



Thursday, November 18, 2021

## Omarova Nomination Threatened

Client Report: REFORM210

### Executive Summary

As expected, today's hearing with Comptroller-nominee Saule Omarova included an unprecedented amount of fireworks for what is normally a low profile appointment. In this report, we omit analysis of the debate on Ms. Omarova's origins and alleged Marxism, instead assessing policy issues germane should Ms. Omarova succeed in what seems an increasingly difficult confirmation. Notably, moderate Democrats such as Sens. Tester (D-MT) and Warner (D-VA) were clearly concerned with Ms. Omarova's opposition to the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), while Republicans lambasted her for previous comments about cutting off credit to the oil and gas industry and proposals they believed would nationalize U.S. banking. Ms. Omarova attempted to deflect criticism on many issues and in many ways, but concerned senators seemed unwilling to accept her rebuttals due to the clarity of her prior statements not only on tailoring and fossil-fuel lending, but also on the role of all but the very smallest banks.

### Analysis

Ms. Omarova's testimony was short and often personal, but she also affirmed her commitment to vibrant community banking, fair and competitive markets, and increasing financial-product access and affordability through relationship banking at small banks. She also underscored the need to level the playing field between banks and bigtech firms. Points of substance at today's session included:

- **U.S. banking system:** asked by many senators including Chairman Brown (D-OH) and Ranking Member Toomey (R-PA) about her comments regarding the desirability of the "end of banking as we know it," Ms. Omarova clarified that she believes CBDC, private stablecoins, and other digital currencies are fundamentally transforming the system. She worries that, if these changes are not fully understood, then financial services may transfer from regulated banking to bigtech firms. Sen. Shelby (R-AL) asked if the banking system is the "glue" holding the economy together; Ms. Omarova agreed, arguing private banks channeling credit to communities is essential.

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Federal Financial Analytics, Inc.  
2101 L Street, NW – Suite 300, Washington, D.C. 20037  
Phone (202) 589-0880  
E-mail: [info@fedfin.com](mailto:info@fedfin.com) [www.fedfin.com](http://www.fedfin.com)

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- **Oil and gas lending:** Sens. Crapo (R-ID), Tester (D-MT) Rounds (R-SD), Scott (R-SC), Hagerty (R-TN), Cramer (R-ND), and Daines (R-MT) raised Ms. Omarova's previous comments about de-banking and reducing capital allocation to the oil and gas industry and other "socially suboptimal" industries. Ms. Omarova said her comments were with regard to private investors making private decisions, not advocating for government policy. She also said it is up to Congress to determine what is socially suboptimal, citing Congressional decisions to disallow terrorist financing. Ms. Omarova believes in private capital allocation, saying the OCC's responsibility is to ensure this is done prudently, not meddle in private decision-making.
- **CRA:** Sen. Menendez (D-NJ) asked about potential changes to CRA; Ms. Omarova supports the interagency modernization effort, saying she would like to work with OCC professional staff to identify any CRA inadequacies. Sen. Cortez Masto (D-NV) asked about potential changes to reflect online banking; Ms. Omarova said a comprehensive revamping of CRA is needed and praised Acting Comptroller Hsu for engaging with the Fed and FDIC.
- **EGRRCPA:** Sens. Tester and Warner asked about Ms. Omarova's objections to the law; she supports its provisions tailoring regulations for community banks, but was then concerned that it could lead to a loosening of oversight for big banks. Now, she said the law indirectly helped big banks.
- **Digital currency:** Asked by Sen. Toomey about a U.S. CBDC, Ms. Omarova said whether to issue one and in what form is a decision for Congress. Sen. Reed (D-RI) asked about Facebook's digital currency, arguing that it could end U.S. Dollar supremacy and drive banks to shed their charters; Ms. Omarova agreed. Sen. Ossoff (D-GA) asked about implications for fiat currencies; Ms. Omarova is optimistic about potential efficiencies from crypto such as increased transaction speed and access, but worries about the U.S. Dollar's global reserve status. Sen. Lummis (R-WY) asked if government-issued currency is superior to privately issued ones; Ms. Omarova said wholesale transition away from a government-issued currency poses national security risks.
- **FedAccounts:** Sens. Toomey, Scott, and Daines asked if Ms. Omarova stands by her proposal to fully migrate all demand deposits to the Fed, saying this would nationalize the banking system; she said this proposal was academic, seeking only to explore the implications of such a transition.
- **Community banks:** Sen. Rounds said Ms. Omarova's academic positions argued the need to remove the critical relationship between community bankers and their communities and replace this with federal government judgement; she said this paper was intended to ensure the role of community banks is preserved if Congress decides to implement CBDC. Sen. Smith (D-MN) asked Ms. Omarova for her views on community banks generally; she said they are the backbone of the American banking system and worries that bigtech firms will subsume community banks if the playing field is not leveled. Ms. Omarova also worries that bank consolidation is leaving many communities without local banks, saying she would prioritize a review.

- **Cybersecurity:** Sen. Van Hollen (D-MD) asked what must be done to ensure this; Ms. Omarova cited it as the number one threat to financial stability and also threatens national security, arguing that joint work across the banking agencies, Treasury, and FinCEN is needed to ensure attacks are prevented or mitigated. She specifically cited a role for new technologies at banks and regulators as well as the need to increase regulatory expertise.
- **National Investment Authority:** Sen. Tester asked if Ms. Omarova's NIA proposal would better allocate capital than the private sector; she said the NIA would supplement, not replace, private capital allocation. Sen. Scott argued against it, saying it would take policymaking authority away from Congress.
- **Rulemaking procedures:** Sen. Shelby said that economic analysis and empirical data should be the basis for all rules, asking Ms. Omarova if she supports this view; she agreed these are important but that financial technology has increased transaction speed and the financial landscape has changed, necessitating additional, unspecified inputs.
- **OCC supervision and enforcement:** Sen. Warner said the OCC has a history of engaging in "box checking" rather than meaningful oversight, asking how Ms. Omarova would correct this; she agreed, but deferred proposing solutions pending conversations with staff if confirmed. Asked by Sen. Warren (D-MA) about big-bank "repeat offenders," Ms. Omarova said fines should have real impact and executive compensation should be subject to enforcement.