AMB America's Mutual Banks

MUTUAL ALERT

Senator Scott Confirms that "DOGE" is Considering Recommending Consolidation of Banking Agency Functions

Senator Scott speaking to the audience at the
Exchequer Club luncheon on Wednesday January 15,2025.

At yesterday's luncheon of the Exchequer Club in Washington D.C., Senator Tim Scott was asked about a recent Wall Street Journal front page story that "DOGE" is considering recommending consolidation of the various federal banking agency functions into one federal agency. Specifically, he was asked whether such a proposal is being given serious consideration by the Trump Administration and Congress. His response not only confirmed that it is a serious proposal but intimated there is a strong basis to consider the idea. Suffice to say, any proposal for consolidation would require legislation which in a divided Congress would be difficult at best. However, during the Biden Administration, the agencies have been led by leaders who have not demonstrated much independence from the White House or one another. During a time when agencies give lip service to tailored regulation, interagency regulatory releases have become the rule rather than the exception. As to independence from the White House, Bill Seidman, former FDIC Chair, would often recount how he had incurred the wrath of Barbara Bush for bringing enforcement action against her son, Neil Bush, for his involvement with a failed Colorado S&L. It is difficult to imagine any of the agencies showing that kind of independence today. Further, Washington cynics believe that factions within the industry who find the ability to arbitrage the agencies' application of policy appealing would strongly oppose consolidation. Hopefully, there are better arguments against this proposal than the elimination of arbitrage opportunities, the strongest being the need for tailored regulation, with agency missions tailored to the type of bank they regulate. One can only hope.

The risks to mutuals are numerous. Any legislative agency reorganization is likely to further diminish any residual mutual expertise remaining at the OCC or FDIC. The promulgation of policies and rules by one centralized agency is even more likely to compound the centralized tendency to one size those rules and policies. State-chartered savings banks who have enjoyed deferral by the FDIC to state regulatory bodies will experience further erosion of the dual regulatory system as a central federal agency consolidates its power. In short, it isn't the size of the fit that concerns mutuals but the shape of the fit-the proverbial square peg in the round hole problem. Rules tailored for small banks, even small community banks, may still not work for mutual banks with a completely different governance, capital, and earnings structure from stock banks.

Mutual banks should increase their engagement with their trade groups, legislators, the administration and thought leaders during the first 010 days of the new administration and monitor events as they occur. Now is the time to pull up a seat at the table.

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