Natalia Li
Director, Office of Consumer Policy
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

April 3, 2024

RE: Request for Information on Financial Inclusion (TREAS–DO–2023–0014)

Dear Director Li:

The undersigned organizations, some of whom have also submitted other responses to the Request for Information (RFI), appreciate this opportunity to submit comments on the Department of the Treasury's ("Treasury") request for information on financial inclusion. Creating a financial inclusion roadmap is a crucial step in tackling the harmful impact that unequal access to financial services has on racial and economic disparities in the United States. Treasury must promote fair, safe, and equitable financial inclusion practices and policies that support underserved households and communities by improving their financial security and that foster widespread economic growth, with no communities left behind.

Unfortunately, the financial system exacerbates racial and economic inequality from historically-rooted and ongoing racism. This is clearly seen in the sustained wealth disparity between Black and white households, which currently mirrors pre-civil rights movement levels.[1] The absence of financial inclusivity significantly contributes to enduring racial economic gaps. In 2022, Federal Reserve data revealed that Black and Latine families typically earn approximately 44 percent less and possess household net worth around 80 percent lower compared to white families.[2] The long-standing practice known as redlining, a discriminatory practice of denying or limiting financial services, such as loans or insurance, to certain neighborhoods or communities based on their racial and/or ethnic composition has contributed to this economic inequality. Government-backed institutions and private entities systematically discriminated against borrowers in Black neighborhoods, leading to disinvestment and economic marginalization of these communities.[3] Redlining contributed significantly to wealth disparities and segregation, with lasting impacts on the economic opportunities for affected communities.[4]

In addressing these inequities, it is crucial to both reckon with longstanding drivers like redlining, and recognize emerging financial risks, such as climate change, which will further harm the financial security of underserved communities unless significant policy interventions are undertaken. Comprehensive solutions are needed that reckon with the interconnected nature of systemic inequalities and address both past and present disparities.

Bluelining

Climate change is a risk multiplier that exacerbates racial and economic inequality, and it is progressing at an alarming rate.[5] Black communities are more vulnerable to climate-related impacts due to a legacy of

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[1] Kuhn, Moritz, Moritz Schularick, and Ulrike I. Steins. CESifo. "Income and Wealth Inequality in America, 1949-2016." Working Paper No. 6608. June 2018.
[2] Federal Reserve Board. Survey of Consumer Finances 2022. Before Tax Median Family Income and Median Household Net Worth. 2023.
[3] Badger, Emily. "How Redlining's Racist Effects Lasted for Decades." *New York Times*. August 2017.
[4] Ibid.
[5] United Nations High Commissioner for Refugees. "Climate Change and Disaster Displacement." 2020.

redlining, racist housing and lending practices, and environmental racism.[6] One of the many consequences of redlining still being experienced today relates to decades of disinvestment in housing and critical infrastructure for redlined communities. With poor building conditions, fewer or substandard sewers, levees, trees, and green spaces that could protect communities from climate-related hazards, particularly flooding and heat, these communities are more vulnerable to climate change.[7] These communities now face more climate-related financial risk, which can result in financial institutions raising rates, withdrawing insurance or other financial services from them – a practice sometimes referred to as bluelining.[8] Insurance markets are where communities are already most acutely feeling the impacts, with some insurers in California refusing to offer new homeowners policies while insurer insolvencies in states like Florida[9] and Louisiana[10] are leading to substantial rate hikes.

Given the throughline between redlining, climate vulnerability, and bluelining, Treasury should work with federal regulators to incentivize financial institutions to build relationships with and drive investments to low and middle-income (LMI) and formerly redlined communities that are also the most climate vulnerable.

Treasury should remain vigilant regarding Fannie Mae and Freddie Mac mortgages, particularly in areas that are susceptible to bluelining and Low-Income, Disadvantaged, and/or Communities of Color (LIDAC) areas, as designated by the Climate and Economic Justice Screening Tool (CEJST). Monitoring shifts in the portfolio of properties secured by mortgage insurance is crucial, along with transparently outlining strategies to counteract any downward trends.

