December 13, 2021

The Honorable Janet Yellen
Secretary
U.S. Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220

Re: Climate Risks and Community Banks

Dear Secretary Yellen:

As the Financial Stability Oversight Council ("FSOC" or "the Council") and its member banking agencies implement the recommendations made in its recent Report on Climate-Related Financial Risks ("the Report"), ICBA seeks a commitment from the Council and its members that the unique needs and concerns of community banks will not be overlooked. Although we commend FSOC for concluding that the banking regulators should consider the size, risk and complexity of institutions when determining whether to apply additional climate-related regulation, scenario analysis or disclosure requirements, we are concerned the banking agencies may nevertheless implement the Council's recommendations without fully considering the consequences to the community banking industry and the need for tailored regulations that differentiate complex, global, systemically important financial institutions from community banks. Accordingly, ICBA requests that FSOC and its members make every effort to ensure the community bank perspective is adequately represented in the development of any climate-related financial risk guidance.

Community bankers have decades of experience managing concentration risks and natural disasters, as well as monitoring the overall risk of their lending and investment portfolios. Unlike complex, global, and systemically important financial institutions, community bankers have a deep and hyper-localized understanding of the customers, communities, and climate-risks that exist within each community bank's limited geographic footprint. Community banks are therefore best positioned to monitor the overall risk of their loan portfolios and investment practices and should not be subject to overly burdensome or unnecessary regulations aimed at controlling climate-related financial risks posed by complex, global, and systemically important institutions.

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With nearly 50,000 locations nationwide, and as the leading lenders to small businesses, making more than 60 percent of all small-business loans under $1 million, community banks help create and support millions of jobs throughout the nation. Subjecting community banks to any type of mandatory climate risk regulation, scenario analysis, or enhanced climate-disclosure requirements is not only unnecessary but will also cause many small businesses that operate within community bank footprints to be "choked off" from the financial system. Restricting the ability of community banks to provide credit to small businesses based on geographic locations or by targeting specific climate-related industries will devastate national, state, and local economies.

To ensure that the community bank perspective is appropriately represented, and that climate-risk regulation does not unfairly penalize or overburden community banks, ICBA recommends that FSOC include an individual with community banking experience on its new Climate-related Financial Risk Advisory Committee (CFRAC). Furthermore, in addition to gathering information on climate-related financial risks from a broad array of stakeholders, CFRAC should also look at how community banks currently and successfully incorporate climate risks into their lending and investment strategies. According to a recent Staff Report issued by the Federal Reserve Bank of New York entitled "How Bad Are Weather Disasters for Banks?" ("Staff Report") extreme weather has had insignificant effects on community bank performance and stability because community banks know their customers and the communities they serve so well.[1]

For instance, the Staff Report shows that local banks often avoid mortgage loan losses from major storms by taking into consideration flooding risks in their mortgage underwriting decisions that may have been understated by FEMA. The Staff Report also details how local banks use their superior geographic knowledge to avoid areas where disaster risks are frequent. ICBA believes that CFRAC should expand on the conclusions of the Staff Report to understand how community banks not only leverage their local knowledge of customers and communities in their underwriting decisions but also employ risk mitigation techniques to manage their risks. Since the early 19th century, community banks have successfully dealt with all sorts of natural disasters, including catastrophic hurricanes, tornadoes, flooding, wildfires, and droughts. Community banks do not need additional supervision or regulation to manage their potential climate risks.

While we commend the recent statements by Comptroller Hsu that any supervisory guidance on climate risks should be first directed to the largest banks, we also realize that in the absence of tailored regulations, any such large bank guidance could eventually apply to and adversely impact community banks. We therefore recommend that FSOC, in conjunction with the banking agencies, conduct a series of outreach meetings with community bankers prior to instituting any supervisory guidance on climate risks. The purpose of these outreach meetings would be to gather evidence on how community banks are currently and successfully managing climate risks and how burdensome additional "one-size-fits-all" climate risk supervision could be for the community banking industry if it were implemented. Such outreach meetings would be an

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[1] *See* https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr990.pdf.

excellent way for the regulators to assess the impact on local communities from additional climate risk supervision. Furthermore, since such supervisory guidance would potentially have a significant impact on community banks, the FSOC and the banking agencies should ensure all climate-related supervisory guidance is subject to public notice and a 90-day comment period so that all community banks can be heard.

In short, ICBA believes there are a number of initiatives that FSOC and the banking agencies should take to assess the impact of any climate risk regulation on the community banking industry and whether additional regulation is really needed.[2] ICBA looks forward to working with you on those initiatives and welcomes the opportunity to recommend community bank representation on the CFRAC.

Sincerely

/s/

Rebeca Romero Rainey
President and CEO

cc:

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[2] Additional information about ICBA's position on climate risk regulation can be found by visiting our website at https://www.icba.org/docs/default-source/icba/advocacy-documents/reports/climate-change-regulation-on-community-banks-report.pdf.