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November 27, 2024

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

RE: NCUA Staff Draft 2025–2026 Budget Justification (Docket NCUA-2024-0135)

Dear Board Members:

Thank you for the opportunity to comment on the National Credit Union Administration's (NCUA) Staff Draft 2025-2026 Budget Justification (the Budget). We appreciate this invitation to help ensure that the upcoming year's budget adequately funds the NCUA and prioritizes key credit union system needs. At present, NCUA's investment is critically needed to ensure NCUA staff have the tools and resources they need to support and examine the growing number of credit unions building and growing green lending programs as a result of federal investment through the Greenhouse Gas Reduction Fund (GGRF). It is also vital that NCUA increases investment in the growth and long-term success of small and MDI credit unions focused on meeting the needs of low- and moderate-income and historically excluded people and communities. We encourage NCUA to specifically dedicate funding to building examiners' knowledge and understanding of green lending, and we commend the addition of a climate financial risk officer and continued assistance for small and MDI credit unions included in the current budget proposal.

About Inclusiv

Inclusiv is the national network of community development credit unions (CDCUs) committed to promoting financial inclusion and equity through credit unions. The Inclusiv network represents more than 500 credit unions serving more than 20 million people in predominantly low-income urban, rural, and reservation-based communities across the United States, including Puerto Rico, Guam, and the U.S. Virgin Islands. Inclusiv channels capital to and builds the capacity of these institutions that are dedicated to serving low-income people and redlined and disinvested communities that mainstream financial institutions fail to serve.

The Environmental Protection Agency (EPA) has awarded Inclusiv $1.87 billion via the Greenhouse Gas Reduction Fund (GGRF) Clean Communities Investment Accelerator (CCIA) program to build credit unions' capacity to finance clean energy and energy efficiency projects in low-income and disadvantaged communities (LIDACs). Inclusiv will pass through 90% of its total grant award to credit unions. Credit unions may apply for CCIA subawards ranging from $275,000 to $11 million to cover operating costs and fund capitalization for their green lending programs.

Climate-Related Financial Risk

As the NCUA is working to prepare the credit union system to manage climate-related financial risk, we urge NCUA to design climate risk frameworks that acknowledge the vital role credit unions play in their communities before, during, and after climate events. As the past year has shown, there is no way to predict which communities will be impacted. However, past events have demonstrated that credit unions that lean in to support their members through natural disasters are able to minimize the risk to their outstanding portfolios and raise their visibility, which creates strong opportunities for growth when managed properly. We strongly support NCUA's decision to introduce a Climate Financial Risk Officer in the 2025 budget. This Officer cannot approach risk through a limited view, only applying restrictions and limitations on credit union lending. Rather, we urge that this Officer be charged with advancing proactive measures to support credit unions in lending that strengthens their communities' resiliency and energy independence, preparing them to avert long power outages and the losses to life, income, and property that can result.

Examiner Training on Green Lending and Lending to Borrowers with Lower Credit Scores

Credit union green lending has been growing and will expand dramatically in 2025 with the launch of Inclusiv's Greenhouse Gas Reduction Fund (GGRF) Clean Communities Investment Accelerator (CCIA) program. As these funds are deployed and green lending volumes to low-income and disadvantaged communities (LIDACs) increase, it is critical that NCUA provide clear and robust messaging and training for examiners to understand how to evaluate these loans and avert potential biases in risk perception.

Although CDCUs have a strong track record of serving members with imperfect credit fairly and sustainably, some of Inclusiv's member credit unions have reported being advised by examiners to reduce their well-performing loans to borrowers with lower credit scores. However, these loans are critical both for CDCUs' mission to serve historically excluded communities and for growing their loan portfolios for financial sustainability. Because 100% of CCIA funds are required to go to projects in low-income and disadvantaged communities (LIDACs), some target borrowers are likely to have imperfect credit histories. It is vital examiners have the training to evaluate these loans fairly and understand the context in which they are made.

