Consumer Federation of America

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Comments Submitted to the Federal Deposit Insurance Corporation Regarding Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions

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The Consumer Federation of America (CFA) appreciates the opportunity to submit the following comments to the Federal Deposit Insurance Corporation (FDIC) on its draft principles designed to support the identification and management of climate-related financial risks by financial institutions with over $100 billion in assets. CFA advocates for legislative and administrative action to address the severe threats of climate change and the resulting serious economic, environmental, and public health consequences. Climate change presents substantial risks to financial institutions, our financial system, and our economy, and many financial institutions will benefit from clear, holistic guidance on assessing those risks. We support this important step toward addressing climate-related financial risks in the banking system and urge the FDIC to meaningfully address all stakeholder concerns and questions, strengthen these draft principles, and develop final principles that adequately address the existential and severe threat that climate change poses to our financial system.

CFA is an association of non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. Over 250 of these groups participate in the federation and govern it through their representatives on the organization's Board of Directors. Our comments are based on CFA's many years of experience advocating for consumer protections in the financial marketplace, protective financial and bank regulation, and affordable and fair access to financial services.

1. **Climate Change is an Existential Threat to Our Financial System That the FDIC and Other Federal Regulators Must Address**

The FDIC is an independent agency tasked by Congress to maintain stability and public confidence of our nation's financial system, by insuring, regulating, and supervising more than 5,000 banks and savings associations chartered by the states or by the Office of the Comptroller of the Currency (OCC). The agency's work is extremely vital to the nation's financial system and greater economy, and it works closely with a variety of regulatory agencies to fulfill its mandate. The FDIC plays an important role in identifying and reducing financial risks. As the Federal Reserve,[1] the Financial Stability Oversight Council (FSOC),[2] and the National Oceanic and Atmospheric Administration (NOAA) have indicated,[3] climate change poses significant risks and challenges to our economy, financial system, and financial stability. It is critically important for the agency, and other federal financial regulators, to assume a leading role in mitigating the risks posed by climate change.

Climate change is already affecting the United States with more extreme weather and natural disasters,[4] increasing surface temperature,[5] and rising sea level,[6] and these sweeping changes show no sign of easing.[7] For example, analysis of satellite images dating back to 1979 shows that climate change is making hurricanes more intense and destructive. Now hurricanes are more likely to develop into a Category 3 storm or higher, with winds of at least 110 miles per hour.[8] Additionally, the U.S. Forest Service estimates that the fire season is two and a half months longer than in the 1970s, and wildfires are burning more acres than ever before.[9] In 2021, over 40% of Americans lived in counties affected by climate disasters, which included flooding,

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[1] "Climate Change Is a Source of Financial Risk." By Glenn D. Rudebusch. Federal Reserve Bank of San Francisco. Feb. 8, 2021. Available at https://www.frbsf.org/economic-research/publications/economic-letter/2021/february/climate-change-is-source-of-financial-risk/.

[2] "Report on Climate-Related Financial Risk." Financial Stability Oversight Council. 2021. Available at https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf. [Hereinafter "Report on Climate-Related Financial Risk," FSOC, 2021.]

[3] "U.S. Billion Dollar Disaster Events 1980-2021." National Oceanic and Atmospheric Administration. National Centers for Environmental Information. 2021. Available at https://www.ncdc.noaa.gov/billions/time-series.

[4] A recent report from NOAA states that "In 2021, there were 20 weather/climate disaster events with losses exceeding $1 billion each to affect the United States. These events included 1 drought event, 2 flooding events, 11 severe storm events, 4 tropical cyclone events, 1 wildfire event, and 1 winter storm event. Overall, these events resulted in the deaths of 688 people and had significant economic effects on the areas impacted." See NOAA National Centers for Environmental Information, U.S. Billion-Dollar Weather and Climate Disasters (2022). Available at https://www.ncdc.noaa.gov/billions/.

[5] "Climate Change Indicators: U.S. and Global Temperature." Environmental Protection Agency. 2021. Available at https://www.epa.gov/climate-indicators/climate-change-indicators-us-and-global-temperature..

[6] "Climate Change: Global Sea Levels." National Oceanic and Atmospheric Administration. 2020. Available at https://www.climate.gov/news-features/understanding-climate/climate-change-global-sea-level.

