Ge Ready for Much More Financial Regulation Care of Joe Biden

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H.L. Mencken quipped “Democracy is the theory the common people know what they want, and deserve to get it good and hard.” With the Biden administration, Americans are going get more government in financial services and payments, good and hard.

While Democrats’ narrow House majority and Republicans’ likely razor-thin Senate majority may stymie advancing transformative legislation for public banking and credit bureau, or putting the Community Reinvestment Act (CRA) on steroids, progressives will use the administrative state to advance their agenda. Diversity and climate-change dogma, and distrust of the private sector and markets, will seep into every walk of financial regulation.

Americans across the socio-economic spectrum should worry.

The Biden-Sanders Unity Task force called for postal banking and Fed retail banking. The central bank and post office would compete with rather than serve private-sector banks.

The Constitution authorizes the post office. It doesn’t contemplate government providing banking. Unless banks are unable to provide essential services, Washington should play the role of the night watchman, not provider. In the private sector capital and talent are dynamically allocated to banks that delight their customers and sensibly price risk. The system self-corrects. Postal and Fed banking would be the opposite. They would be political, rely on support from the postal union and statists on Capitol Hill, and, be subsidized.

Progressives champing at the bit for government banking use the unbanked as a political prop. What's the problem?

By 2019 the percentage of unbanked US households declined to 5.4% - the lowest in history. Fully 56.2% of unbanked households report they aren't interested in having a bank account. As reasons for not having a bank account 48.9% cite not having enough money to meet account minimums, 36.3% don't trust banks, and 36% express privacy concerns. Those engaged in the black or grey economies have reason not to have a bank account.

There are, however, no Americans so poor they can't enjoy basic banking and general-purpose-reloadable prepaid or debit cards.

Ten thousand banks and credit unions compete for their business. Some still offer free accounts with no conditions. Prepaid card specialists Green Dot and Netspend provide low-cost basic banking to millions. Mobile neobanks like Chime, funded by debit interchange, are storming the market. Most have no minimum balances or monthly fees.

CRA assumes banks need a government cattle prod to serve many Americans. Activists use it to bludgeon banks to extend credit they otherwise wouldn't, and to extract tribute to attest to their CRA bona fides. At a minimum, regulators will jawbone banks to make more loans to lower-income and riskier borrowers and CRA exams will become more aggressive. Progressives will push to expand it to cover non-bank lenders and insurance companies.

The Biden-Sanders Unity Task Force proposed public credit reporting run by the Consumer Financial Finance Bureau (CFPB). It's a Trojan horse to politicize and racialize credit.

Commercial credit bureaus Equifax, Experian, and Transunion have made credit markets more efficient, enabling banks to assess risk and the creditworthy to access credit, instantly. Progressives rail against them because average scores aren't identical across all racial and ethnic groups. Few things are. Credit scores, however, are colorblind, lowering credit's cost for everybody, but especially for anyone who superficially might appear risky.

Credit bureaus' purpose isn't to minimize racial disparities. It's to objectively report credit histories and scores predicting individual consumers' propensity to repay. Scores don't give black borrowers two demerits for paying late while Asian borrowers get only one. One only sees that kind of systemic racial preference in university admissions and corporate and government hiring.

Congress legislates policy regulators are supposed to implement. Often, however, regulators go further.

Obama's CFPB brazenly flouted Dodd-Frank's exempting auto dealers from its jurisdiction. Guessing borrowers' race, it sued Ally Bank for racial discrimination in auto-dealer-finance programs it funded. To bully Ally into settling it threatened the Fed would withhold approval needed to keep its insurance subsidiaries.

AG Jeff Sessions put paid to Operation Check Point, under which the DOJ, FDIC and OCC lawlessly prevented banks and payment processors from serving politically out-of-favor industries like subprime credit, gun dealers and manufacturers, cigar shops, escort services, and coal producers. It's likely to be reincarnated.

If Biden replaces the director of Senator Warren's brainchild the CFPB with her ideological kin, it will renew its war on the subprime-credit industry, thereby, depriving the most-needy of access to credit.

The Fed is the elephant in the room. The Biden administration will look to the financial system's paramount regulator to advance policy. While cultivating a reputation of being apolitical, since its 1913 creation the Fed's been masterfully political and adept at expanding its remit. Former Senate Banking Committee Chairman Phil Gramm warns the Fed has become among the most political entities in government. Of Fed employees' contributions to Democrats and Republicans, 89% went to Democrats.

The central bank's socializing introducing diversity and climate-change considerations into prudential regulation and monetary policy. In a woke catechism Fed Chair Jerome Powell decried "the pain of racial injustice." At a SF Fed climate-change conference Fed governor Lael Brainard argued climate change would affect monetary policy and prudential regulation.

Former Fed Chair, Treasury Secretary designate, and fiscal and monetary dove Janet Yellen sings from the same climate-change hymnal.

Progressives are keen for the Fed to directly bank consumers - a form of digital dollars. The principal alternative is central-bank digital dollars distributed through rather than competing with banks. Neither, however, should preclude competing private-sector digital greenbacks.

Bank utilities the Clearing House (TCH) and Early Warning Services, card networks Visa, Mastercard, and Discover, and processors FIS and Fiserv have competing realtime interbank payment systems. The Fed intends to join the fray in 2023 or 2024. TCH's system has been building critical mass since 2017. To enable its system FedNow to compete the Fed will use its regulatory power to insist TCH interoperate.

The Fed's losing emergency Covid-19 lending facilities used to make loans to businesses, the state of Illinois, and NYC's MTA. It wants to keep its new authority. Progressives would love to use the central bank to bailout improvident states and fund favored sectors like wind mills.

The Fed sets a Dodd-Frank-mandated price cap on debit-interchange fees. They've made offering free checking accounts without conditions and debit-issuer innovation more difficult. The price control's architect Senator Dick Durbin will press the Fed to reduce it.

Unless in the Trump administration's twilight FHFA director Mark Calabria privatizes mortgage Goliaths Fannie Mae and Freddie Mac, the Biden administration is sure to use them to weaken credit standards, in the name of boosting home ownership and racial justice. It won't end well. The Clinton and Bush administrations forced Fannie and Freddie to weaken credit standards, fueling an unprecedented housing bubble and tsunami of risky loans, which precipitated the housing and financial crises.

A reanimated Financial Stability Oversight Council may designate additional financial institutions as systemically important and, therefore, meriting tighter regulation.

Expanding government's role in and regulation of banking should be effected through Congress, not administrative fiat.

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