In March 2024, the Federal Insurance Office (FIO) at Treasury announced a partnership with the National Association of Insurance Commissioners on the collection of climate data from insurers needed to evaluate how climate risks are harming consumers and inform how this impacts the broader financial system.[11] FIO should ensure that data collection is robust, covers the entire U.S., and that the results and analysis are shared with financial regulators and the public to encourage using this data as a starting point for broader collection, research, and analysis on climate risk management and bluelining, with a particular eye toward disparate impacts on low-income communities and communities of color. Ultimately, federal regulators need to ensure that financial institutions manage their climate-related financial risks while adhering to fair lending laws and promoting climate resilience in climate-vulnerable communities.[12]

Furthermore, as part of its oversight mandate, Treasury must ensure that any climate risk mitigation measures implemented to safeguard against asset loss due to changes in the availability of insurance do

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[6] Zonta, Michela and Caius Z. Willingham. "A CRA To Meet the Challenge of Climate Change," *Center for American Progress*. December 2020.; "The Link Between Historic Redlining And Current Climate Risks." *Enterprise Community Partners*. August 2021.

[7] Mitchell, Bruce and Juan Franco. "HOLC 'Redlining' Maps: The Persistent Structure Of Segregation And Economic Inequality." National Community Reinvestment Coalition. March 2018.; Moran, Barbara. "Mapping Project Explores Links Between Historic Redlining And Future Climate Vulnerability." *WBUR*. March 2021.

[8] Montgomery, Brooklyn, and Monica Palmeira. Rep. *Bluelining: Climate Financial Discrimination on the Horizon*. Greenlining, 2023.

[9] Pangilinan, Mika. "Florida Regulators Evaluate Citizens' Proposed Rate Hikes." Insurance Business America, June 12, 2023.

[10] "Louisiana Insurance Commissioner Approves Citizens Rate Increase of 63%." Insurance Journal, October 11, 2022.

[11] "U.S. Department of the Treasury and State Insurance Regulators Launch Coordinated Effort on Homeowners Insurance Data Collection to Assess the Effects of Climate Risk on U.S. Insurance Markets." U.S. Department of the Treasury, March 8, 2023.

[12] *Climate Vulnerability and the Community Reinvestment Act (CRA) Regulations*. Americans for Financial Reform, 2023.

not impose additional financial burdens on LIDAC mortgage holders. Consideration should be given to adopting financial backstops, such as new reserve funds, to provide support to distressed homeowners, thereby safeguarding their homes and assets without further straining already overburdened communities.

Green Lending and Avoiding Predatory Inclusion
In a world of growing climate-related financial risks, the federal government has an essential role in protecting consumers from potentially harmful industry responses to managing climate risk and poorly designed or predatory climate-related (or "green") financial programs and products. Treasury and financial regulators should be wary of predatory financial inclusion, where the most financially vulnerable communities might be targeted by predatory lenders or contractors and taken advantage of further, under the pretense of benefiting from a green economy.

One example of green financing that has resulted in significant harm is Property Assessed Clean Energy (PACE) residential financing. PACE financing was developed in response to the growing demand for energy efficiency and renewable energy and as a way for consumers to reduce their climate change impacts and benefit from reduced energy burden and cost savings. Unfortunately, residential PACE loan products have often been pushed onto consumers through predatory and fraudulent sales practices, sometimes by unscrupulous contractors, binding consumers to unsustainable loans that they cannot repay. The problematic structure of PACE loans – which involves superpriority liens[13] being placed on consumers' homes – resulted in many consumers losing their homes through foreclosures.[14] The challenges that emerged from the residential PACE program demonstrate that safe climate investment requires strong consumer protections at the inception and baked into program design, not after the product reaches consumers. Regulators should make every effort to minimize public harms and negative consequences like those that emerged from the problematic design and incentives in PACE financing that resulted in predictable predatory outcomes.

The Treasury should evaluate how financial inclusion is incorporated into support for a just transition to a green economy.[15] Treasury, financial regulators, especially the Consumer Financial Protection Bureau, and all of the agencies responsible for green lending programs should provide guidance, oversight, and enforcement around consumer protections for green lending and green financing products. Safe and non-predatory financial inclusion should be a huge priority in the emerging green economy so that more communities can participate, particularly those that have been discriminated against or otherwise left out of past economic opportunities.