[7] "A Hotter Future Is Certain, Climate Panel Warns. But How Hot Is Up to Us." By Henry Fountain and Brad Plumer. The New York Times. Aug. 9, 2021. Available at https://www.nytimes.com/2021/08/09/climate/climate-change-report-ipcc-un.html.

[8] "Climate Change is Making Hurricanes Stronger, Researchers Find." By Henry Fountain. New York Times. May 18, 2020. Available at https://www.nytimes.com/2020/05/18/climate/climate-changes-hurricane-intensity.html.

[9] "The Climate Change Link to More and Bigger Wildfires." By Nick Mott. NPR. July 27, 2021. Available at https://www.npr.org/2021/07/27/1019898087/climate-change-wildfires.

mudslides, power outages, wildfires, drought, and heat waves.[10] These natural disasters cause not only loss of life and property, but also significant economic costs – NOAA reports the U.S. has witnessed 310 weather and climate disasters since 1980 with damage or costs of $1 billion or more.[11]

Further, FSOC recently identified climate change as an emerging and increasing threat to financial stability. The Council stated that by collecting and publicly disclosing data, incorporating analysis of climate-related risks into supervisory and regulatory functions, and promoting disclosures of climate-related risk, "financial regulators can both promote the resilience of the financial system and help it support an orderly, economy-wide transition toward the goal of net-zero emissions."[12]

The risks to our financial system require further action beyond market forces and competition. Strong regulations are needed to ensure that financial institutions adequately assess climate-related financial risks and are properly prepared for climate-related impacts, and that consumers are sufficiently informed of how climate change will affect their financial well-being. Although these principles are an important first step, they will only apply to a handful of regulated entities as the majority of institutions regulated by the FDIC are community banks and savings associations. These community banks and savings associations are critical to providing banking access for low- and moderate-income consumers (LMI), who will be disproportionately affected by climate change as discussed below. We implore the FDIC to encourage smaller financial institutions to consider these risks and prepare for them, since these entities are more likely to feel the brunt of climate change's effects. Of course, principles for smaller institutions should be tailored to their size and circumstances.

Further, the FDIC must also encourage the other financial regulators, including the National Credit Union Association (NCUA) and the Consumer Financial Protection Bureau (CFPB), to address climate-related financial risks through their regulatory and supervisory actions as well. Finally, the FDIC should coordinate its actions with the OCC, which recently issued its own Principles for Climate-Related Financial Risk Management for Large Banks.[13]

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[10] "More than 40% of Americans Live in Countries Hit by Climate Disaster in 2021." By Sarah Kaplan and Andrew Ba Tran. Washington Post. January 5, 2022. Available at https://www.washingtonpost.com/climate-environment/2022/01/05/climate-disasters-2021-fires/.

[11] "U.S. Billion-Dollar Weather and Climate Disasters." NOAA National Centers for Environmental Information. 2022. Available at https://www.ncdc.noaa.gov/billions/.

[12] "Report on Climate-Related Financial Risk," FSOC, 2021.

[13] Rachel Gittleman, Dylan Bruce, Michael DeLong, Consumer Federation of America, Comments Submitted to the Office of the Comptroller of the Currency Regarding Principles for Climate-Related Financial Risk Management for Large Banks (Feb. 14, 2022), https://consumerfed.org/wp-content/uploads/2022/02/CFA-Submits-Comments-to-Banking-Regulator-on-Climate-Related-Financial-Risk-Management-for-Large-Banks-2-14-22.pdf, [Hereinafter CFA Comments to OCC re Climate-Related Financial Risk, (Feb. 2022).]

2. Climate Change Will Disproportionately Hurt Low- and Moderate-Income Consumers and Communities of Color

Low- and moderate-income (LMI) consumers, communities of color, and other financially vulnerable Americans are especially susceptible to the effects of climate change and climate-related financial risks.

