



FedFin Client Report

Thursday, February 3, 2022

FedFin Assessment: Raskin Confirmation Possible, But a Squeaker

Client Report: FEDERALRESERVE69

Executive Summary

As this report details, all three Fed nominees before the Senate Banking Committee today emphasized the vital importance of Fed independence and their anti-inflation zeal to quell GOP opposition and cement it among moderate Democrats. Professor Philip Jefferson sailed through and will be confirmed -- perhaps quickly -- by a relatively-wide bipartisan margin. We expect Professor Lisa Cook also to prevail, with Democrats likely joined by a couple of moderate Republicans convinced that attacks on her expertise art unseemly with regard to a Black woman given how rarely similar concerns are voiced about white nominees with no macroeconomic-policy expertise. The greatest uncertainty surrounds the biggest job, that for Sarah Bloom Raskin to become vice chair for supervision. Republicans were uniform and often even very assertive in their complaints about her climate-risk position, with new questions about possible favoritism with regard to a Fed master account also leading to fierce questioning about Ms. Raskin's fitness. Buoyed by banking-industry support for Ms. Raskin, Sen. Warner (D-VA) made it clear that he will support her and we think Sen. Tester (D-MT) will come to do the same. Thus, as is often the case, the big question comes down to Sens. Manchin (D-WV) and Sinema (D-AZ). Much work will ensure to gain their support, but we do not expect her appointment or that of Ms. Cook to come to the floor until Democrats regain full strength with the return of the ailing Sen. Luján (D-NM).

Analysis

Opening Statements

Chairman Brown (D-OH) stressed the importance of filling all seven Board seats, arguing that all of the nominees meet necessary qualifications. He specifically cited their dedication to Fed independence, the dual mandate, and financial-system safety and soundness and lambasted the “coordinated effort” to label Ms. Raskin a “radical.”

Ranking Member Toomey (R-PA) countered that global warming, social justice, and education policy are outside of the Fed’s statutory mandate, suggesting that Mses. Raskin

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and Cook would politicize the Fed. He also attacked Ms. Cook as being unqualified and a participant in “extreme left-wing political advocacy.” However, Sen. Toomey supported Mr. Jefferson’s nomination, saying he is well-suited for the position.

Testimony

In her written testimony, Ms. Raskin emphasized that her experience has taught her quickly to address financial risks no matter where they arise rather than responding to political pressure. She made no comment about climate risk other than indirectly to recognize that what one thinks may be known about financial risk is always imperfect. Ms. Raskin joined all the other nominees in also vowing to tackle inflation. Doubtless anticipating challenges to her expertise, Ms. Cook described her professional experience and how it has taught her the importance of preventing financial crises. She also emphasized her work with community banks and the Fed’s need to reflect diverse points of view. Mr. Jefferson described his background and dedication to fighting inflation and financial instability.

Q&A

- **Climate Risk:** Democrats such as Chairman Brown and Sen. Warren (D-MA) said that climate risk falls under the Fed mandate, with Sen. Warren quoting Chairman Powell’s concerns about climate change. Some Senators were less direct, with Sen. Tester describing climate risk as harming farmers and Sen. Warner describing rising sea levels as a bank risk. Sens. Toomey and Moran (R-KS) expressed concerns about going beyond the Fed’s mandate. Sen. Kennedy (R-LA) engaged in a heated exchange with Ms. Raskin, citing an article the nominee repeatedly stated was being used out of context, although Sen. Cramer (R-ND) stated that he read the article and that the article did not state it was limited to said policy.
- **Cybersecurity:** Sens Reed (D-RI) and Warner asked Ms. Raskin about the threat cybersecurity poses to banks and financial stability. Ms. Raskin responded that cybersecurity are banks top concern regarding risk, that the effects of cyberattacks and cyber warfare are not restricted to a geographic region, and that cyber intrusion has moved into the “deep recesses of bank plumbing” posing significant risks.
- **Credentials:** Senators demonstrated both concern and respect for the nominee’s qualifications to serving on the Fed. Sens Warnock (D-GA), Van Hollen (D-MD), and Brown all citing their qualifications. Sen. Kennedy surprisingly did the same also for Ms. Cook, but Sen. Haggarty accused her of lying about her articles being peer reviewed, stating that that her background is not relevant. Sen. Toomey also doubted their qualifications.
- **Independence:** Republicans once again expressed concerns with the Fed’s independence, with Democrats such as Sen. Tester doing the same. All the nominees firmly stated their support for Fed independence, with Ms. Raskin calling it “sacrosanct,”

Ms. Cook warning of the dangers she witnessed on non-independent central banks abroad, and Mr. Jefferson describing it as a “cornerstone” for the American people.

- **Interest Rates:** Sen. Toomey stated that he called Ms. Cook in regards to her stance on the Fed’s “ultra-easy money policy.” When asked about her current stance and how she would vote, Ms. Cook did not respond.
- **Asset Cap:** Sen. Tillis (R-NC) expressed concerns about the use of an asset cap as a supervisory remedy for an unnamed bank (i.e., Wells Fargo), calling it a “drastic penalty” and asking the nominees a series questions about what conditions would be “reasonable” to lift the cap, when will it be used again and if a bank need to be “perfect” for it to be lifted. Ms. Raskin stressed the importance of supervisory clarity, whereas Ms. Cook and Mr. Jefferson said that they lacked expertise in the area.
- **APR Cap:** Sen. Scott (R-SC) cited a report that the 36% cap proposed in pending Democratic legislation ([see FSM Report PREEMPT38](#)) would eliminate all consumer loans under \$3000. He claimed that Ms. Raskin stated that anyone who opposes the APR cap either “doesn’t understand” low income Americans or supports a “predatory” lending industry. Ms. Raskin stated that she would be happy to read the report and that she values the importance of small dollar loans.
- **Diversity:** Democratic senators lauded the diverse panel of nominations, with Sen. Warnock calling Cook’s nomination “historic” for “generations of young black women,” while others supported their work with MDIs, CDFIs, and community banks.
- **Incentive Based Compensation:** Sen. Menendez (D-NJ) expressed concerns about incentive based payments for CEOs, citing a provision in Dodd Frank yet be implemented in final rules and asking Ms. Raskin if she would make it a priority; she said she would investigate the delay.
- **Master Accounts:** Sen. Lummis (R-WY) interrogated Ms. Raskin on potential ethics violations, stating that despite Wyoming businesses working for two and a half years to get a Master Account but a company on whose board Ms. Raskin served promptly received one after she used her insider status to obtain it. Ms. Raskin defended herself, objecting to the implication of doing anything improper and saying that she has always been “mindful of the rules” when departing public service.