DAKOTA
CREDIT UNION
ASSOCIATION

January 24, 2022

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

RE: Docket #NCUA-2021-0100; Comments on NCUA 2022-2026 Draft Strategic Plan

Dear Ms. Conyers-Ausbrooks,

The Dakota Credit Union Association (DakCU), which represents state and federally chartered credit unions in the states of North Dakota and South Dakota, appreciates the opportunity to provide comment to the National Credit Union Administration (NCUA) regarding its 2022-2026 Draft Strategic Plan.

The NCUA unanimously approved the 2022-2026 Draft Strategic Plan (Plan) at its November 18, 2021, board meeting and made the Plan available to stakeholders for review and comment. DakCU commends the NCUA in encouraging feedback on the Plan. Maintaining an open dialogue between the NCUA and the credit union industry is important as we face the future together. Furthermore, it illustrates the NCUA's commitment to transparency about future plans and actions the agency may take.

As explained in the notice of request for comment regarding the Plan, "the draft plan provides the agency's proposed strategic goals and objectives for the next five years. The draft plan summarizes an analysis of the internal and external environment impacting NCUA and evaluates the agency's programs and risks."[1]

Additionally, the notice further explains, "The NCUA Draft Strategic Plan 2022-2026 outlines how the agency will continue to effectively supervise and insure a growing and evolving credit

[1] *86 FR 67090, November 24, 2021*.

union system. As the financial services and the credit union sector evolve, the NCUA must be responsive. The NCUA Draft Strategic Plan 2022-2026 aims to be forward-looking and address the risks and opportunities facing the agency and the credit union system over the next five years."[2]

DakCU appreciates the fact that part of strategic planning is to be able to identify and account for any potential risks on the horizon. As with prior strategic plans, this Plan also identifies several longer-term risks, some of which have been identified in prior strategic plans such as Interest Rate Risk. A longer term risk identified in this Plan that does not appear in prior strategic plans, is climate-related financial risks.

As discussed in the Plan, "Credit unions need to consider climate-related financial risks and how they could affect their membership and institutional performance. For instance, a credit union's field of membership is often tied to a particular industry or community. Some industries, like the energy and auto industries, may be disproportionately affected by climate change and the transition away from fossil fuels towards renewable forms of energy. Changing weather patterns will disproportionately affect farming communities. Over time, climate change will likely affect the value of collateral, including homes and vehicles. To remain resilient credit unions may need to consider adjustments to their fields of membership as well as the types of loan products they offer. Efforts to combat climate change will likely give rise to new regulations, potentially increasing costs for credit unions as they adapt and respond. Climate change presents several complex conceptual and practical challenges not only for credit unions but also for the NCUA. The agency will need to adapt its risk monitoring framework to account for climate-related threats to financial stability, the credit union system, and the Share Insurance Fund."[3]

DakCU acknowledges that weather patterns change, and climate is impacted, but we are concerned that not enough has been done to fully understand the potential impact of climate change on certain industries such as the financial sector. The Financial Stability Oversight Council (FSOC) issued a 2021 Report on Climate-Related Financial Risk in October 2021. The FSOC only first started discussing climate-related financial risks in March 2021. DakCU urges the NCUA to take a more thoughtful approach to the topic of climate-related financial risk and carefully study any potential correlation between climate change and risk to the credit union industry. Climate change is very complex, and it is important to proceed carefully only after all the factors are known and vetted. It would be reckless to proceed in a knee-jerk or reactionary way as that may only harm the communities and members credit unions strive to serve.

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[2] *86 FR 67091, November 24, 2021*.
[3] *NCUA Draft Strategic Plan 2022-2026, page 12*.

With regard to the Plan's discussion relating to farming communities and the potential climate-change may have on this industry, DakCU is concerned with any potential increased scrutiny examiners may place on a credit union's agricultural lending portfolio. As inflation and higher input costs are significantly impacting the agricultural industry, DakCU implores the NCUA to provide regulatory flexibility and not to increase examination burdens on credit unions so they may continue to support the agricultural industry and the communities they serve. DakCU is very concerned when an otherwise healthy credit union is moved from an 18 month exam cycle to a 12 month cycle, merely for a higher concentration in business lending, specifically agricultural lending. We would argue that this is unnecessary and burdensome on the credit union, especially in rural areas – such as the Dakotas, where the agricultural industry is so important to the state.