These consumers already feel the brunt of predatory financial practices, discriminatory policies, and systems that perpetuate existing disparities. In addition, these consumers have less access to safe and affordable credit or traditional financial services and therefore, are more likely to be unbanked and make use of nonbank financial services such as money orders, check-cashing services, and payday loans.[14]

Among banked consumers, Black and Latino consumers are more likely than white consumers to have incurred overdraft fees[15] and are already harmed by lack of oversight and predatory practices. Further, although 18% of consumers reported overdrafting an account in December 2021, these rates are higher for underbanked consumers and those experiencing income volatility.[16]

High interest, short-term lenders specifically target and exploit Black communities– Black adults are more likely than white adults to live near payday lenders and pawn shops.[17] Although credit cards can be a more affordable form of credit, Black consumers find it more difficult to obtain them.[18] Additionally, Black and Hispanic households find it more difficult to gain approval for conventional mortgages, and when they are approved they tend to pay higher interest rates.[19] This is partly due to the use of credit reports and scores, which both reflect and perpetuate large racial disparities and have a very real impact on consumers' abilities to pay their bills.[20] Finally, these systems and practices exacerbate the racial wealth gap– in 2019, the typical white family

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[14] "How America Banks: Household Use of Banking and Financial Services." Federal Deposit Insurance Corporation. December 17, 2021. Available at https://www.fdic.gov/analysis/household-survey/.

[15] "Amid Resurgence of Interest in Overdraft, New Data Reveal How Inequitable It Can Be." Financial Health Network. Sept. 3, 2021. Available at https://finhealthnetwork.org/amid-resurgence-of-interest-in-overdraft-new-data-reveal-how-inequitable-it-can-be/.

[16] "Overdrafted, Underbanked, and Looking for New Providers: A Deep Dive into Consumers Who Overdrafted in 2021." By Charlotte Principato. Morning Consult. January 11, 2022. Available at https://morningconsult.com/2022/01/11/overdrafted-underbanked-and-looking-for-new-providers/.

[17] "It's What We Call Reverse Redlining: Measuring the Proximity of Payday Lenders, Pawn Shops to Black Adults." By Claire Williams. Morning Consult. July 23, 2020. Available at https://morningconsult.com/2020/07/23/black-consumers-payday-loan-banking-services/.

[18] "Access to Cheap Money Has a Racial Gap." By Claire Williams. Morning Consult. June 3, 2019. Available at https://morningconsult.com/2019/06/03/access-to-cheap-money-has-a-racial-gap/.

[19] "Blacks, Hispanics Face Extra Challenges in Getting Home Loans." By Drew Desilver and Kristen Bialik. Pew Research Center. January 10, 2017. Available at https://www.pewresearch.org/fact-tank/2017/01/10/blacks-and-hispanics-face-extra-challenges-in-getting-home-loans/.

[20] "Past Imperfect: How Credit Scores and Other Analytics 'Bake In' and Perpetuate Past Discrimination." National Consumer Law Center. May 2016. Available at https://www.nclc.org/images/pdf/credit_discrimination/Past_Imperfect050616.pdf.

had five times the wealth of the typical Hispanic family and eight times the wealth of a typical Black family.

These consumers are also particularly vulnerable to the greatest impacts of climate change and will be the least able to prepare for and recover from the effects of climate change, including health, labor, and financial costs. The Environmental Protection Agency (EPA) recently reported consumers of color and low-income consumers face disproportionate and unequal risks of the impacts of climate change, including the impacts that air quality and extreme temperature will have on health and labor hours, property damage and loss, and traffic delays due to island and coastal flooding.[21] Consumers of color are most likely to live in areas with the highest projected impacts of climate changes.[22] In addition, those consumers with low-income or no high school degree are more likely to currently live in areas with the highest projected losses of labor hours.[23] Therefore, consumers of color and low-income consumers are disproportionately at risk to the highest health, labor, and property impacts of climate change.

Further, these consumers also bear the brunt of financial instability and crises. As we learned from the 2008 financial crisis, the effects of financial crises are disproportionately felt by LMI[24] consumers[25] and communities of color.[26] The result is a K-shaped recovery– following a recession, different parts of the economy recover at different rates, times, or magnitudes– resulting in exacerbation of the existing wealth, homeownership, wage, and employment gaps.

Climate change and the associated financial risks will disproportionately harm consumers of color and low-income consumers. Financial institutions cannot be idle spectators to the anticipated effects climate change will have on our financial system and the consumers they serve.

