April 2, 2025

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

WASHINGTON POLICY STRATEGY

Potomac Perspective

In addition to a slew of macro policy events this week, such as Liberation Day (which we covered previously), there are several upcoming events related to financial services including votes to block overdraft rules, on a Stablecoin bill, and on legislation to facilitate de novo bank charters. Nominations for personnel to run key financial regulatory agencies should also move forward this week.

Also, we follow up on previous comments on the budget resolution. Among the potential roadblocks facing the Senate's version of the budget outline is that it takes a novel approach that could alienate fiscal hawks – a group that has fallen in line so far this year but might not this time.

- **Overdraft Overturn** – The House is scheduled to vote this week on a resolution to block a Consumer Financial Protection Bureau (CFPB) rule that caps bank overdraft fees. In response to political and market pressure banks, have reduced overdraft fees, so these programs are a smaller source of revenue than in the past, and the economic impact of blocking the CFPB rule would be limited. It would be, however, an important signal. On one hand, it would seem populist Republicans would be reluctant to block a regulation that appears to benefit the GOP's evolving base. On the other hand, passing the resolution would confirm Republicans' contempt for the CFPB and their desire to dismantle the agency and its powers.
    - Republicans might not be able to completely eliminate the CFPB in the upcoming reconciliation bill (for procedural reasons that we will not discuss now), but we think chances are high they will change the CFPB's budget, which will give Congress a greater ability to influence the bureau. Currently, the CFPB automatically gets its funding from the Federal Reserve Board. We think it is likely Congress will seek to subject the CFPB to direct appropriations and then move to cut its budget.
    - Congress is using the Congressional Review Act (CRA) to overturn the CFPB rule. Under the CRA, if the resolution passes the House and Senate and is signed by the President, the CFPB would be prohibited from adopting a substantially similar rule in the future.
- **Stablecoins** – On Thursday, the House Financial Services Committee is scheduled to mark up the Stablecoin Transparency and Accountability for a Better Ledger Economy (STABLE) Act of 2025. The STABLE Act would establish a regulatory framework for the issuance of stablecoins by banks and nonbanks similar to the GENIUS Act which was recently passed by the Senate Banking Committee. The two bills differ slightly in their approaches to federal regulation and in how they allow issuers to operate under state regulatory frameworks. They also have different approaches regarding bankruptcy protection. Once through the committee, the bill could be on the House floor later this spring. Timing of a vote on the Senate floor for the GENIUS Act is less certain, but we expect the full Senate could vote on the bill during the

summer. There has been bipartisan support for digital assets, and Democrats want to improve relations with the cryptocurrency industry. This legislation, however, could be caught up in the wider political storm in which the Democratic base is becoming less willing to work with the Trump administration, which has been pushing for crypto legislation. Odds still favor the passage of a stablecoin bill, but with the differences between both the House and Senate approaches (which will have to be resolved), and the potential political problems for Democrats who work with the Trump administration, the prospects for the legislation might not be quite as good as some observers think. We believe the odds that Congress will pass a Stablecoin bill in 2025 or 2026 are slightly better than 50/50, but we do not think they are much higher than that.

- **De Novo Bank Bill** – At Thursday's meeting, the Financial Services Committee will also mark up the Promoting New Bank Formation Act, which is intended to make it easier to start a new bank. According to the Federal Deposit Insurance Corporation (FDIC), over 1,000 new banks were formed between 2000 and 2008. Over one-third had failed by 2015. In the wake of the Great Financial Crisis, the FDIC and banking regulators approved far fewer *de novo* applications. Between 2009 and 2013, only seven new banks were formed. Although the number of de novo charters has increased in recent years, the restrictions on new banks still create disincentives for opening new institutions. The number of new banks lags far behind the number of bank mergers. Consolidation has been acutely felt in rural communities. Legislation being considered this week, which was authored by Rep. Andy Barr (R-Kentucky), would ease some restrictions on *de novo* banks, including making it easier to open a new bank by streamlining the chartering process, lowering capital requirements for new banks, and easing restrictions that limit new banks' ability to change their business models. Assuming the bill passes the committee this week, it could pass the House later this year but faces uncertain prospects in the Senate. Even if the bill does not pass Congress, it aligns with plans at the FDIC to make it easier to start a new bank. We would therefore expect to see an increase in the number of *de novo* charters in the coming years.

- **Nominations** – The Senate Banking Committee has scheduled votes on Thursday, April 3, regarding the nominations of Paul Atkins to chair the Securities and Exchange Commission (SEC), Jonathan Gould to head the Office of the Comptroller of the Currency (OCC), and Luke Pettit to be Assistant Secretary of the Treasury for Financial Institutions. The full Senate could vote on these nominations as soon as next week, although they might be scheduled after Easter.

    - We see the Gould and Pettit nominations as key for banking regulation for a couple of reasons. The OCC might be waiting for Mr. Gould to be confirmed as Comptroller before announcing a decision on Capital One's application to acquire Discover Financial. Although a decision on the application might not immediately follow Gould's confirmation, it could be an important step towards a resolution. We continue to believe the chances are relatively good that the application will be approved by the banking regulators.

    - Mr. Pettit's nomination could be a significant step in advancing the broader bank deregulatory agenda. Treasury Secretary Scott Bessent intends to coordinate bank regulation and supervision at Treasury, and Mr. Pettit is likely to be his point man. The regulators have already been rolling back some Biden-era policies, but once Pettit is confirmed, we expect to see an increase in the pace of regulatory changes. These actions are expected to include possible modifications to the Supplementary Leverage Ratio, which we see as part of the broader Trump economic agenda.

- **Budget Resolution** – In our earlier note, we discussed some of the hurdles the Senate's budget resolution would need to clear, but we skipped over the potential problem of passing the resolution through the House. The House passed a budget resolution last month, but the Senate is considering a different version which would then need to pass the House. The Senate version would assign different instructions for House committees than for Senate Committees. The House instructions would include higher spending cuts than the Senate version. This approach is, not surprisingly, meeting resistance from fiscal hawks in the House. As a group, these hawks have criticized past efforts to cut spending as illusory. They think past budget deals have failed to deliver on promised spending cuts, so a budget resolution that includes different instructions for House and Senate committees flashes red warning lights to them. So far this year, the budget hawks have fallen in line, as they have been unwilling to be seen as an impediment to enacting President Trump's agenda. It is therefore possible their current criticism is merely rhetorical, and they will ultimately back the Senate's budget resolution (if it passes the Senate). There is a risk, however, that Republican leaders might go to the well too often with the fiscal hawks. This might cause a few of these members to oppose the budget resolution in the House, which would then set back the timing of the reconciliation bill and the extension of the Tax Cuts and Jobs Act by several weeks.

SUBSCRIBE TO OUR PODCAST!

Season 4 of the Potomac Perspective podcast is underway. To access a broader discussion of these and other topics, please download and listen to the latest episode of our Potomac Perspective podcast.

DISCLAIMER