Green loans typically perform well. A 2022 report by Lawrence Berkeley National Laboratory found that annualized loss rates are low compared with unsecured consumer loans and are comparable to the rates for prime auto loans.[1] Credit union green lending products are often based on familiar loan products, like unsecured consumer loans, home improvement loans, home equity lines of credit, and secured vehicle loans. Many credit unions offer green loans to finance clean energy, resiliency, and energy efficiency projects, which can help members lower their energy costs throughout the year, access emergency back-up power, and complete building improvements that create more resiliency against wildfires, floods, hurricanes, and other disasters. Given that credit union green lending relies on the loan products credit unions know best and have designed to be appropriate for their members, no additional risk should necessarily be inferred based on the type of green energy lending performed by the credit

[1] https://eta-publications.lbl.gov/sites/default/files/see_action_loan_performance_full_study_final.pdf

union or inferred from the borrower or communities that receive such financing. Further, CCIA capitalization funding will further derisk green lending for subawardee credit unions.

With proactive and thorough training for examiners, the NCUA can ensure that credit unions are supported in serving LIDACs and able to deploy GGRF funds effectively and expeditiously, enabling low-income households across the country to reap the benefits of greater energy efficiency, resilience, and financial security. Inclusiv looks forward to collaborating with NCUA to support examiner green lending training initiatives to ensure credit union members have the opportunity to work with their credit unions to lower utility bills, improve air quality in their communities, and enjoy more comfortable, efficient homes. In addition, NCUA can help ensure credit unions run effective and compliant green lending programs by issuing guidance for credit unions and examiners on how credit unions should book CCIA subawards.

Taking these activities into account, as well as the small and MDI credit union examiner training activities outlined below, we recommend that NCUA ensure the budget for Examinations and Insurance (E&I) is sufficient to ensure the E&I team is trained and staffed at the level needed to take on these new opportunities successfully while continuing existing work.

Support for Small and MDI Credit Unions

The NCUA provides critical support for small and MDI credit unions already and it is vital that the NCUA deepen this work that advances financial inclusion in historically redlined and other underserved communities. By increasing the Credit Union Resources and Expansion (CURE) and E&I budget allocations to fund training for NCUA staff dedicated to working with small and MDI credit unions and expand the CURE Process Automation plan to benefit more small and MDI credit unions, the NCUA can:

- Make technical assistance (TA) for small credit unions and MDIs more accessible by providing opportunities to sign up for TA outside of the examination process, for example, by offering a sign-up form to request help on the NCUA website and engaging in concerted outreach to ensure all eligible credit unions are aware of the services offered. Separating TA from the examination process and making sign-ups broadly accessible will encourage more small and MDI credit unions to seek support, strengthening these vital institutions.

- Ensure examination staff working with very small ($10 million or less in assets) credit unions are trained in their unique business model and able to offer tailored recommendations for these important institutions.

- Train examiners on how to evaluate micro and small business loans and loans to borrowers with ITINs, providing context on the role of CDFIs, MDIs, and LICUs. CDCUs' mission and business model focus on serving underserved people, businesses and communities, and include lending to people and small businesses with imperfect credit, alternative documentation, and other barriers to mainstream financial access. NCUA should ensure examiners are able to tailor exams to this context to preserve the credit union system's mission of financial inclusion.

- Increase supports for field of membership expansion by training examination and technical assistance staff to routinely identify opportunities for small and MDI credit unions to expand, and by building tools to support credit unions' underserved area analysis. The planned capital investment in CURE Process Automation to improve the new credit union chartering process and streamline field of membership expansion requests is vital. And, the NCUA should add additional capital and staff funding to:

    - Improve the field of membership expansion process by providing an interactive analysis tool to allow credit unions to easily determine if an underserved area passes the concentration of facilities test. The concentration of facilities test requires sophisticated data analysis, so providing a tool that would allow credit unions to select their geographies of interest (down to the Census tract level) would significantly reduce the burden of preparing the application while increasing the chances of the application being approved.

    - Dedicate additional staff to reviewing field of membership applications. Many applicants report waiting more than a year for determinations on their field of membership applications, losing opportunities to increase their membership and sustainability.

Finally, we appreciate the NCUA's commitment to pursuing increased funding for the Community Development Revolving Loan Fund (CDRLF) and the agency's request in the last budget cycle that Congress continue allowing all MDI credit unions to apply for CDRLF funds. We urge the NCUA to continue to advocate for the expansion of CDRLF and access for all MDIs. It is an important source of capacity building support for Low-Income Designated and MDI credit unions and has been consistently oversubscribed, clearly demonstrating the need for such funding.

Thank you for the opportunity to comment on these critical aspects of the Budget. Please contact Alexis Iwanisziw, SVP Policy and Communications (aiwanisziw@inclusiv.org) with any questions about these comments.

Sincerely,

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