The FDIC must be aggressive and proactive to address the ways in which financial institution activity might be fueling climate change and ensure that financial institutions are adequately prepared for and addressing climate-related financial risks. Further, the FDIC should pay particular attention to the ways in which vulnerable consumers will be disproportionately affected by climate-related risks; and through supervision of regulated entities, monitor how safety and soundness issues affect consumers of color, low-income consumers, and other

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[21] "Climate Change and Social Vulnerability in the United States: A Focus on Six Impacts." Environmental Protection Agency. Sept. 2021. Available at https://www.epa.gov/system/files/documents/2021-09/climate-vulnerability_september-2021_508.pdf.
[22] *Id.*
[23] *Id.*
[24] "Weathering the Recession: The Financial Crisis and Family Wealth Changes in Low-Income Neighborhoods." By Leah Hendey, Signe-Mary McKernan, and Beadsie Woo. March 2012. Avalable at https://www.urban.org/sites/default/files/publication/25686/412626-weathering-the-recession-the-financial-crisis-and-family-wealth-changes-in-low-income-neighborhoods.pdf.
[25] "How the Great Recession Hurt the Middle Class—Twice." By Brad Hershbein. Dec. 4, 2017. Available at https://www.brookings.edu/blog/up-front/2018/12/04/how-the-great-recession-hurt-the-middle-class-twice/.
[26] "Communities of Color Hardest Hit, Slowest to Recover from Recession." Center for American Progress. January 28, 2022. Available at https://www.americanprogress.org/article/communities-of-color-hardest-hit-slowest-to-recover-from-recession/.

financially vulnerable consumers; ensure that physical banking access is expanded and not consolidated; and make certain that their activities are driving the financial stability of all consumers they serve.

In addition, CFA welcomes the FDIC's recent announcement to overhaul the Community Reinvestment Act,[27] and encourages the agency to strengthen and finalize its recent proposal to address the impact of climate-related financial risks on LMI consumers and communities of color.

3. CFA Recommends the Following:

In order for financial institutions to prepare for climate change and the associated risks, they must adopt good governance strategies, apply transparency, accountability, responsibility, and fairness in their business activities, and the FDIC must facilitate these changes through mandatory requirements. Below are several recommendations that the FDIC and financial institutions should take regarding climate-related financial risks.

The FDIC Should Enact Mandatory Requirements for Considering Climate-Related Financial Risk

The FDIC's principles for climate-related financial risk management provide an important framework for reducing risks and preparing for worst-case scenarios. But the principles are dependent upon the financial institutions recognizing their significance and fully embracing them; if financial institutions are reluctant to implement the principles, they are of limited use. The FDIC should therefore institute mandatory requirements to ensure large institutions are adequately addressing climate-related financial risk and incorporating the costs of carbon emissions into their financial strategies. For example, the FDIC should require greater capital requirements to counter climate-related financial risk[28] and in order to do that, climate change needs to be included in economic and financial forecasts and assessments of systemic risk.[29]

The FDIC Should Extend Principles to Smaller Financial Institutions, For Which the Proposed Principles Do Not Apply

[27] FDIC, OCC, FRB, "Joint Proposal to Strengthen and Modernize Community Reinvestment Act Regulations," (May 5, 2022) https://www.fdic.gov/news/financial-institution-letters/2022/fil22018.html.

[28] "Addressing Climate-Related Financial Risk Through Bank Capital Requirements." Center for American Progress. May 21, 2021. Available at https://www.americanprogress.org/article/addressing-climate-related-financial-risk-bank-capital-requirements/.

[29] "New Tools Needed to Assess Climate-Related Financial Risk." By Heather Boushey, Noah Kaufman, and Jeffrey Zhang. The White House. Nov. 3, 2021. Available at https://www.whitehouse.gov/cea/written-materials/2021/11/03/new-tools-needed-to-assess-climate-related-financial-risk/.

Further, as mentioned above, these principles will only apply to a small handful of regulated entities as the majority of institutions regulated by the FDIC are community banks and savings associations. Community banks and savings associations are critical to providing banking access for LMI consumers, who will be disproportionately affected by climate change. The FDIC should extend these principles to smaller banks and institutions, and these principles for smaller institutions should be tailored to their size and circumstances.