Agriculture is the leading industry in North Dakota and South Dakota. In North Dakota, almost 25% of the state's workforce is employed by agricultural, and nearly 90% of the land in North Dakota is used to support this industry.[4] The economic impact of North Dakota agricultural to the state is $7.5 billion with $4.1 billion in agricultural exports.[5] "In 2020, North Dakota led the nation in the production of all dry edible beans, pinto beans, canola, flaxseed, honey, rye, all sunflower, non-oil sunflower, oil sunflower, all wheat, Durum wheat, and spring wheat."[6]

As found in the *2021 Economic Contribution Study of South Dakota Agriculture, Ethanol and Forestry* (July 2021)[7], "although there have been challenging times in agriculture, forestry, and related industries, they are still a significant part of South Dakota's economy, supporting about 1 in every 5 jobs across South Dakota." The report goes on to provide that, "In 2021, agriculture, forestry, and related industries in South Dakota are estimated to contribute: $11.7 billion in total value added, and 129,753 jobs."

The agricultural industry extends well beyond crops and livestock. Agritourism, agribusiness and food processing, equipment manufacturing and dealerships, innovative technology, local food and farmers markets, all contribute to the Dakota regions' thriving industry. Agriculture is everything from seeds and fertilizers to the food, feed, fiber, and fuel we all use every day. Many Dakota

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[4] North Dakota Agricultural, 2021 Edition. North Dakota Department of Agricultural, page 5. https://www.calameo.com/read/000420308c28e25c77857

[5] *Id* page 6.

[6] North Dakota Agriculture, Ag Statistics No 90 (August 2021), https://www.nass.usda.gov/Statistics_by_State/North_Dakota/Publications/Annual_Statistical_Bulletin/2021/ND-Annual-Bulletin21.pdf

[7] *2021 Economic Contribution Study of South Dakota Agriculture, Ethanol and Forestry* (July 2021) https://danr.sd.gov/AboutDANR/docs/2021AgEcStudy.pdf

credit unions were chartered to serve and support their rural communities where agribusiness is the only economic activity.

DakCU does appreciate NCUA Board Member Rodney E. Hood's statement during the November 18, 2021, board meeting in which he emphasized, "the strategic plan is an aspirational document. While I certainly believe that climate change is an issue, I do not believe it is an issue for the NCUA as a safety and soundness financial regulator at this time. As of now, my view is that credit unions know best how to manage this risk, not the NCUA. However, in the spirit of bipartisanship, I deferred to the Chairman on the climate change language in the strategic plan. And I did so knowing that this strategic plan, as an aspirational document, does not change any NCUA policy or supervision for climate change."

We also appreciate the NCUA Chairman Todd M. Harper's statement during the November 18, 2021, board meeting that, "My fellow Board Members and I also agree that if there were to be a change in NCUA policy and supervision related to climate financial risk, that change would have to be agreed upon by Board action, just like any other policy change we make on financial technology, field of membership rules, and mortgage servicing rights."

The draft Plan identifies three strategic goals, namely: "Goal 1 - Ensure a safe, sound, and viable system of cooperative credit that protects consumers. Goal 2 - Improve the financial well-being of individuals and communities through access to affordable and equitable financial products and services. Goal 3 - Maximize organizational performance to enable mission success."[8]

To achieve Goal 1, the Plan identifies several strategic objectives. Strategic Objective 1.4 addresses ensuring NCUA insured credit unions can appropriately manage emerging opportunities and risks, including cybersecurity, financial technology, digital assets, and climate-related financial risk. The draft Plan expands on this strategic objective by providing that, "Credit unions are becoming larger and more complex as they seek to provide their members with more and improved products and services. Growth and innovation raise risks to credit union member-owners and the Share Insurance Fund. The agency must balance responsible oversight with forward looking policies that promote innovation and respond to potential industry disruptions."[9]

Performance goals related to strategic objective 1.4 include, "Evaluate and address barriers to credit union adoption of emerging financial technology. Promote and evaluate effective

[8] *NCUA Draft Strategic Plan 2022-2026, page 17.*
[9] *NCUA Draft Strategic Plan 2022-2026, page 20.*

cybersecurity practices in credit unions. Identify and mitigate asset concentration risks, including those resulting from climate-related financial risk."[10]

Again, with regard to the strategic objective and performance goals that relate to climate-related financial risk, especially actions included in the Plan to "identify and mitigate asset concentration risks, including those resulting from climate-related financial risk," DakCU is concerned about the impact this will have on the agricultural communities in the Dakotas. As previously stated, climate change is very complex, and it is important to proceed carefully only after all the factors are identified and known and vetted. In fact, the agricultural industry plays a key role in providing solutions to address climate change concerns.

