



FedFin Client Report

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Big Banks Embattled, But Largely Unbruised by Senate Banking Session

Client Report: GSIB18

Executive Summary

As [anticipated](#), Senate Banking progressives today excoriated big-bank CEOs for what Chairman Brown (D-OH) describes as their preference for profit over public welfare. Although Republicans generally supported the role banks play in the economy and the construct of current regulation, they strongly protested what Ranking Member Toomey (R-PA) described as undue concessions to stakeholder capitalism and “woke” political ideology. Although some testimony and questioning explored critical policy issues (e.g., crypto regulation), the session was largely rhetorical and thus provides little insight into possible Senate Banking legislative initiatives. However, the CEOs showed general support for some kind of national usury ceiling. The CEOs now head to HFSC; we will also provide clients with in-depth analysis after tomorrow’s hearing.

Analysis

Opening Statements

Chairman Brown described the current financial system as profiting at the expense of workers, criticizing the banks for engaging in credit default swaps, stock buybacks, and “excessive” CEO pay instead of investing in the “real economy.” Arguing that the big banks bear some responsibility for building this system, he urged the CEOs to commit to concrete actions to change Wall Street’s incentives.

Ranking Member Toomey worried about distorted credit allocation due to increased pressure on banks to pursue a social and even political agenda.

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Testimony

The bank CEOs described their customer and employee commitment, diversity and inclusion, net-zero, and small businesses. Noting the banking industry's resilience in the face of the pandemic, they pointed to their commitment to an equitable recovery and their actions over the past year.

Q&A

- **Overdraft Fees:** Sen. Warren (D-MA) sharply criticized the CEOs for not waiving overdraft fees during the pandemic, saying that the banks received what she called overdraft protection from the Fed at the same time. She also asked if Mr. Dimon would commit to refunding this money to customers; Mr. Dimon refused, noting that JPMorgan waived fees for customers on request.
- **“Woke Capitalism”:** Ranking Member Toomey along with Sens. Scott (R-SC), Shelby (R-AL), Daines (R-MT), Tillis (R-NC), and Hagerty (R-TN) worried about the influence of political pressure and activism on bank lending decisions. Mr. Scharf and Mr. Moynihan emphasized their risk-based approach to lending.
- **Climate Change:** Sens. Toomey and Daines asked if banks plan to deny services to natural gas or oil companies; Ms. Fraser and Mr. Moynihan do not. Sen. Van Hollen (D-MD) commended Ms. Fraser on Citigroup's new coal-financing policy, asking if the other CEOs are prepared to make a similar commitment; Mr. Dimon emphasized the need for a “mature” conversation about climate change, noting that oil and gas will be needed for a long time, while the other CEOs highlighted their willingness to help their clients make the transition. Sen. Smith (D-MN) asked if the SEC should set a standardized climate risk disclosure framework; Mr. Dimon agreed, noting however the need for thoughtful consideration. Ms. Fraser noted the benefits of consistency, Mr. Solomon expressed openness to the idea, and Mr. Scharf is unsure. Sen. Smith also asked if the CEOs support the Trump Administration's rule limiting ESG funds in pensions ([see FSM Report ESG2](#)), noting her legislation to revoke it. Mr. Moynihan highlighted the need for standardization.
- **Diversity and Inclusion:** Chairman Brown criticized the banks for their lack of progress on diversity and inclusion, asking Mr. Gorman if he believes Morgan Stanley will have a female CEO in the next decade; Mr. Gorman believes that is a significant possibility, describing improvements in the bank's diversity and inclusion efforts. Sen. Menendez (D-NJ) asked if board diversity disclosures are important; all agreed.
- **Racial Equity:** Sen. Menendez asked if the banks have implemented any no-cost, no-fee initiatives; Mr. Moynihan and Ms. Fraser highlighted their banks' no-overdraft accounts. Emphasizing the banks' responsibility to bring more people

into the financial system, Sen. Menendez also asked if the banks have a small-dollar loan product; Mr. Dimon, Mr. Scharf, and Ms. Fraser said that their banks do not.

- **Stock Buybacks:** Chairman Brown criticized Bank of America for its stock buybacks given a drop in lending over the past year; Mr. Moynihan believes that banks can engage in both lending and stock buybacks, noting that loans fell due to PPP's large impact on demand.
- **Usury Ceiling:** Sen. Reed (D-RI) asked if the CEOs would support his legislation with Chairman Brown that would implement a 36 percent usury ceiling. Mr. Dimon was supportive subject to a detailed review while Mr. Scharf, Mr. Solomon, Ms. Fraser and Mr. Moynihan signaled interest in reviewing the bill.
- **Housing:** Sens. Reed and Cortez Masto (D-NV) asked what the CEOs are doing to help consumers as forbearance protection expires; Mr. Moynihan, Mr. Dimon and Mr. Scharf say that their banks are committed to working with customers. Sen. Tester (D-MT) worried about a housing bubble, asking if the banks are in good enough condition to handle one; Mr. Dimon believes that although there is a "little bit" of a bubble, banks easily pass a number of strenuous stress tests each week and are extremely well-capitalized. Mr. Scharf, Mr. Moynihan and Mr. Dimon also highlighted improvements in underwriting. Sen. Warnock (D-GA) asked if the CEOs would commit to addressing racial disparities in home appraisals, announcing the introduction of his Real Estate Valuation and Improvement act with Sen. Klobuchar (D-MN); Mr. Dimon and Mr. Scharf agreed.
- **PPP:** Sen. Warner (D-VA) highlighted the large number of woman and minority-owned businesses unable to access PPP loans. Sen. Sinema (D-AZ) asked what challenges the banks faced with PPP and if repurposing the loan origination process would be best to help small businesses in a future pandemic; Ms. Fraser noted challenges in building out digital platforms and the speed at which they were able to distribute money, suggesting the establishment of a tech platform at SBA or a different agency to disperse money in the future. Sen. Sinema also announced a bipartisan working group on risk sharing and pandemics; Mr. Solomon supported this.
- **Infrastructure:** Sen. Ossoff (D-GA) asked about opportunities for private capital investment in infrastructure; Mr. Dimon urged Congress to focus on output and fix regulations that increase the cost and risk of private investment in infrastructure.
- **Crypto:** Sens. Warner and Hagerty highlighted the need to look at fraud and hacking in cryptocurrency.