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National Association of Federally-Insured Credit Unions

July 17, 2023

The Honorable Andy Barr
Chairman
Committee on Financial Services
Subcommittee on Financial Institutions
and Monetary Policy
U.S. House of Representatives
Washington, DC 20515

The Honorable Bill Foster
Ranking Member
Committee on Financial Services
Subcommittee on Financial Institutions
and Monetary Policy
U.S. House of Representatives
Washington, DC 20515

Re: Subcommittee on Financial Institutions Hearing: “Climate-Risk: Are Financial Regulators Politically Independent?”

Dear Chairman Barr and Ranking Member Foster:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) ahead of tomorrow’s Subcommittee hearing, “Climate-Risk: Are Financial Regulators Politically Independent?” As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve nearly 137 million consumers with personal and small business financial service products. NAFCU and our members appreciate the continued work of the Subcommittee in examining financial institutions’ risk management frameworks and the role financial regulators play in climate-related financial risks and the potential impacts of proposed regulations on credit unions.

NAFCU believes that there should be Congressional action prior to prudential regulators instituting compliance reporting standards for climate-related financial risks, as climate-related risks are often deemed outside their jurisdiction. Prudential banking regulators are not climate regulators and should not be wading into this space with proposed regulation. NAFCU recognizes the variety of climate risk profiles within the credit union industry, and we believe the National Credit Union Administration (NCUA) should avoid attempts to issue comprehensive guidance on climate-related financial risk. Instead, we recommend deference to the Financial Stability Oversight Council (FSOC) to formulate guidance for all financial regulators to ensure that credit unions are not unfairly burdened as compared to other financial institutions. Moreover, financial institutions need to determine the risks for themselves with their management and boards of directors as they vary between geographic location and levels of physical risk exposure.

While NAFCU understands the significance of climate-related financial risks, it is unclear how they compare to existing risks facing credit unions. Credit unions are exposed to a variety of risk factors related to interest rates, liquidity concerns, economic risk, credit risk, cybersecurity, vendor management, fraud, competition, legal, and compliance and regulatory issues, as well as non-

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climate-related natural disaster risks such as earthquakes. These elements encompass a considerable threat to the financial viability of credit unions. All of these risk factors, including climate-related financial risk, can be mitigated, to greater or lesser extents, through effective risk management strategies and the continuation of diligent voluntary efforts of credit unions.

Federally-insured credit unions already operate under significant regulatory oversight and are subject to substantial and overwhelming compliance burdens. Therefore, any additional regulatory measures should be derived from a well-justified and studied basis. Implementing regulations specifically targeting the management of climate-related financial risk would entail substantial costs and require significant time and resources from credit unions. Furthermore, due to the evolving nature of climate-related financial risks, compliance measures on this issue would be susceptible to obsolescence over time and represent a rigid structure that might be difficult to change or update in a way that guidance or principles might not be.

We thank you for the opportunity to share our thoughts and look forward to continuing to work with the Subcommittee on these important issues. Should you have any questions or require any additional information, please contact me or Amber Milenkevich, NAFCU's Senior Associate Director of Legislative Affairs, at (703) 402-2330 or amilenkevich@nafcu.org.

Sincerely,



Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Subcommittee on Financial Institutions and Monetary Policy