MAXINE WATERS, CA
CHAIRWOMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

PATRICK MCHENRY, NC
RANKING MEMBER

June 23, 2020

The Honorable Dan R. Brouillette
Secretary of Energy
U.S. Department of Energy
1000 Independence Ave., SW
Washington, DC 20585

Secretary Brouillette:

I write regarding comments you made during an interview with *Axios* in which you were asked about decisions by commercial banks not to finance drilling in the Arctic National Wildlife Refuge. You responded, "For years and years and years, banks would not lend money, insurance companies would not write policies in minority areas in the country. Redlining is the term used all throughout those debates. We didn't want banks redlining certain parts of the country. We don't want that here. I do not think banks should be redlining our oil and gas investment across the country."[1]

Your words elicit the painful legacy of redlining, which still lingers in too many communities. A 2018 report by Reveal's Center for Investigative Reporting identified 61 metropolitan areas in the United States where African American and Latino residents are still denied mortgage loans at higher rates than white residents, even when controlling for income.[2] In 1977, Congress responded directly to the conditions caused by redlining when it passed a landmark civil rights law, the Community Reinvestment Act (CRA),[3] which requires banks to help meet the credit needs of the communities, including low- and moderate-income communities, in which they are chartered. Reveal's investigative report underscores why the CRA remains relevant today, and that it must be protected and strengthened.[4]

The Federal Reserve, which regulates the large financial holding companies you referenced in your interview, has repeatedly identified significant risks involved with fossil fuel financing. For instance, in a 2016 report to Congress, the Federal Reserve highlighted potential problems with physical commodities ownership by banks, noting: "Operation of facilities used for the storage, transportation, and extraction of physical commodities expose firms to substantial legal, operational, and environmental risks."[5] In a November 2019 speech at a climate change conference held by the Federal Reserve Bank of San

[1] "Trump's energy chief: Banks are 'redlining' oil and gas investments," *Axios*, (May 18, 2020), https://www.axios.com/energy-secretary-oil-gas-investments-be21fb3d-ef63-49ec-aaec-eb596d647136.html?utm_campaign=organic&utm_medium=socialshare&utm_source=twitter

[2] "For people of color, banks are shutting the door to homeownership," *Reveal from the Center for Investigative Reporting*, (February 15, 2018), https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/

[3] "History of the CRA, *Federal Reserve Board of Governors*, https://www.federalreserve.gov/consumerscommunities/cra_history.htm

[4] The Office of Comptroller of the Currency recently finalized a rule, without the support of other federal CRA regulators, that would undermine the CRA, and I introduced a resolution to reverse the rule pursuant to the Congressional Review Act. *See* https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=406619.

[5] "Report to Congress and the Financial Stability Oversight Council Pursuant to Section 620 of the Dodd-Frank Act," *Federal Reserve Board of Governors*, (September 2016), https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20160908a1.pdf

Francisco,[6] Fed Governor Lael Brainard indicated that Fed officials are actively reviewing the financial stability, macroeconomic, asset valuation, and monetary policy implications of climate change, and said, "Banks also need to manage risks surrounding potential loan losses resulting from business interruptions and bankruptcies associated with natural disasters, including risks associated with loans to properties that are likely to become uninsurable or activities that are highly exposed to climate risks."[7] Following the COVID-19 pandemic, the Fed issued its May 2020 financial stability report, which found that "corporate default rates were likely to increase sharply, with acute stress in the energy sector."[8] It is deeply offensive to compare decisions that commercial banks have made to avoid risks flagged by their primary regulator with systematic discrimination that has deprived communities of color the opportunity to build wealth for generations.

One week prior to your inappropriate evocation of the harms of redlining, you also made remarks suggesting that Treasury Secretary Mnuchin had worked with the oil and gas industry to revise the Fed's Main Street Lending Program to extend assistance specifically to that sector.[9] These remarks contradict assurances made to me personally by both Secretary Mnuchin and Federal Reserve Chair Powell, and also contradict public statements made by the Fed.[10] Manipulating the Fed's emergency lending programs to disproportionately benefit the oil and gas sector could cause the Fed to run afoul of statutory prohibitions on emergency lending to insolvent institutions Congress put in place following the financial crisis, and as a result increase systemic risk and divert funds that are needed to build a robust and sustainable economic recovery.

Instead of criticizing financial institutions for considering the risks of climate change in their lending decisions, the Department of Energy (DOE) should be developing policies that move American energy policy toward the goal of net zero greenhouse gas emissions to mitigate the likely impacts of climate change on our nation and our world. Climate change is already contributing to deadly hurricanes, severe droughts, frequent wildfires, and rising sea levels in the United States. The Intergovernmental Panel on Climate Change (IPCC), which includes more than 1,300 scientists from the United States and other countries, forecasts a temperature rise of 2.5 to 10 degrees Fahrenheit over the next century. According to the IPCC, the effects of climate change on the United States will be significant. For example, the IPCC reports that the intensity, frequency and duration of North Atlantic hurricanes, as well as the frequency of the strongest (Category 4 and 5) hurricanes, have all increased since the early 1980s, and hurricane-associated storm intensity and rainfall rates are projected to continue to increase as the climate continues to warm.[11] Meanwhile, the southwest of the United States will experience increased heat, drought, insect

---

[6] "The Economics of Climate Change," *Federal Reserve Bank of San Francisco* (November 8, 2019), https://www.frbsf.org/economic-research/events/2019/november/economics-of-climate-change/.
[7] "Why Climate Change Matters for Monetary Policy and Financial Stability," *Governor Lael Brainard*, (November 8, 2019), https://www.federalreserve.gov/newsevents/speech/brainard20191108a.htm
[8] "Financial Stability Report," *Federal Reserve Board of Governors*, (May 15, 2020), https://www.federalreserve.gov/publications/files/financial-stability-report-20200515.pdf
[9] "Energy Chief Says Fed Asked to Expand Lending to Oil Firms," *Bloomberg*, (May 12, 2020), https://www.bloomberg.com/news/articles/2020-05-12/energy-chief-says-fed-was-asked-to-expand-lending-for-oil-firms.
Also see U.S. Global Change Research Program (USGCRP) 2014, Third Climate Assessment, https://nca2014.globalchange.gov/, and USGCRP 2017, Fourth Climate Assessment, https://science2017.globalchange.gov/.
[10] Ibid.
[11] Ibid.

outbreaks, and wildfires. By the end of this century, what had been once-in-20-year extreme heat days are projected to be events occurring every two or three years in most of the United States.[12]

The DOE should move quickly to align our energy policy with the goals established in international climate agreements. I urge you to take time to better understand the differences between documented redlining of communities of color and the otherwise documented riskiness of lending to fossil fuel companies, and most importantly, immediately move American energy policy toward the goal of net zero greenhouse gas emissions.

Sincerely,

Maxine Waters

MAXINE WATERS
Chairwoman

CC: The Honorable Steven Mnuchin, Secretary, U.S. Department of the Treasury
The Honorable Jerome Powell, Chair, Board of Governors of the Federal Reserve System
The Honorable Patrick McHenry, Ranking Member, Committee on Financial Services

[12] Ibid.