The FDIC Should Work with Other Federal Agencies to Comprehensively Address Climate-Related Financial Risk

Interagency cooperation is essential to reducing climate-related financial risk and ensuring that financial institutions are prepared for its adverse, multifaceted impacts. The FDIC should work with the following organizations on various projects:

- The FDIC should cooperate with the Federal Insurance Office (FIO) to create a national effort to develop and implement mitigation and resilience standards and strategies to reduce exposure to climate change-driven risk.[30] The effort should include how financial institutions and insurance companies will contribute to such mitigation as part of their overall work. FIO and the FDIC should also develop workstreams on insurance industry underwriting practices with climate impacts, how available and affordable insurance is and the likely impacts of climate change on that affordability and develop federal and regional strategies to meet expanding capital needs for reinsuring major catastrophes and natural disasters.
- The FDIC should coordinate with other deposit institution regulators, the Federal Reserve, the OCC, the National Credit Union Association (NCUA), and state banking regulators, as well as the market regulators, Federal Housing Finance Authority (FHFA), Office of Financial Research, and the CFPB, which has established a climate working group.[31] Together with these other regulators, the FDIC can require that all financial institutions publicly disclose any assets that contribute to climate change, mitigate climate risks to their portfolios, and provide credit, physical banking access, and necessary financial services to communities facing the worst impacts of climate change.
- The FDIC should further cooperate with other agencies, including but not limited to the EPA, Federal Emergency Management Association (FEMA), and CFPB to holistically address the impact of climate change on consumer financial well-being and security. In 2021, the CFPB established a climate working group to better assess the impact of climate change on consumer financial well-being and on the markets for consumer financial products and services. The working group will also examine the adverse

[30] "Re: FIO Insurance Sector and Climate-Related Financial Risks." Consumer Federation of America. November 15, 2021. Available at https://consumerfed.org/wp-content/uploads/2021/11/FIO-Insurance-Sector-and-Climate-Related-Financial-Risks.pdf.
[31] "Report on Climate-Related Financial Risk," FSOC, 2021, at 38.

impacts of climate change of historically underserved and disadvantaged communities and households–an obvious area of possible cooperation with the FDIC.[32]

Financial Institutions Should Take a Holistic View of Climate Risk and Stakeholder Exposure

In CFA's aforementioned comments to the OCC, we discussed the importance of stakeholder exposure to climate risk and regulator's role in addressing it.[33] These concepts may directly apply to significantly fewer of the FDIC's regulated entities, but they are still important considerations, and the core concepts may still be relevant in the FDIC context as well.

The principles proposed by the FDIC advance critical considerations for regulated institutions. As such, they should be adopted and built upon with a broader view of climate-related financial risk management. Due to the size, organizational complexity, and economic footprint of our banking system, financial institutions are unique among industry sectors in the context of climate change. Financial institutions are exposed to the climate-related risks of their own financial entanglements, and by extension their own stakeholders are exposed to the same. Because the physical and socioeconomic footprint of financial institutions is so expansive,[34] regulation of them should be tailored to capture the unique risks that they present, and this reality should be reflected in the FDIC's principles for climate-related risk management and subsequent regulations. On an institutional level, the complexities of financial institutions' climate exposure risk should also be reflected in risk management governance, policies and procedures, and public disclosures.

As the FDIC develops principles and subsequent regulations for financial institutions, the view must be that a financial institution's stakeholders include more than just physical assets, balance sheets, and shareholders. For these financial institutions, and as discussed throughout this comment letter, the impacts of both good climate risk management and less-than-good climate risk management will have significant downstream impacts, and this will be especially true for those communities that are already the most vulnerable, both to the physical impacts of climate change and the financial impacts of instability in the financial system. As the FDIC's proposed principles state, "The board and management should also consider climate-related financial risk impacts on stakeholders' expectations, the institution's reputation, and LMI and other disadvantaged households and communities, including physical harm or access to bank products and services." This statement should be a forethought for oversight, rather than an afterthought.

