DFS ALERTS REGULATED ENTITIES OF OPPORTUNITY TO RECEIVE CREDIT UNDER THE NY CRA FOR ACTIVITIES UNDERTAKEN TO ADDRESS CLIMATE CHANGE THAT BENEFIT LOW- TO MODERATE-INCOME COMMUNITIES

Additional DFS Action to Fully Integrate Climate Change Into All of Department's Programs

The New York State Department of Financial of Financial Services (DFS) issued guidance alerting banking institutions subject to the New York Community Reinvestment Act (the "New York CRA") that they may receive credit for financing activities that support the climate resiliency of low- and moderate-income (LMI), and underserved communities.

"Climate change is happening now and there is no time to waste in addressing its financial risks. At the same time, climate change disproportionally impacts disadvantaged communities, many of whose members are people of color. DFS is issuing today's guidance to provide examples of climate resiliency activities that may qualify for credit under the existing New York CRA," **said Superintendent of Financial Services Linda A. Lacewell.** "New York will continue to take nation-leading, innovative approaches that address climate-related financial risks, support the needs of underserved communities, and combat environmental and racial injustice."

This is another step in DFS' efforts to fully integrate climate change into all its programs. In 2019, the DFS became the first financial regulator in the United States to join the Network for Greening the Financial System, a coalition of central banks and supervisory authorities committed to managing environmental and climate risk management in the financial sector. DFS is also a member of the Sustainable Insurance Forum, an international network of insurance regulators.

In the past year, the Department has issued a Circular Letter to the insurance industry and an Industry Letter to the banking industry to set expectations and begin a dialogue as to how the Department can best support those industries' efforts to manage the financial risks from climate change.

Although no one is spared from the impact of climate change, it disproportionally affects LMI communities, perpetuating social inequality. LMI households on average face a higher energy burden than other households, spending more on gas, electric, and heating fuel as a percentage of household income. According to a National Conference of State Legislatures report, if low-income housing were equally energy-efficient compared to the average U.S. home, energy costs paid by low-income households would decrease by one-third. Yet many LMI consumers face barriers to such improvements, including lack of access to financing for energy efficiency upgrades.

In addition, LMI communities tend to be more susceptible to flooding and heat waves, risks exacerbated by climate change. Compounding the problem, LMI communities tend to have fewer resources to recover from natural disasters which are now more frequent and severe due to climate change. Further, LMI communities tend to have higher percentages of minority populations, and therefore these effects of climate change are also disproportionately borne by people of color. This is both an environmental justice and social justice issue.

The federal and New York State Community Reinvestment Acts encourage banks to meet the credit needs of their communities, including LMI communities. The Department administers the New York CRA and its regulations. To evaluate a banking institution's performance, the Department applies various tests, depending on the type and size of the institution. One way in which banks are evaluated under the New York CRA is the extent to which their activity serves community development. Banking institutions may be credited in their CRA examinations for activities that may help mitigate climate change risks and at the same time revitalize, stabilize, or otherwise serve a community development purpose in LMI and underserved rural middle-income communities.

In today's Industry Letter, DFS provided examples of activities that reduce or prevent the emission of greenhouse gases that cause climate change ("climate mitigation"), and adapt to life in a changing climate ("climate adaptation") (together with climate mitigation, "climate resiliency"), which in turn may mitigate risks from climate change and may qualify for credit under the New York CRA as a community development lending or qualified investments that revitalize or stabilize or otherwise serve as community development in these areas. These include the financing of:

- renewable energy, energy-efficiency, and water conservation equipment or projects for affordable housing to reduce utility payments for LMI tenants, or for community facilities. Examples include installation of solar panels, geothermal heat pumps, and battery storage, improving building envelope insulation, and lighting, window and appliance upgrades;
- community solar projects that provide energy to an affordable housing project or a community facility that has a community development purpose;
- microgrid or battery storage projects in LMI areas with high flood and/or wind risk, thereby reducing risks of power loss due to flooding and high wind;
- projects addressing flooding or sewer issues, or reducing stormwater runoffs such as new or rehabilitated sewer lines, levees, and storm drains that primarily benefit LMI geographies;
- flood resilience activities for multifamily buildings offering affordable housing, such as building elevation and relocation and installation of sump pumps; and
- installation of air conditioning in multifamily buildings offering affordable housing to reduce heat risks and utility costs for LMI residents.

The above list is not intended to be exhaustive. In addition to potential credit for community development lending, banking institutions' activities may qualify for credit under the New York CRA under the lending test or as innovative investments for climate resiliency-promoting activities.

Read a full copy of the industry letter on the DFS website.

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