they co-exist in a feedback loop that further entrenches racial and economic inequality. In recent years, climate impacts–especially in underserved communities–are leading to ever-increasing chronic damages,[8] disruption to local economies based on agriculture, tourism, and energy,[9] and sometimes ultimately emigration[10] and loss of tax base,[11] effectively bankrupting towns across the country[12] and destabilizing local financial institutions.[13] Underserved communities tend to be both the most exposed to these damages and least able to access the federal aid resources to recover financially.[14] At the same time, climate gentrification is becoming a twin problem to climate vulnerability: when low-income people *do* live in areas that are more resistant to climate change, they are increasingly being priced out of these areas as they become more sought-after by higher income residents.[15]

Inequitable access to post-disaster recovery aid is a persistent driver of inequality that compounds disaster losses for underserved communities. In 2020, the National Advisory Council to FEMA troublingly found that "Many FEMA programs do not consider the principle of equity in financial assistance relief…Through the entire disaster cycle, communities that have been underserved stay underserved, and thereby suffer needlessly and unjustly." In fact, research has shown that "holding disaster costs constant, the more [FEMA] money a county receives, the more whites' wealth tends to grow, and the more blacks' wealth tends to decline, all else equal. In other words, how federal assistance is currently administered seems to be exacerbating rather than ameliorating wealth inequalities that unfold after costly natural hazards."[16]

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[7] EPA, "Climate Change and Social Vulnerability in the United States," September 2021. https://www.epa.gov/system/files/documents/2021-09/climate-vulnerability_september-2021_508.pdf

[8] NOAA, "Billion-Dollar Weather and Climate Disasters," 2022. https://www.ncdc.noaa.gov/billions/

[9] U.S. Global Change Research Program, "Fourth National Climate Assessment -Volume II: Impacts, Risks, and Adaptation in the United States," 2018. https://nca2018.globalchange.gov

[10] The NYTimes and ProPublica, "The Great Climate Migration," 2020. https://www.nytimes.com/interactive/2020/07/23/magazine/climate-migration.html

[11] Organisation for Economic Co-operation and Development (OECD), "Climate Change and Long Term Fiscal Sustainability," 2021. https://www.oecd.org/gov/budgeting/scoping-paper-on-fiscal-sustainability-and-climate-change.pdf

[12] The NYTimes, "Climate Change is Bankrupting America's Small Towns," September 2021. https://www.nytimes.com/2021/09/02/climate/climate-towns-bankruptcy.html

[13] The Wall Street Journal, "Banks Take a Hit from Hurricanes Katrina, Rita," 2005. https://www.wsj.com/articles/SB112993899645076384

[14] Urban Institute, "Improving Disaster Recovery of Low-Income Families." https://www.urban.org/debates/improving-disaster-recovery-low-income-families

[15] Elizabeth Santiago, "Weathering the Storm: Climate Gentrification in Miami's Little Haiti," 10 Feb. 2020. https://sph.umich.edu/pursuit/2020posts/weathering-the-storm-climate-gentrification-in-miami.html

[16] FEMA National Advisory Council, "National Advisory Council Report to the FEMA Administrator," November 2020. https://www.fema.gov/sites/default/files/documents/fema_nac-report_11-2020.pdf; Howell and Elliott, "As Disaster Costs Rise, So Does Inequality," *Socius,* 4 Dec 2018. https://journals.sagepub.com/doi/full/10.1177/2378023118816795

As the stability of local banks is deeply linked to the economic fortunes of the communities and households that they serve, institutions that provide vital access to financial services for underserved communities face particular challenges due to climate change. Bank supervisors must be on the lookout not only for systemic risks that affect the largest banks and could lead to cascading losses and financial instability, but also subsystemic safety and soundness issues that will affect certain geographies, sectors, and bank business models with elevated climate risk.[17] In addition, they should monitor the risk that bank failures may pose to consumers through banking consolidation. Banks are chartered to serve the convenience and needs of their communities, so not only is their financial stability dependent on the economic stability of those communities, banks should be a driving force in ensuring that stability for all members of those communities.

