NAFCU
3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org
National Association of Federally-Insured Credit Unions

June 12, 2023

The Honorable Patrick McHenry
Chairman
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
House Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

**Re: Committee Hearing with Secretary Yellen**

Dear Chairman McHenry and Ranking Member Waters:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) regarding tomorrow's Committee hearing with Treasury Secretary Yellen. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 135 million consumers with personal and small business financial service products. NAFCU appreciates the opportunity to share the perspective of credit unions on some key issues before Secretary Yellen testifies in front of the Committee.

**Community Development Financial Institutions (CDFI) Fund**

NAFCU continues to hear concerns from our members about the operations of the CDFI Fund. The CDFI Fund is housed at Treasury and its mission is to provide grants to certified institutions that operate in low income and underserved areas. The Fund went into a blackout period in October of 2022 in order to update its application standards and clear a backlog of pending applications. The initial blackout period was supposed to last six months and conclude in April 2023, however, it was then extended into an "indefinite pause." To make matters worse, the Fund's director resigned and left the Fund in May. Since then, the Fund has said it anticipates rolling out the new application in "the fall" and still does not have a permanent director.

Throughout this entire process, the Fund has not been responsive to stakeholders and certified institutions. This has led to confusion with certified CDFIs as well as operational challenges due to the longer than anticipated pause on applications. Making matters worse, insured and regulated credit unions now make up the largest category of CDFIs at the Fund, yet depositories only receive a small amount of the total funds disbursed by the Fund. We encourage the Committee to use its time with Secretary Yellen to discuss these ongoing issues at the CDFI Fund.

**Climate Risk**

Another concern NAFCU would like to make the Committee aware of is the recent attempts by the National Credit Union Administration (NCUA) to include climate risk data in its risk assessments for credit unions as part of a broader effort to examine climate risk for financial institutions. While NAFCU acknowledges the threat that climate change poses, we do not believe that the NCUA is taking an appropriate approach on this issue. The NCUA is using the Federal Emergency Management Agency's (FEMA) National Risk Index (NRI) data to inform its assessments. Its assessment found that a third of all credit union assets were in high-risk communities. However, NAFCU's Research division found that the NCUA's approach has weaknesses that call into question its conclusion that roughly one-quarter of federal credit unions and one-third of credit union assets are located in communities classified as having relatively high or very high risk of experiencing negative effects due to natural hazards. We have encouraged the NCUA to use Home Mortgage Data Act (HMDA) data, as NAFCU Research did, which showed only 11 percent of credit union assets were in high-risk areas.

We believe it is crucial for the NCUA to ensure that any regulations or guidance issued to credit unions regarding climate-related financial risk align with those of other federal banking regulators. The harmonization of regulations across the financial sector is essential to maintain a level playing field and promote fair competition. If the NCUA were to impose more restrictive guidance or regulations on credit unions compared to other banking institutions, it could create a significant disadvantage for credit unions in terms of their viability and competitiveness. Such a disparity would place credit unions at a higher cost burden and hinder their ability to adapt to climate-related financial risks effectively. Furthermore, it could impede credit unions' capacity to serve their members and fulfill their mission of providing accessible and affordable financial services to communities across the country. Therefore, ensuring regulatory consistency across federal banking regulators is vital to preserve the strength and sustainability of credit unions.

NAFCU has urged the NCUA to work with the Financial Stability Oversight Council (FSOC) and allow that monitoring body to take the lead on this issue to ensure that regulators have a consistent approach. Furthermore, NAFCU urged the NCUA to avoid rulemaking on climate-related financial risk until such time as there has been Congressional action and conform to the position of Federal Reserve Chair Jerome Powell: "Without explicit congressional legislation, it would be inappropriate for us to use our monetary policy or supervisory tools to promote a greener economy or to achieve other climate-based goals…We are not, and will not be, a 'climate policymaker.'"[1]

**Financial Institutions and the GHGR Fund**

Finally, the Inflation Reduction Act created the Greenhouse Gas Reduction Fund (GHGR Fund) to provide funding for efforts to improve environmental impacts. NAFCU has outlined to the Environmental Protection Agency (EPA) concerns about how it has proposed to design and implement the program in a way that could limit credit union participation. Credit unions and CDFIs are well positioned to use this program to help a number of American communities reduce their greenhouse gas emissions. To effectively deploy funds from the program, the EPA should

[1] CNBC, "Powell reiterates Fed is not going to become a 'climate policymaker'" (Jan. 10, 2023) *available at* https://www.cnbc.com/2023/01/10/powell-reiterates-fed-is-not-going-to-become-a-climate-policymaker.html.

rely on already well-regulated and supervised not-for-profit depository institutions that have extensive experience in lending to local communities instead of untested, unregulated non-profit entities that are unfamiliar with consumer financial protection laws. We encourage Treasury to advocate for credit unions and CDFIs with the EPA as well and urge you to call on Secretary Yellen to do so.

We thank you for the opportunity to share our thoughts in advance of tomorrow’s hearing. Should you have any questions or require any additional information, please contact me or Lewis Plush, NAFCU’s Senior Associate Director of Legislative Affairs, at 703-842-2261.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Financial Services Committee