



February 6, 2023

The Honorable Jerome H. Powell, Chair
The Honorable Lael Brainard, Vice Chair
The Honorable Michael S. Barr, Vice Chair for Supervision
The Honorable Michelle W. Bowman, Member
The Honorable Lisa D. Cook, Member
The Honorable Philip N. Jefferson, Member
The Honorable Christopher J. Waller, Member

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

Re: Principles for Climate-Related Financial Risk Management for Large Financial Institutions
(Docket No. OP-1793)

Dear Chair Powell and other members of the Board of Governors of the Federal Reserve System,

We are responding to your request for comments on your draft Principles for Climate-Related Financial Risk Management for Large Financial Institutions (Docket No. OP-1793).

As a national consumer advocacy organization, the U.S. Public Interest Research Group (U.S. PIRG) is concerned about the impacts of climate change on the consumer.

The Intergovernmental Panel on Climate Change (IPCC)'s [sixth assessment report](#) warned about the planet's course toward global warming of 1.5°C and 2°C and the resulting extreme weather patterns, unless there are deep cuts to carbon dioxide and other greenhouse gas emissions. Avoiding these threats will require financial institutions and regulators taking them seriously.

We, therefore, commend the Federal Reserve for its framework to address climate change risks, including measuring and monitoring risks, collecting data, and considering disproportionate impacts, for financial institutions with over \$100 billion in assets.

Please find our rundown of climate change threats posed to consumers and solutions for mitigating those risks that we would like to see implemented. We urge solutions that support and hold banks accountable for their responsibility to adequately respond to these risks.

Climate-related risks

Loss of reliable and fair products and services

We are concerned about risks posed to consumers of larger banks, as well as smaller banks, which may be exposed to climate-related risks contributed to by larger banks.

Operational resilience is critical for ensuring banks stay in business and continue to provide reliable services, including brick and mortar locations and disaster recovery loans, that many consumers depend on.

Regarding safety and soundness, simply put, consumers will be hurt if their banks go under due to climate related shocks. For example, there could be disruptions to consumers' ability to get paid and pay their bills.

We are also concerned about a lack of access to affordable loans if banks increase their interest rates or pull their services from climate vulnerable areas altogether.

This raises outstanding questions for consumers: Will there be an increase in mortgage application denials? Will banks increase their interest rates in anticipation of demand for climate resiliency or natural disaster recovery loans, or in response to successive natural disasters? Who will be impacted? A September 2021 Environmental Protection Agency (EPA) [report](#) found that climate change not only affects all Americans but poses outsized risks to low-income people and people of color, who are more likely to live in areas projected to be impacted by climate change.

Banks should be required to collect data for the purpose of avoiding or addressing negative impacts to consumers. For example, changes in interest rates, loss of revenue from successive climate induced weather events, changes in product offerings and where products are sold, and disparate impacts should be monitored.

Financial losses for consumers

In addition to the concerns over access to products and services discussed above, financial risks posed to consumers include loss of or damage to property, the loss of property value, and possible economic fallout from systemic shocks.

In its [November 2020 financial stability report](#), the Federal Reserve brought up the example of increased storm surges from more intense and frequent hurricanes that accompany climate change that could decrease consumer home values and set off a chain reaction.

Economic instability

According to the same financial stability report, climate change increases the risks of economic uncertainty and financial shocks to the system.

Continued investments in financed emissions, which contribute to climate change and will suffer big losses as the world moves away from carbon energy, put individual financial institutions and our economy at risk. Banks should stop adding fuel to the fire and divest from greenhouse gas emissions that cause global warming. Every time a bank funds another project that keeps us locked into drilling for, mining for and burning fossil fuels, it just means more lives, homes and communities will be [lost or damaged](#) by extreme weather.

Plans and action are needed to reduce these risks

Banks ultimately have a role and responsibility to help slow down or prevent the effects of climate change from extreme weather that could lead to near-term and long-term financial, safety and soundness, and systemic risks.

We urge the Federal Reserve to improve its climate risk principles for larger banks in the following ways:

- Ensure that near-term and mid-term goals add up to achieving a financial institution's overall goals
 - As what is not measured cannot be managed, net zero transition plans should disclose Scope 1, 2, and 3 emissions.
 - The final climate principles should ensure that public commitments are backed up by internal strategies and credible plans with measurable, science-aligned emissions reduction targets
- Require monitoring by a financial institution's management and board of directors for near-term and long-term climate-related risks
- Ensure fair access to financial services
- Reduce financed emissions
 - Net-zero commitments by banks should be accompanied by measurable, science-based benchmarks, such as a 50% reduction in financed emissions by 2030.
 - We cannot "[offset](#)" our way out of the problem.
- Ensure that costs of climate change are not offloaded onto consumers
 - For example, we are aware that in a [November 2021 report](#), the Federal Reserve Bank of New York concluded that weather disasters increase the demand for

loans and therefore do not pose much of a risk to banks. However, that means the costs of climate induced weather are being offloaded onto the consumer, which is bad in and of itself. But it's also not sustainable. For instance, will banks be able to continue issuing home repair loans if the frequency of climate weather events increases and in turn causes customers to come back and apply for multiple loans?

Thank you for addressing the climate financial risk issue and for considering our comments. We look forward to working with you to address the financial risks of climate change, implement the solutions, and support and hold banks accountable for adequately responding to these risks.

Please feel free to reach out to Mike Litt at mlitt@pirg.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Litt".

Mike Litt
Consumer Campaign Director
U.S. Public Interest Research Group (U.S. PIRG)