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[32] *Id.*
[33] CFA Comments to OCC re Climate-Related Financial Risk, (Feb. 2022).
[34] "Are Banks Prepared for Climate Change?" Boston Common Asset Management., (2015). Available at https://bostoncommonasset.com/Membership/Apps/ICCMSViewReport_Input_App.ashx?IX_OB=None&IX_mId=18&IX_RD=Y&ObjectId=731308, ("Banks are tied to every market sector through their lending practices, making them uniquely vulnerable to climate-related risk.").

The FDIC's RFI asks, "How do financial institutions determine when climate-related financial risks are material and warrant greater than routine attention by the board and management?" This question may or may not seek to impart the same meaning of the word "material" as does the anti-fraud provisions of the securities laws,[35] but hopefully not. To do so would unfortunately lead to a view that may dangerously narrow the climate-related considerations of banks' risk management strategies and those which the FDIC should incorporate into its oversight. Importantly, it is difficult to identify an industry sector that has more vulnerabilities or touch points to climate change as do financial institutions,[36] and to limit consideration and/or management of these unique vulnerabilities by way of a narrowed materiality analysis would be dangerous for financial institutions, their stakeholders, and the financial system writ large. The climate risks of one institution are likely to seed climate risks for many others as well, and a narrowed view of material climate risks may therefore undermine the systemic view required of the FDIC.[37]

Appropriately, the RFI asks, "How could existing regulatory reporting requirements be augmented to better capture financial institutions' exposure to climate-related financial risks?" Here again, the RFI seems to appreciate the complex, multifaceted impacts that climate change poses for financial institutions. As such, the FDIC should certainly consider information that is financially material to regulated entities' direct stakeholders, but only as one piece of the larger constellation of climate change risks that should be actively managed by financial institutions, and should be incorporated into their risk governance and strategic planning, and also codified in the FDIC's safety and soundness oversight and regulation.

Financial Institutions Should Gather Expertise and Authority for Climate Scientists

Financial institutions should possess substantial expertise on climate change and its impacts, both physical and financial. Knowledge about climate change is essential for making informed decisions and yet, too many financial institutions are ignorant of this subject. Financial institutions should be required to have climate scientists as members of their corporations and for these scientists to be given resources and authority so they can evaluate the impacts of rising sea levels, more frequent extreme weather disasters, and other consequences of a warming plant. These positions should be substantive and possess the power to make real reforms, as opposed to surface level "greenwashing"— conveying a false impression or providing misleading

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[35] "Comment Letter Re: Public Input on Climate Change Disclosures." Consumer Federation of America. June 14, 2021. Pg 21-22. Available at https://consumerfed.org/wp-content/uploads/2021/06/SEC-Climate-Change-Disclosure-Letter.pdf.

[36] "Climate Change and Financial Stability." Board of Governors of the Federal Reserve System. March 19, 2021. Available at https://www.federalreserve.gov/econres/notes/feds-notes/climate-change-and-financial-stability-20210319.htm.

[37] "Financing a Net Zero Economy: The Consequences of Physical Climate Risk for Banks." Ceres. Pg 57. Sept. 8, 2021. Available at https://www.ceres.org/sites/default/files/reports/2021-09/Ceres%20Financing%20a%20Net%20Zero%20Economy%20FINAL.pdf. ("Of course, systemic risks don't have to be catastrophic to be material. Large, correlated shocks on a set of financial institutions, such as the ones induced by major disasters, can lead to systemic risks if they cause financial institutions to reassess the risk of their counterparties who have been directly or indirectly affected by the initial shocks.").

information about how a company's products are more environmentally sound. Bank boards and management must also understand climate-related financial exposures and the vulnerability of their institutions.

A few banks, including the European Central Bank and Lombard Odier, are competing to hire experts in order to gain knowledge and decarbonize their portfolios and loan books.[38] Mounting evidence shows that climate change poses a serious threat to price stability and financial systems, and some institutions feel they require greater expertise.

