Climate Risk in the American Financial System: A Bottom-Up Approach

Climate change will inevitably lead some companies to default on their debt, putting stress on banks and financial institutions. To ensure financial stability, financial institutions must prepare for climate risk appropriately. Although the first step to mitigating climate risk is quantifying that risk, researchers have not come to a consensus on the magnitude of climate-related credit risk. This thesis builds on prior research by taking a bottom-up approach to modeling climate risk in the American financial system. I find that risk is concentrated in certain companies, industries, regions, and financial institutions. Although these findings do not provide evidence that there is systematic climate risk in the American financial system, they do indicate that certain parts of the financial system are vulnerable and warrant regulation.