As such, we recommend the following components be included in the final principles.

Supervision must integrate safety and soundness and consumer compliance risk.

Analysis of fair lending risk should be integrated into all climate risk discussions. That is, “climate-related financial risk management” should include the risk of discriminatory or inequitable outcomes for consumers, rather than just the risk of financial loss to a financial institution. As the Great Recession showed us, a robust financial system requires fulsome consideration of the impact of financial products and policies on consumers in order to ensure a stable, safe, and sound financial system.[18] We were disappointed to see that the Board approached this guidance from a narrow safety and soundness perspective, rather than integrating the financial institution’s obligations under the Fair Housing Act and consumer protection laws. We noticed that the Board has not assigned any staff from the Division of Consumer and Community Affairs to this policy. We urge the Board to consult this division as it develops a final version of this guidance. A more holistic approach–combining risk to institutions with risk to consumers–will result in better outcomes for consumers and reduced compliance burdens and penalties for financial institutions by averting potential fair lending violations.

Supervision must encourage banks to enhance operational resilience and expand physical access to banking in Black, Latino, Asian American and Pacific Islander, and Native Communities, Communities of Color, and LMI communities.

The Board should use supervision to ensure that banks remain operationally resilient in the face of climate-related disasters and that they offer financial services to underserved communities on an equitable basis. Banks must be prepared for increasingly common and severe disruptions due to climate-related disasters–such as wildfires or hurricanes–and chronic stressors like persistent flooding and extreme heat. Preparations should extend to electrical power,

[17] CFTC, “Managing Climate Risk in the U.S. Financial System,” Sept 2020. https://www.cftc.gov/PressRoom/PressReleases/8234-20

[18] Bilge Yilmaz and David Musto, “Victimizing the Borrowers: Predatory Lending’s Role in the Subprime Mortgage Crisis,” Knowledge at Wharton Podcast, 20 Feb. 2008. https://knowledge.wharton.upenn.edu/article/victimizing-the-borrowers-predatory-lendings-role-in-the-subprime-mortgage-crisis/

communications systems, and physical resilience of branches, servers, offices, and ATMs. Branch closings in increasingly climate vulnerable areas may be avoidable by investing in operational resilience.

The Board should work in particular with smaller banks and climate-vulnerable branches of larger banks to disseminate policies and procedures that have worked to maintain resilience during previous disasters and encourage their implementation. Following climate disasters, households and communities often rely on local bank branches to access their own savings, and for assistance as they apply for government recovery funds and seek to avoid relief scams designed to steal recovery funds from recipients.[19]

Supervision must discourage banks from implementing risk mitigation measures that rely on avoiding or raising rates in climate vulnerable areas resulting in disparate impacts on Black, Latino, Asian American and Pacific Islander, and Native Communities, Communities of Color, and LMI communities.

In an effort to remain safe and sound, it is critical that larger, more diversified banks do not retreat from climate vulnerable communities, but instead find ways to promote climate resilience for their customers and communities. "Bluelining" is a developing practice where financial institutions avoid offering insurance, credit, and banking services, and/or raise costs to unaffordable levels in areas they identify as having higher environmental risk, often with little to no warning.[20] Without a holistic risk-based analysis that includes fair lending and equity concerns, banks will recreate the same patterns of racial and economic exclusion as previous redlining activities. This practice is becoming more prominent as the climate crisis accelerates: recent research reveals signs of credit rationing in areas where climate change is exacerbating flood risk, and notably, mortgage availability is shifting towards wealthier borrowers with higher FICO scores, lowering access for low income consumers.[21]

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[19] Alinda Murphy, Senior Examiner, Federal Reserve Bank of Kansas City, "How Banks Can Help Customers and Communities Respond to Major Disasters and Emergencies," Consumer Compliance Outlook: 2020. https://www.consumercomplianceoutlook.org/2020/second-issue/how-banks-can-help-customers-and-communities-respond-to-major-disasters-and-emergencies/

