Federal Financial Analytics, Inc.

BLOWING BANKING TO SMITHEREENS

A spate of recent policy statements on bank mergers and "junk" fees makes it clear that Biden Administration officials plan a simultaneous attack on larger banks from two directions -- limits on horizontal mergers combined with restrictions that bar vertical integration. So profound a change in the competition landscape presages sharp increases in consumer-finance unbundling along with regulatory migration and even arbitrage.

After the 2008 great financial crisis, U.S. policy targeted its structural reforms to efforts -- largely unsuccessful -- to ring-fence consumer finance from investment banking often called the 21st-Century Glass-Steagall ideas pushed from time to time even by former President Trump. Now, the focus has shifted to competition and market integrity, with banking taking a lot of heat reflected from the broader and still more consequential questions being raised about giant tech-platform companies. Although total ring-fencing was never erected, the Volcker Rule and a raft of new standards changed key aspects of the big-bank business model. We expect a similar outcome of the new two-sided big-bank containment campaign: incomplete realization of all the reforms advocates seek but structural change that nonetheless alters key strategic drivers. At a time of growing nonbank competition across all profit-critical services, even a little change could go a long way to altering the balance of banking market power -- just not quite the way progressives might like.

Recent FedFin in-depth analyses and memos from Karen Petrou have walked clients through a thicket of these top-priority strategic challenges. These include:

- the campaign by the OCC and incoming chair of the FDIC to scotch all but the smallest bank mergers;
- the Fed has approved several mergers, but all controversial transactions are on hold until the Board of Governors is reconstituted. When it is, the Fed will also take a more skeptical view of larger mergers and its view on BHC integration with nonbanks is also set for a transaction-by-transaction rewrite;
- the Department of Justice's proposed update of its own merger standards making it clear that Justice sides with the FDIC's Democrats;

- a request for comment from Justice and the Federal Trade Commission laying out a new antitrust construct governing both horizontal and vertical transactions in a newly-qualitative set of criteria with a sharp focus on social and public welfare; and
- the CFPB's all-points attack on "junk" fees. This combines both consumer-protection and pro-competition objectives in a raft of scathing statements about an array of banking and mortgage fees. It is clear that the Bureau's director plans to curb fees to the greatest extent possible, but how possible this proves to be under law remains to be seen. What is clear is that the kind of pressure that led big banks recently to slash overdraft fees is heading for many other charges, pressuring a key plank of integrated consumer finance delivered through regulated channels.

To learn more about Karen Petrou's book, *Engine of Inequality: The Fed and the Future of Wealth in America,* click here
Karen Petrou's latest column can be found here
To read Karen Petrou's latest speech, click here
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