FOR IMMEDIATE RELEASE
February 6, 2023

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PENDING ICE/BLACK KNIGHT MERGER THREATENS MORTGAGE-MARKET STABILITY AND CONSUMER WELFARE, STUDY FINDS

> No financial market is as critical as that for residential mortgages to financial stability, macroeconomic growth, and economic opportunity. The pending ICE/BKI merger would give a company already deemed to pose systemic risk still more concentrated power to set not only the terms of home finance, but also even its price, posing significant risk to mortgage affordability and equity. Operational failures of so dominant a service provider also threaten market integrity. By its own admission, the firm also plans to monetize consumer data, threatening competition, innovation, and personal privacy.

Washington, D.C. – The pending $16 billion merger of Intercontinental Exchange, Inc. (ICE) with Black Knight, Inc. (BKI) has problematic implications for financial stability, market integrity, and consumer welfare according to a new study released today by the independent consultancy Federal Financial Analytics (FedFin).

The study thus recommends that the Federal Trade Commission (FTC) deny this application. Further, even if approval is conditional, the company would likely still pose unprecedented challenges that warrant systemic designation of the firm as a whole – not just of one of its activities already subject to such designation due to its threat to global financial stability. Combining ICE's global reach across core markets with a dominant role in U.S. mortgage finance would, the study shows, speed risk that even a minor operational problem akin to the snafu at the ICE-Owned New York Stock Exchange on January 24 poses a new form of contagion risk with severely-adverse consequences for consumer welfare and the public good.

"The ICE/Black Knight merger poses significant risk to the mortgage market and should be denied by the FTC. Congress is rightly looking into Live Nation's market power in the wake of the Taylor Swift debacle, but concentrated market power in the $11.7 trillion residential-mortgage market has far greater consequence than busted ticket sales for a pop idol," said Karen Petrou, FedFin's managing partner. "The U.S. learned the dangerous impact of mis-priced, risky mortgages in the great financial crisis of 2008, and must be extremely wary of renewed systemic and consumer risk," she continued.

As the study shows, mortgage-market and thus systemic risk now is even greater than in 2008 if one giant, unregulated provider of critical market intermediation and infrastructure services is allowed to expand its dominance in vital stock, bond, and derivatives exchanges to residential housing finance. For example, ICE indicates that it plans to use the market power garnered by this merger to enter new mortgage-related derivatives activities that could link existing, systemic operations to residential-mortgage finance. It also plans even to challenge the U.S. government-sponsored enterprises with a new secondary-market facility.

FedFin's study also explores the extent to which this transaction would raise the cost of mortgage finance, building on Federal Reserve and related research showing significant concentration in residential-mortgage finance that already has adverse consequences for homeownership by low-and-moderate income consumers. The study also details ICE's plans to monetize consumer data from its control of the most powerful registry of U.S. mortgage transactions that would be linked to an array of new products and services following this acquisition. The study also thus draws out the implications not only for consumer privacy, but also for the competitiveness of smaller mortgage-finance companies.

This study reflects FedFin's point of view, with the company retaining complete editorial and methodological control over its findings. Funding was provided by a firm whose name is redacted to protect it from the adverse market consequences it fears were this known and the transaction approved.

Read the study here.

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Federal Financial Analytics, Inc. is a proprietary think tank providing analytical and advisory services on legislative, regulatory, and public-policy issues affecting global financial-services companies. Since 1985, the firm's practice has been a unique blend of strategic advice and policy analysis, serving as a thought leadership resource for boards of directors and senior management seeking a forward looking assessment of risks, opportunities, governance, and other matters critical to success. Clients also include senior regulators and policy-makers around the globe, who rely on the firm's objectivity for confidential forecasts of the market impact of actions under consideration.