[20] Abraham Lustgarten, "How the Climate Crisis Will Shape Migration in America," The NYTimes, 15 Sept. 2021; Renee Cho, "With Climate Impacts Growing, Insurance Companies Face Big Challenges," https://news.climate.columbia.edu/2022/11/03/with-climate-impacts-growing-insurance-companies-face-big-challenges/; Michael D. Berman, "Flood Risk and Structural Adaptation of Markets: An Outline for Action," Community Development Innovation Review, 17 Oct. 2019. https://www.frbsf.org/community-development/publications/community-development-investment-review/2019/october/flood-risk-and-structural-adaptation-of-markets-an-outline-for-action/;
Tim McDonnell, " How new flood risk maps could undermine marginalized neighborhoods," Quartz, 5 July 2020. https://qz.com/1876202/new-flood-risk-maps-could-undermine-marginalized-neighborhoods; Teke Wiggin, "'Blue-lining' could be the new redlining, Fed branch warns," Inman, 18 Oct. 2019. https://www.inman.com/2019/10/18/blue-lining-could-be-the-new-redlining-fed-branch-warns/;

[21] Sastry, Parinitha. *Who Bears Flood Risk? Evidence from Mortgage Markets in Florida*, MIT Sloan School of Management, 2021. Available at: https://psastry89.github.io/website/psastry_JMP.pdf; Kristian Blickle et al., "The Adverse Effect of "Mandatory" Flood Insurance on Access to Credit," Liberty Street Economics, 23 May 2022. https://libertystreeteconomics.newyorkfed.org/2022/05/the-adverse-effect-of-mandatory-flood-insurance-on-access-to-credit/

The Board draft principles contain only a brief mention of the potential fair lending risk that may be associated with these harmful mitigation practices under the category of legal/compliance risk. To avoid disparate impacts from the guidance, the Board must place greater emphasis on fair lending risk–it should be an essential component of all aspects of the climate risk management that banks do–especially given the troubling history of discriminatory policies and practices that have led to climate vulnerability for underserved communities. Many banks are also exacerbating climate change through their lending to carbon-intensive industries, and for these institutions, fair lending violations in response to growing climate risk are especially egregious and must be vigorously pursued by regulators. Ultimately, the principles should model risk management that broadly defines "risk" to include risk to consumers, risk of loss to financial institutions, systemic financial risk, and considers holistically a bank's overall risks and impacts across their lines of business. And as part of the guidance, the Board should provide examples of climate risk mitigation strategies that pose potential fair lending risk exposure for banks, including with respect to revised CRA guidelines which may penalize bank investments that exacerbate racialized climate harms.[22]

Further, the Board should build on the Federal Insurance Office's recent effort[23] to collect data to determine how prevalent climate-induced curtailing of financial services has become for Black, Latino, Asian American and Pacific Islander, and Native Communities, Communities of Color, and LMI communities. As part of this guidance, it should require that banks identify, measure, monitor, and address potential and occurring disproportionate impacts on these communities. Banks should have a system for tracking their actions to avoid or address disproportionate impacts and documenting their progress on addressing those impacts, and this record should be carefully reviewed by bank examiners. And beyond this guidance, the Board should solicit community input on where and how bluelining is manifesting across the country.

The Board should provide clear supervisory expectations and work with banks to manage climate-related risks in ways that do not create disparate impact on underserved communities. There are methods available that serve the same purpose without discriminatory effect. Consistent with the requirements of the Fair Housing Act and Community Reinvestment Act, the Board should ensure that its financial institutions are using policies and products that have less discriminatory impact. For instance, the Board could encourage banks to invest more in other resilience measures, such as providing more low-cost funding for climate mitigation and adaptation measures in vulnerable communities to bolster the climate and financial resilience of their customers and communities, and to divest from assets exposed to a high degree of

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[22] 87 FR 33884, Community Reinvestment Act Proposed Rule, 3 June 2022, https://www.federalregister.gov/documents/2022/06/03/2022-10111/community-reinvestment-act; Letter from Americans for Financial Reform Education Fund, 5, Aug 2022, https://ourfinancialsecurity.org/2022/08/letter-to-regulators-letter-to-the-federal-reserve-on-the-community-reinvestment-act-proposed-rulemaking/