Community Reinvestment Act Regulation and Climate Investment
Congress originally intended for the Community Reinvestment Act (CRA) to help redress harms caused by redlining and in communities that now suffer from greater climate vulnerability. A climate vulnerability lens and appropriate incentives would improve CRA regulation efficacy and account for emerging risks and reinvestment needs.[16] Using climate vulnerability indicators in tandem with traditional economic indicators to guide reinvestment would better target resources, encourage investment in communities where climate vulnerability is high, and allow for harmonization between CRA regulation, related efforts on climate risk, and other federal climate investment initiatives.

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[13] A lien is "a legal claim against another person's property as security for a debt." https://www.dccourts.gov/node/281. A superpriority lien gives a lien priority over all others, including the first mortgage on a home.
[14] Rebecca Burns, "The Subprime Solar Trap for Low-Income Homeowners," Bloomberg (April 6, 2021); Jeremy Kohler and Haru Coryne, "State-Supported "Clean Energy" Loans Are Putting Borrowers at Risk of Losing Their Homes," ProPublica (April 23, 2021)
[15] A just green transition: Concepts and practice so far, November 2022.
[16] "Community Reinvestment Act of 1977," *Federal Reserve History*.

As banks begin to manage their climate-related risks by reducing lending in areas most susceptible to chronic or acute climate disasters, such as in flood- or wildfire-prone areas, this is leaving communities with even fewer resources to meet the ever-worsening impacts of climate change.[17] The closing of banking branches in LMI census tracts, as well as in middle and upper-income tracts that are adjacent and may serve those communities, is one element evaluated under the CRA exam process.[18] Bank examiners should be required to record when climate-related impacts have contributed to bank branch closures, and to report that information to their respective agency's office of climate risk or climate committees, and the Financial Stability Oversight Council (FSOC)'s Climate-Related Financial Risk Advisory Committee.[19]

The Treasury and FSOC should align agency efforts related to assuring benefits and access to capital in climate-vulnerable communities, including with other key federal initiatives, including the White House Council on Environmental Quality and their oversight of the Justice40 Initiative. Financial institutions have a crucial role to play in providing necessary capital and financial services to ensure infrastructure projects are successful, and aligning climate-related efforts in the CRA regulations with the initiatives mentioned above will facilitate smoother financing of critical resilience projects.

The updated CRA[20] now includes investments in "disaster preparedness and weather resiliency" activities, aimed at promoting weatherization upgrades, energy efficiency, green space, communal solar power, and community heating and cooling centers, as eligible for CRA credit. Eligible institutions will also be able to support investment in those types of projects with capital from the Greenhouse Gas Reduction Fund (GGRF)— a $27 billion fund to mobilize private capital to tackle the climate crisis.

We urge Treasury to develop a roadmap that addresses the systemic racism in the financial system, which continues to contribute to racial economic disparities and climate vulnerability. We commend the initiative to gather insights on financial inclusion and stress the urgency of formulating a comprehensive plan that includes engagement with formerly redlined and climate-vulnerable communities to tackle disparate financial impacts of the climate crisis. We appreciate the opportunity to provide comments and remain committed to working collaboratively toward a more just and resilient financial system that serves all communities equitably.

Sincerely,

Americans for Financial Reform Education Fund
BankTrack
Divest Oregon: Reinvest in a Fossil Free Future
Earth Action, Inc.
Friends of the Earth U.S.
Green America
Greenlining
Inclusiv
Micah Six Eight Mission
National Consumer Law Center (on behalf of its low-income clients)

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[17] Jacobson, Lindsey. "Banks consider climate risk for home loans, a process called 'underwaterwriting' or 'blue-lining'." *CNBC*. September 2021.
[18] "FAQs About CRA Exams and Ratings," *New York State Department of Financial Services*.
[19] "Office of Climate Risk," *Office of the Comptroller of the Currency*.; "Press Release: Statement of Chair Jerome H. Powell on the Financial Stability Oversight Council's (FSOC) Report on Climate-Related Financial Risk," *Board of Governors of the Federal Reserve System*. October 21, 2021.; "Climate-Related Financial Risk Advisory Committee (CFRAC)," *U.S. Department of the Treasury*.
[20] Community Reinvestment Act (2023).

Natural Resources Defense Council
New Mexico Climate Justice
The People's Justice Council
Regenerating Paradise
Rise Economy
Stand.earth
Union of Concerned Scientists