Does neglecting the possibility that fossil fuel reserves become “stranded” result in a “carbon bubble”, i.e., an overvaluation of fossil fuel firms? To address this question, we study whether banks price the climate policy risk. We hand collect global data on corporate fossil fuel reserves, match it with syndicated loans, and subsequently compare the loan rate charged to fossil fuel firms — along their climate policy exposure — to non-fossil fuel firms. We find that before 2015 banks did not price climate policy risk. After 2015, however, the risk is priced, especially for firms holding more fossil fuel reserves. We also provide some evidence that “green banks” charge marginally higher loan rates to fossil fuel firms.

**Keywords**: Environmental policy; Climate policy risk; Loan pricing; Loan maturity; Carbon bubble; Fossil fuel firms; Stranded assets

**JEL classification**: G2; Q3; Q5