[23] U.S. Treasury Press Release, "Treasury's Federal Insurance Office Takes Important Step to Assess Climate-related Financial Risk – Seeks Comment on Proposed Data Call," 18 Oct. 2022. https://home.treasury.gov/news/press-releases/jy1030; https://ourfinancialsecurity.org/wp-content/uploads/2022/12/FIO-Data-Call-Comment-2022-1.pdf

transition risk. This guidance should be consistent with expected CRA regulation that expands the definition of “community development” to include climate resilience and green investments.

Finally, the Board should work with other government agencies to examine banks’ needs and other federal climate and disaster resilience resources that can be deployed to lessen climate vulnerability and deter banks retreating from the communities and households that most need their resources to prepare for and recover from climate-related disasters. Special attention and resources should be provided to Community Development Financial Institutions (CDFIs) with strong track records of serving underserved communities, Minority Depository Institutions (MDIs), Low-Income Designated credit unions (LIDs), and institutions that cannot easily diversify like large banks can.

Supervision should encourage banks to deploy safe and fair lending strategies to improve the climate resilience of communities and households they are chartered to serve, and discourage predatory products marketed with a “green” label.

Acceptable climate-risk mitigation can include lending strategies that promote climate resilience, including the development of climate-resilient affordable housing, schools, and businesses; clean electricity projects and microgrids; nature-based protective infrastructure (“green infrastructure”); building decarbonization, which includes holistic home weatherization and health interventions; electric public transit and electric vehicle charging infrastructure; and lending to small businesses and corporations with legitimate decarbonization transition strategies. For community-based banks, investments in weatherization and climate resilience for local businesses can improve the financial health of the community and promote safety and soundness. Climate-risk mitigation measures generally should be developed in a way that ensures accessibility and affordability in LMI communities and communities of color to promote financial health.

Unfortunately, some banks have noted that the novelty of these climate-resilient asset classes creates regulatory uncertainty, which can chill lending. The Board should prioritize providing guidance on green lending for underserved communities, which will help banks deploy capital in socially productive ways. To do this, the Board can survey what has worked for banks, or even green banks, which have successfully underwritten such loans, and transmit through training to underwriting staff the specific policies and procedures needed for banks to confidently underwrite green loans in novel markets. Such guidance will provide confidence to banks in moving forward on these kinds of loans.

At large financial institutions there is often a disconnect between community development and lending teams, so banks should be encouraged by the guidance to have those teams collaborate on addressing climate risks and opportunities. And bank examiners should encourage banks to leverage additional federal resources–such as the CDFI Fund[24] or the

[24] U.S. Treasury Community Development Financial Institutions Fund website. https://www.cdfifund.gov

EPA's Greenhouse Gas Reduction Fund[25]–that can help derisk new types of community-based green lending.

At the same time, the guidance should recognize where "green" financial products have not been good for consumers and steer banks away from those products. For example, residential Property Assessed Clean Energy (PACE) loans–the subject of a forthcoming proposed rule from the Consumer Financial Protection Bureau[26]–offer the often over-inflated promise of electricity bill savings through energy efficiency or renewable energy upgrades, but most programs do not fully assess a borrower's ability to repay. The borrower's home serves as collateral for PACE financing with payments collected through the local property tax system, so failure to pay can result in tax foreclosure. And as with the subprime lending abuses that led to the financial crisis of a decade ago, residential PACE loan originators frequently target the most economically vulnerable borrowers–low-income families, the elderly, and borrowers of color–many of whom may be eligible for grants or low-cost, lower-risk loans to improve energy efficiency. Residential PACE lending has become an urgent problem in Black, Latino, Asian American and Pacific Islander, and Native Communities, Communities of Color and LMI communities where the product is actively sold using aggressive if not fraudulent sales tactics and homeowners are often pressured to sign up without an actual assessment of home needs or suitability.[27] The Board must caution banks away from propagating this product, as well as others like it, until strong consumer protections are established. Additionally, banks should direct LMI consumers who are eligible for no cost federal, state, or utility programs toward those programs instead of financing.

