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## How a Racial-Equity Mandate Changes U.S. Financial Regulation

Little noticed in high-profile Democratic legislation demanding a racial/ethnic mandate for Fed monetary policy are like-kind provisions for U.S. financial regulation. A Fed willing or forced to comply with this mandate would issue very different safety-and-soundness rules and enforce consumer and anti-discrimination protections very differently.

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On August 5, the chairwoman of the House Financial Services Committee, Rep. Maxine Waters (D-CA), was joined by her panel's Democratic leadership introducing H.R. 7946, the "Federal Reserve Racial and Economic Equity Act." A Senate companion, S. 4464, was introduced the same day by Sen. Elizabeth Warren (D-MA) and 6 Democrats including the Banking Committee's Ranking Member, Sherrod Brown (D-OH). The measure is based on a [Biden campaign proposal](#), but goes beyond it to stipulate an affirmative mandate for racial and ethnic equity not only for Fed monetary policy, but also for its wide-ranging, often all-powerful regulatory and supervisory ambit. The bill will not pass this year, but its reach and sponsorship are an early indication of how radically the U.S. regulatory framework will change if Democrats prevail in November.

Much has been made of the monetary-policy impact of this mandate, most of it fearful of quasi-fiscal policy and credit allocation from an [increasingly-captive Fed](#). We think this perspective obscures a critical market fact: a Fed operating under a racial-equity mandate it wants or is forced to meet will no longer be able freely to place the Powell stock-market put nor craft facilities solely for the benefit of financial markets. However, regulatory implications of this new mandate are also strategy-significant. They could well include:

- a new framework for U.S. systemic designation and regulation based on implications for minority communities. The Dodd-Frank Act gives Treasury's Financial Stability Oversight Council a mandate to do so. A racial-equity focused Fed could press hard for its use, bringing major nonbanks under Fed regulation without a change of law;
- new capital rules that remove the high costs now associated with bank lending to the low-and-moderate income households and small businesses dubbed high-risk in current rules;
- a far tougher enforcement regime for an array of lending, consumer access, employment, and compensation practices lumped under the painful rubric of "banking while Black" barriers; and

- much closer scrutiny of inter-relationships between banks, bank holding companies, and nonbanking firms. Many of these “partnerships” are under either OCC or FDIC authority, but the Fed has a heavy hand and could lay it down on activities deemed by some to involve predatory lending or high-risk finance. Just for starters -- the Fed’s recent takeover [regulations](#) were never the mere codification of prior rules some suggested. They give the FRB a lot of power over any cross-ownership or business-relationship arrangement.

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