DAKOTA CREDIT UNION ASSOCIATION

June 26, 2023

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

Submitted electronically via
https://www.regulations.gov

RE: RIN 3133–AF52; NCUA–2023–0045; Request for Information and Comment on Climate-Related Financial Risk

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 request for information (RFI) concerning climate-related financial risks.

The RFI looks at two categories of climate-related financial risks – namely physical risk and transaction risk. As explained in the RFI – "Physical risk refers to harm to people and property caused by discrete, climate-related events like hurricanes, wildfires, and heatwaves, as well as longer-term, chronic phenomena, including changes in precipitation patterns, sea level rise, and higher average temperatures. Transition risk refers to stress on institutions or sectors caused by measures taken to move towards a less carbon-intensive economy. This includes responding to public policy changes, adopting new technologies, and adapting to shifts in consumer and investor preferences, which may lead to higher costs and substantial shifts in asset values. If these changes occur in a disorderly fashion, the effect on individuals, businesses, communities, and financial institutions could be sudden and disruptive." *88 FR 25029, April 25, 2023.*

DakCU acknowledges that weather patterns change, and climate is impacted, but we continue to be concerned that not enough has been done to fully understand the potential impact of climate change on certain industries such as the financial sector. We understand that the purpose of this RFI is just that, a way for the NCUA to better understand potential risks involved. As acknowledged in the discussion of this RFI, "The NCUA does not have expertise in climate science… the NCUA is seeking input that would strengthen its ability to identify and assess credit unions' current and future climate and natural disaster risk. The NCUA is also seeking input on opportunities to enhance the agency's supervision and regulation of each regulated entity's management of such risks." *88 FR 25030, April 25, 2023*.

While not speaking about credit unions specifically, but relevant to the financial stability, the Federal Reserve Governor Christopher Waller delivered prepared remarks on *Climate Change and Financial Stability* last month in which he started his speech - "Climate change is real, but I do not believe it poses a serious risk to the safety and soundness of large banks or the financial stability of the United States. Risks are risks. There is no need for us to focus on one set of risks in a way that crowds out our focus on others. My job is to make sure that the financial system is resilient to a range of risks. And I believe risks posed by climate change are not sufficiently unique or material to merit special treatment relative to others." *May 11, 2023, Prepared statement of Governor Christopher J. Waller at the IE University – Banco de España – Federal Reserve Bank of St. Louis Conference Current Challenges in Economics and Finance, Madrid, Spain.*

Federal Reserve Governor Waller went on to discuss the potential physical and transition risks of climate-related financial risks and concluded that, "I don't see a need for special treatment for climate-related risks in our financial stability monitoring and policies. As policymakers, we must balance the broad set of risks we face, and we have a responsibility to prioritize using evidence and analysis. Based on what I've seen so far, I believe that placing an outsized focus on climate-related risks is not needed, and the Federal Reserve should focus on more near-term and material risks in keeping with our mandate."

DakCU remains concerned about unintended consequences from the misapplication of climate-risk financial risk considerations, especially if credit unions are pressured to unnecessarily avoid and/or reduce serving certain industries if an examiner deems it too risky based on climate-change, such as agricultural. The NCUA's RFI provides that, "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. To remain resilient and retain the ability to offer their members access to safe, fair, and affordable financial services, credit unions may need to consider adjustments to their fields of membership as well as the types of loan products they offer." *88 FR 25029, April 25, 2023*.

DakCU would strongly resist any regulatory initiatives that might seek to prevent credit unions from serving their members and communities. DakCU acknowledges at this point the RFI is not seeking regulatory change, but we do remain concerned about pressures that could potentially be put on credit unions in response to future "guidance" or "best practices." We share Vice Chairman Hauptman's concerns that were expressed during his remarks on the RFI that, "I think there are some ways this can go well but also quite a few ways this effort can unintentionally windup doing harm to both the Share Insurance Fund and credit union members." DakCU agrees with the Vice Chairman when he went on to outline several points why he opposed the RFI, including - "Those closest to these natural disasters and changing markets are best positioned to understand and manage the risks; the history of unintended consequences of government interference in private markets; potential harm to credit union members; and all of these issues are already dealt with via existing workstreams, and the NCUA's involvement could dull the market signals that make those workstreams function well."

Climate change is very complex, and it is important to proceed carefully only after all the factors are known and vetted. DakCU urges the NCUA to recognize that micromanaging a credit union under the umbrella of climate-change risk may end up harming the communities and members credit unions strive to serve.

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

Respectfully,

Jeffrey Olson
CEO/President

Amy Kleinschmit
Chief Compliance Officer