Although CFA appreciates Acting Comptroller Hsu's identification of the following questions that bank boards should be able to adequately address, all financial institutions, including those regulated by the FDIC, should impart their answers and work plans to address these concerns with their regulators:

- What is our long-term exposure to climate change, and how manageable is this exposure?
- Which counterparties, sectors, or locales need our heightened attention and focus?
- How vulnerable are our data centers and other critical services to extreme weather?
- What can we do to position ourselves to seize opportunities from climate change?[39]

Financial Institutions Should Divest from Climate Change Exacerbating Projects

The FDIC must ensure that public facing promises made by financial institutions to divest from climate change exacerbating projects are met, and that through investment, financial institutions are not further contributing to many of the industries that worsen climate change. For example, many banks finance activities that further fuel climate change and are more likely to harm vulnerable consumers such as natural gas extraction, coal mines, and coal-fired power plants, and oil extraction and pipelines. From 2016 to 2020 the world's 60 largest commercial and investment banks invested $3.8 trillion into fossil fuels.[40]

Financial institutions must stop funding fossil fuel projects such as oil pipelines, natural gas-fired power plants, and coal-fired power plants, which emit greenhouse gas emissions and increase climate change. These projects lead to stronger hurricanes and wildfires, drought and heat waves, more frequent and extensive flooding, unusually hot or cold weather patterns, and rising sea levels, which lead to massive financial and human costs, as well as destruction of both personal

[38] "Climate Scientists Swap Fieldwork for Finance." By Simon Jessop, Carolyn Cohn, and Iain Withers. Reuters. April 15, 2021. Available at https://www.reuters.com/business/sustainable-business/climate-scientists-swap-fieldwork-finance-2021-04-15/.
[39] "Five Climate Questions Every Bank Board Should Ask." By Acting Comptroller of the Currency Michael J. Hsu. November 8, 2021. Available at https://www.occ.gov/news-issuances/speeches/2021/pub-speech-2021-116.pdf.
[40] "60 Largest Banks in the World Have Invested $3.8 Trillion in Fossil Fuels Since the Paris Agreement." By Catherine Clifford. CNBC. March 24, 2021. Available at https://www.cnbc.com/2021/03/24/how-much-the-largest-banks-have-invested-in-fossil-fuel-report.html.

property and public infrastructure. Therefore, the result is a self-fulfilling cycle of banks financing climate change, which contributes to financial instability while raising costs and creating greater exposure for the most vulnerable consumers.

Despite making public facing promises to invest in clean, sustainable financing, many banks have been resistant to divest from fossil fuels.[41] These actions are necessary in order to reduce climate change and transition to a lower-carbon economy. Financial institutions must stop financing new fossil fuel projects and expanding existing projects. Further, they should start phasing out existing insurance and funding for them unless there are exceptional circumstances.

Financial Institutions Should Prioritize Long-Term Thinking and Analysis

Traditionally banks and other financial institutions have prioritized shorter time horizons, profits, and immediate risks. While they examine past records and behavior, they make decisions based on immediate and near-future consequences. But investors, market participants, financial institutions, and regulators all must consider the effects of climate change and its impact on risks over the long term.

In comparison, insurance companies aim to distribute risk so that individuals and individual companies do not have to bear the full brunt of losses, by selling a diverse set of policies across a variety of markets. However, large natural disasters such as hurricanes and wildfires can destroy or impact large areas and overwhelm insurers, possibly creating compounding losses. Climate change is making these cases more frequent, yet many insurers are underestimating the risks involved.[42] Banks and other financial institutions must prioritize long term planning and legacies over short term profits. They should consider circumstances and climate over the next twenty, thirty, or even fifty years, and make the necessary preparations.

4. Conclusion

The FDIC's draft principles are an excellent beginning to addressing climate related financial risk. CFA urges that they be strengthened and adopted as quickly as possible. The banking industry, its regulators, and all consumers have a lot at stake, yet the burden of climate change and the financial risks will be disproportionately carried by consumers of color, LMI, and other vulnerable consumers. Climate change will impact every area of the financial sector and create dramatic risks, raising costs for everyone unless sweeping measures are adopted.

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[41] *Id.*

[42] "The $5 Trillion Insurance Industry Faces a Reckoning. Blame Climate Change." By Umair Irfan. Vox.com. October 15, 2021. Available at https://www.vox.com/22686124/climate-change-insurance-flood-wildfire-hurricane-risk.

We look forward to participating in this conversation going forward and offering feedback on FDIC's requirements for financial institutions. Please contact Rachel Gittleman (rgittleman@consumerfed.org) with any questions.