As explained recently by J.P. Dutch Bialke, General Counsel/Senior Advisor for the North Dakota Department of Agriculture, "Farmers remain the answer to climate change. Plant-based agriculture enhances climate resiliency. The high value of sustainable agriculture to the climate must be duly recognized. Current regenerative agricultural practices positively contribute to environmentally-friendly undertakings such as carbon sequestration. Many current and wide-spread agriculture practices already readily qualify as climate-smart practices. No-till farming, protecting farmland and pastureland, effective irrigation management, regular use of cover crops, organic farming practices, the integration of livestock and crops, and the rotating of diverse crops all help to preserve and protect the environment. Many of these commonplace agricultural practices capture excess carbon generated by other industries and mitigate climate change. This captured carbon is then converted into plant material and/or soil organic matter, dramatically improving soil health and increasing the ability to produce food on the land in the future. Plants universally use carbon dioxide. In short, more plants mean less carbon.

The agriculture industry continues to make great strides in producing more food, fiber, feed, and fuel with fewer inputs. These ongoing agronomy practices must be respected and continue to be incentivized through competitive financing."

DakCU appreciates NCUA Chairman Harper's comments at the November 18, 2021, NCUA board meeting, in which he reflects on climate change:

> "The markets are already responding to this change. For example, some of the largest participants within the financial services industry have begun adjusting their business plans and have committed to achieving net-zero carbon emissions in their activities.

[10] *NCUA Draft Strategic Plan 2022-2026, page 20*.

> The NCUA Board recognizes that this is a business decision for companies of all types and sizes to make, including credit unions. For that reason, the agency will not micromanage auto lending, mortgage lending, or member business lending for climate financial risk. This includes lending to family farms and others in the agricultural sector, as well as businesses tied to the fossil fuel industry.
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> As a regulator and insurer, the NCUA will continue to work to ensure that the institutions it oversees remain resilient against all material risks, including climate financial risk. As such, the NCUA is *studying* the risks to collateral, held for security on a loan, exposed to climate-related natural disasters in order to *understand* the risks associated with an increase in those extreme weather events on the credit union system. In its oversight, the NCUA would evaluate whether credit unions are addressing those risks. By managing the risks on their balance sheets, credit unions will remain viable and support broader U.S. economic growth."

DakCU agrees that achieving net-zero carbon emissions is strictly a business decision and is glad that the NCUA is not intending to mandate this requirement. DakCU supports the NCUA's commitment to study and understand climate financial risk. Again, proceeding to scrutinize a credit union's lending portfolio regarding potential risks that are not fully understood by the examiner may have dangerous consequences for an industry that is dependent on affordable credit. Furthermore, regulations and examinations should not be the barrier to obtaining affordable credit, especially by family farms and others in the agricultural industry.

As this is an "aspirational document" as previously acknowledged, we have not seen details of NCUA's contemplated actions on this front—but recognize the importance of dialogue as the NCUA proceeds with its efforts in this area. Industry leaders have significant concerns around the possibility that the NCUA is contemplating actions that are widely seen as "meddling" and/or "mandates." DakCU is very concerned for small credit unions whose field of membership only encompasses rural/agricultural communities. If concentration limits were imposed, this would threaten the very existence of small rural community credit unions.

DakCU would strongly resist any regulatory initiatives that might seek to prevent credit unions from serving the agricultural industry.

With regard to Goal 1, the NCUA defined Strategic Objective 1.3 to address ensuring compliance with and enforcement of federal consumer financial protection laws and regulations in credit unions. As further explained in the plan, "The NCUA's assessment of compliance risk considers the federal consumer financial protection laws and regulations the agency enforces, as well as other relevant laws and regulations that govern the operation of credit unions, such as the Bank Secrecy Act, the Flood Disaster Protection Act, the Secure and Fair Enforcement for Mortgage Licensing Act and, more generally, the NCUA's established regulations. The NCUA's fair lending examination program is designed to ensure that credit unions comply with the regulations established to protect consumers against discriminatory practices. The NCUA also performs targeted consumer compliance reviews during risk-focused examinations."[11]

An example performance goal to achieve this strategic objective includes, "Conduct targeted consumer compliance reviews and fair lending examinations."[12] DakCU is concerned that altering the NCUA's risk-focused examination process and increasing consumer compliance reviews is simply not warranted. Rules, regulations, AND examinations should be tailored so they are not overly burdensome on credit unions. Consumers lose when one-size-fits-all rules and burdensome examinations force credit unions to pull back safe and affordable options from the market, pushing consumers into the arms of unregulated entities engaged in the very activity that NCUA hopes to curtail.

Thank you for this opportunity to share our comments and concerns.

Respectfully,

Jeffrey Olson
CEO/President

Amy Kleinschmit

Amy Kleinschmit
Chief Compliance Officer

[11] *NCUA Draft Strategic Plan 2022-2026, page 19*.

[12] *NCUA Draft Strategic Plan 2022-2026, page 19*.

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