The Board should also ensure that any novel approaches to housing finance intended to promote energy efficiency retrofits and upgrades do not feature untested, underlying assumptions around energy savings or increased property values that, as a result, place consumers in loans they cannot afford or that are not justified by subsequent energy savings.

Following the finalization of these principles for large financial institutions, the Board should swiftly follow with proposed principles tailored to smaller financial institutions.

The Board should extend and tailor its supervisory guidance to smaller institutions, which in many ways face greater safety and soundness risks from climate with less capacity and resources to adapt. Smaller institutions are critically important for the financial health of rural and underserved communities in particular. Some are more vulnerable to climate risk than larger banks due to the financial needs they meet and their more limited geographic range and product offerings. They may also face more acute climate-related risks, either physical risks from the geographies of the mortgages or businesses they underwrite or transition risk from less

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[25] EPA Greenhouse Gas Reduction Fund website. https://www.epa.gov/inflation-reduction-act/greenhouse-gas-reduction-fund

[26] OIRA, OMB, "Property Assessed Clean Energy Financing; RIN: 3170-AA84", Fall 2022. https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202210&RIN=3170-AA84

[27] John Rao, "Residential PACE Loans: the Perils of Easy Money for Clean Energy Improvements," 1 Sept. 2017. https://www.nclc.org/resources/residential-pace-loans-the-perils-of-easy-money-for-clean-energy-improvements/

diversified portfolios concentrating in carbon-intensive industries.[28] For example, the departure of small insurers in Louisiana (over 20 and counting[29]), Florida[30] and other coastal states has profound implications for smaller banks that hold a higher percentage of real estate loans.

Conclusion

We thank the Board for moving forward with supervisory guidance to mitigate climate risk within the banking system, and we urge your upfront consideration of potential fair lending implications and incorporation of appropriate equity safeguards within the supervision and examination process. Additionally, we urge you to issue final climate risk principles with the other federal banking regulators as soon as possible, as the Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation have already collected extensive comments on nearly the exact same principles since they were first issued in December 2021. Incorporating climate risk into bank supervision alongside all other risk types is an urgent task that must commence quickly to protect consumers and the financial system. For more information please contact Alex Martin (alex@ourfinancialsecurity.org).

Sincerely,

Americans for Financial Reform Education Fund

Action Center on Race and the Economy

California Reinvestment Coalition

CASA

Climate Organizing Hub

Consumer Action

Consumer Federation of America

Elders Climate Action

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[28] Ceres, *The Consequences of Physical Climate Risk for Banks: Financing a Net Zero Economy*, 8 Sept. 2021. https://www.ceres.org/resources/reports/consequences-physical-climate-risk-banks; Basel Committee on Banking Supervision, *Principles for the effective management and supervision of climate-related financial risks*, 16 Feb 2022. https://www.bis.org/bcbs/publ/d530.pdf.

[29] Daily Mail, "Homeowners in Louisiana are in 'crisis' as more than 20 insurance companies go under or flee the state after string of devastating storms - forcing hundreds of thousands to pay higher premiums or go without coverage," 17 Jan. 2023. https://www.dailymail.co.uk/news/article-11644495/Homeowners-Louisiana-crisis-20-insurance-companies-leave.html

[30] Mel Duvall, "Home insurers are leaving Florida: Here's what you need to know," insurance.com, 20 Dec. 2022. https://www.insurance.com/home-and-renters-insurance/home-insurers-leaving-florida

Empire Justice Center

Friends Fiduciary

Interfaith Center on Corporate Responsibility (ICCR)

League of Conservation Voters

National Consumer Law Center (on behalf of its low-income clients)

National Community Reinvestment Coalition (NCRC)

National Fair Housing Alliance

Oxfam America

People’s Action

Promethos Capital

Public Citizen

Revolving Door Project

Sierra Club

The Greenlining Institute

Tulipshare Ltd.

Union of Concerned Scientists

Woodstock Institute