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2024 Pre-Election Analysis: Financial Services

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Financial services encompass a wide range of services offered by the nation's financial institutions, including banking, mortgage, investment, and credit services. The next administration and Congress's financial services policies and priorities will shape the landscape of financial services in the US for the coming years, affecting Wall Street investors and aspiring homeworkers alike. In this installment of ML Strategies' **Pre-Election Analysis series**, we explore the implications of the 2024 election for financial services policies of the next presidential administration and 119th Congress.

Financial Services Policies in a Harris Administration

Vice President Harris has yet to release detailed financial services policies, but her priorities and accomplishments as a senator and in the Biden administration indicate that, if elected in November, she would push for stronger rules and regulations for banks and other financial institutions while also working to increase access to capital for aspiring homeowners and advance myriad consumer protection initiatives.

A Harris-Walz administration would likely continue many of the Biden administration's efforts to create robust financial rules and regulations for big banks and other financial institutions. As vice president, she supported the Biden administration's efforts to reinstate rules for big banks that were originally instituted by the 2010 Dodd-Frank Act and then scaled back by the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act. As president, Harris would likely aim to reinstate the Dodd-Frank Act's rules for banks with assets between $100 million and $250 million, including comprehensive stress tests, resolution plans, and strong capital requirements that all aim to ensure that banks can withstand certain market pressures.

Vice President Harris would also likely go one step further than her predecessor to make capital more accessible for aspiring and existing homeowners. She has already vowed that as president, she would "provide first-time homebuyers with up to $25,000 to help with their down payment," and she would likely build on the Biden administration's efforts to increase mortgage opportunities for historically disadvantaged communities and expand the types of income that can be considered for purposes of qualifying for a mortgage.

Harris has also been at the forefront of efforts to increase access to capital for small businesses. As vice president, she pledged to direct federal contracting dollars for rural and underserved small businesses and worked to expand the accessibility of 7(a) small business loans. As a senator, she previously supported legislation to streamline the loan application process to increase the accessibility of loans for small businesses, particularly those owned by minorities and women. As president, she proposes to increase the start-up tax deduction for new businesses from $5,000 to $50,000, as well as reduce red tape that prevents small businesses from launching and growing.

Harris, on the campaign trail, has also vowed she would not interfere with the Federal Reserve, which historically has been independent of politics and has had little interference from presidents.

A Harris administration would also likely advance a range of consumer protection initiatives. Her campaign has highlighted that "as Attorney General of California, Kamala Harris took on the big banks" to secure additional monetary relief for consumers harmed by predatory lending practices during the 2007 to 2008 financial crisis. More recently, Harris, as vice president, announced an initiative to work with the Consumer Financial Protection Bureau (CFPB) to prohibit medical bills and debt from being included on credit reports.And in July, Harris also endorsed a CFPB rule requiring mortgage servicers to provide support for borrowers struggling to pay mortgages. As president, Harris would have more opportunities to pursue consumer protection initiatives and fight discrimination in the financial services markets.

On environmental, social, and governance (ESG) issues, a Harris-Walz administration would likely continue to defend the Biden administration's ESG policies that are currently being challenged in court. The Biden administration's climate risk disclosure rule and a rule allowing retirement funds to consider ESG factors in investment decisions are both at the center of lawsuits before the Federal Circuit Court of Appeals after both rules faced challenges from a number of Republican state attorneys general. As president, she would likely continue to defend her predecessor's ESG rules in court, given her record as attorney general of California investigating a leading oil company over its climate disclosures.

On cryptocurrency, Harris has so far been silent as a presidential candidate, but she may continue the Biden administration's efforts to heavily regulate the crypto space. Under the Biden administration, the SEC filed lawsuits against crypto firms, and recently, the SEC adopted a final rule allowing for the creation of bitcoin exchange-traded funds, paving the way for cryptocurrency to enter mainstream finance.

Financial Services Policies in a Trump Administration

During his presidency, Trump championed efforts to deregulate banks and other financial institutions, ease restrictions for lenders, and make it easier for borrowers to access credit on the grounds that onerous regulations and red tape stifle economic growth. One of Trump's signature achievements as president was passing the Economic Growth, Regulatory Relief, and Consumer Protection Act, which eased the 2010 Dodd-Frank Act's restrictions and regular stress tests for small and medium-sized banks and lenders and loan data reporting requirements for most banks. The first Trump administration also rolled back or opposed a number of agency rules that would create more restrictions for lenders and borrowers and increase protections for consumers seeking financial services. Because the Biden administration subsequently reinstated many of these rules and initiatives, a second Trump administration would likely aim to roll back many of the Biden administration's recent efforts to regulate banks and lenders and protect borrowers.

While Trump has also not released detailed financial services policies, we can also expect a second Trump administration to:

- Resist efforts to further regulate banks of all sizes and oppose efforts to reinstate the Dodd-Frank Act's requirements and stress tests for big banks.
- Scale back the power of the CFPB, arguing that the agency's aggressive enforcement actions stifle innovation and economic growth. Project 2025, which is published by Trump's allies, calls for abolishing the CFPB and returning consumer protection responsibilities to the Federal Trade Commission.
- Oppose restrictions for payday loans on the grounds that such regulations make it more difficult for people to access capital.
- Direct the CFPB to stop collecting data that helps identify and monitor discrimination in the mortgage market to reduce red tape for mortgage brokers and agencies.
- Repeal the SEC's ESG and climate disclosure rules, arguing that they unnecessarily increase the regulatory burden for companies. Project 2025 also pledges to remove ESG considerations from government programs and ESG requirements for businesses.
- Scale back the power of the Small Business Administration and end its inclusive small business outreach policies targeting underserved communities and direct lending programs.
- Increase the available principal for Section 7(a) loans to finance equipment upgrades and manufacturing facility construction. A bill proposed under the first Trump administration would have increased the available principal to $50 million.

As president, Trump would also likely take a more active approach to trying to influence the Federal Reserve, which has historically been independent from politics. During his first term, he regularly commented about the Federal Reserve's decisions to raise and cut interest rates and its approach to addressing inflation. Recently, he has stated that the president should be able to influence the Federal Reserve in setting interest rates, and he also believes that the Fed should be subject to the same review processes that executive branch agencies undergo. Project 2025 calls for Congress to scale back the Federal Reserve's mandate and limit the Fed's lender-of-last-resort function. It also considers abolishing the Federal Reserve entirely and instituting free banking, in which interest rates and the supply of money are not controlled by the government.

On cryptocurrency, Trump has promised on the campaign trail to make the US the "crypto capital of the planet" and Bitcoin "superpower of the world." He has also stated that he would create a Bitcoin and crypto presidential advisory council and establish a government Bitcoin stockpile, with the goal of bringing cryptocurrency into the mainstream.

Democratic Leadership Priorities for Financial Services in the 119th Congress

In the next Congress, Democrats on the House Financial Services Committee will continue to be led by Rep. Maxine Waters (D-CA). As the current Ranking Member, Rep. Waters has championed efforts to increase regulations for and oversight of banks to prevent bank failures, as well as initiatives to increase the affordable housing supply and make it easier for borrowers to access credit. She has also used her oversight powers to ensure that housing agencies are enforcing anti-discrimination laws and proposed an overhaul to the credit reporting system.

In the Senate, Democrats on the Senate Banking, Housing, and Urban Affairs Committee will likely continue to be led by Senator Sherrod Brown (D-OH) if he is re-elected. Senator Brown has championed initiatives to strengthen capital requirements for big banks with the goal of preventing bank failures or taxpayer-funded bank bailouts. Senator Brown has also been vocal about supporting increased transparency requirements for lenders to protect small businesses and individuals from predatory lending practices. Finally, he has supported legislation to prohibit discrimination by banks, lenders, and other financial institutions.

On the Senate Finance Committee, Democrats will continue to be led by Senator Ron Wyden (D-OR). Although much of Senator Wyden's work on the Senate Finance Committee relates to tax policy, Senator Wyden has advocated for the consumer protection agencies to more strictly regulate banks and credit agencies, and he has supported legislation to prohibit discrimination in financial services.

Republican Leadership Priorities for Financial Services in the 119th Congress

On the House side, Republicans on the House Financial Services Committee will pick a new leader next Congress, as current Chair Patrick McHenry (R-NC) is retiring. Frank Lucas (R-OK), Bill Huizenga (R-MI), Andy Barr (R-KY), and French Hill (R-AR) are all vying for the top GOP spot. All four candidates generally support deregulation in the financial services space, although they would likely prioritize deregulation in different areas. Representative Barr has been the most vocal about his priorities. As the lead Republican, he would increase oversight of the Federal Reserve and other financial services agencies, crack down on ESG investing, weaken the power of the CFPB, repeal regulations related to investing, and promote regulations for cryptocurrency. Representatives Lucas and Huizenga have both spoken out against the SEC's climate disclosure rule on the grounds that it falls outside of the SEC's purview and increases the regulatory burden for companies. Rep. Lucas has also opposed stricter capital requirements for large banks, including those in the Basel III Endgame proposal. Lastly, Representative Hill generally supports the deregulation of banks and financial institutions, and he has opposed the SEC's regulations around digital assets and introduced legislation to promote AI innovation in financial services.

In the Senate, Republicans on the Committee on Banking, Housing, and Urban Affairs will continue to be led by Senator Tim Scott (R-SC). Senator Scott has pushed financial regulators to abandon Basel III Endgame's proposal to raise bank capital requirements and increase supervision and risk management of banks. Senator Scott has also opposed the CFPB's credit card fee rule on the grounds that it decreases the availability of credit card products. Finally, in support of cryptocurrency, he has also floated the idea of creating a digital-asset committee to oversee cryptocurrency.

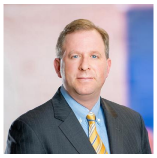
On the Senate Finance Committee, Mike Crapo (R-ID) will also remain the top Republican. He introduced and led the passage of the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act, which rolled back the Dodd-Frank Act's requirements for certain banks. As Ranking Member, he has continued to resist efforts to increase the regulatory burden for banks, and he's also opposed ESG requirements proposed by various agencies under the Biden administration.

Conclusion

The next administration and Congress's financial services policies will have significant implications for a wide range of stakeholders, from Wall Street investors to mortgage brokers and new homeowners. Although Republicans and Democrats tend to disagree about the extent to which financial services should be regulated, both presidential candidates and relevant committee leadership may have the chance to collaborate on cryptocurrency, which both sides support bringing into the mainstream.

ML Strategies is well-equipped to assist stakeholders in achieving their policy objectives, and we welcome the opportunity to start a dialogue with you.

Authors



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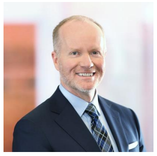

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