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FACT SHEET

Financial Stability Oversight Council Policies Will Harm the Economy and Financial System

Deregulatory policies increase income and wealth gaps, erode consumer protections, and threaten financial stability

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The Chair of the Financial Stability Oversight Council (FSOC), Treasury Secretary Scott Bessent, owes the American people a legitimate explanation for pursuing an agenda that harms the Main Street economy and increases risks to financial stability. The FSOC is ignoring its core mission in favor of a pro-Wall Street deregulatory agenda that will lead to even wider income and wealth gaps and broad-based financial instability. Bessent's pretext for extreme deregulation is the false claim that financial regulation always negatively impacts economic growth. In reality, deregulation results in narrow, fragile, short term bubble growth and not the kind of sustainable, durable, broad-based growth that is created by a stable financial system.

The FSOC was one of the most vital reforms created in response to the catastrophic 2008 crash and its devastating consequences. The mission of the FSOC is to promote stable economic growth and protect the country from financial crashes. It does this by regulating systemically significant nonbanks, reducing regulatory arbitrage, and identifying and mitigating emerging risks. That mission recognizes that only a stable financial system can support broad-based economic growth, prioritizing the real economy over financial speculation and avoiding financial crises that set the economy back years. Let's never forget that 90 percent of Americans were poorer at the end of 2016 than they were in 2007.

Undermining the FSOC undermines the economy and the financial system. The FSOC's current path will widen already-huge income and wealth gaps, making the affordability crisis worse, eroding consumer protections, and accelerating the next financial crisis. To change course, the FSOC needs to get back to basics, abandon Wall Street's risky deregulatory wish list, and fulfill its statutory mandate for the betterment of all Americans. That must be the focus as lawmakers question Secretary Bessent this week.

FSOC Deregulation Drives Income and Wealth Gaps Higher, Making the Affordability Crisis Worse

All financial activities are based on taking some amount of risk. If that risk is limited and properly regulated, it supports durable and sustainable economic growth. But unchecked financial institutions always do the same thing: take risks too far to maximize profits without considering the consequences of those extreme risks on the economy and American public. The FSOC's current agenda of stripping away regulations is intentionally returning the financial industry to the unchecked risk taking that has preceded major financial collapses. In fact, in its meetings last year, each of the FSOC agencies celebrated—almost bragged about—the array of deregulatory rules and actions they are pursuing.

Secretary Bessent claims that economic growth justifies these policies. In the December FSOC meeting, Secretary Bessent said that "sustainable long-term economic growth and economic security are both essential to financial stability" and that "economic growth underpins financial stability." But the type of growth the FSOC's policies are promoting is short-term, bubble growth that almost entirely benefits the financial industry, the wealthy, and large corporations. Working class Americans and small businesses are mostly left out of this type of growth and are hurt the most when bubbles inevitably burst. Put simply, not all growth is beneficial—the type of growth matters.

Banking Agencies' Policies Will Do the Most Harm

The policies being implemented by the federal banking agencies will harm the Main Street economy most directly. Those agencies are giving away huge benefits to the biggest banks, which prioritize financial markets over the real economy. In fact, the largest banks hardly are banks anymore. They are financial conglomerates that engage in a broad range of financial activities with a heavy focus on activities that benefit financial institutions, the wealthy, and large corporations: trading, derivatives, investment banking, and wealth management. With less regulation and oversight, these banks will prioritize these profit maximizing financial market activities even more.

Benefiting big banks also hurts community banks and the communities they serve. Community banks already face an unlevel playing field that's tipped heavily in favor of big banks, leaving them struggling to keep up and allowing the big banks to gain more and more market share. The agencies' recent policies are making this much worse.

Put simply, big banks getting bigger means less support for Main Street. Community banks are much more supportive of Main Street businesses, households, and farms than large banks. This is obvious when looking at the data. Compared to large banks, community banks:

- Use 75 percent of their deposits for direct lending to the real economy, compared to the largest banks that use only 40 percent of their deposits for real-economy lending.[1]

[1] Analysis based on data from Call Report.

- Lend to a broader range of borrowers through their unique "relationship banking" model—for example, community banks hold around 40 percent of balances of small business loans despite having only around 12 percent of deposits[2] and approve small business loans at a much higher rate (54 percent) than larger banks (45 percent).
- Provide more support to communities during economic downturns.

Massive deregulation for the largest banks only ends one way: big banks will become even bigger and gain more market share, resulting in more lending to other financial institutions, large corporations, and the wealthy; more involvement in financial markets through trading, investment banking, and wealth management; and less lending to Main Street borrowers, especially small businesses. The effects already are being seen:

- Bank loans to other financial institutions, including to risky financial institutions like hedge funds and private equity funds—virtually all of which are made by large banks—grew by over 50 percent last year as compared to 0 percent growth for all other types of loans.[3]
- The largest banks had almost no growth in lending to small businesses between the fourth quarter of 2024 and the third quarter of last year (most recently available data).[4]
- The largest banks hit records for their revenues last year thanks almost entirely to their trading and investment banking businesses and not from lending to the real economy, which is what banks are supposed to be prioritizing.

This all adds up to widening income and wealth gaps as the wealthy and large corporations reap the benefits. For example, most Americans don't own many financial assets, if any at all, and so large banks' focusing on financial markets only benefits wealthy borrowers who hold many financial assets. In fact, the wealthiest 10 percent of households own almost 90 percent of all corporate equities and mutual fund shares.

Other Agency Policies Will Increase Income and Wealth Gaps

Other FSOC agencies also are putting in place policies that are designed to benefit Wall Street companies and the wealthy, which extract wealth from those that are struggling. For example, the Securities and Exchange Commission (SEC) has made crypto its top priority, even though only eight percent of adults used crypto in 2024. The SEC was created for and exists to protect investors, not make it easier for them to lose their money, a frequent occurrence with crypto. Just last November a massive crypto selloff wiped out over $1 trillion, the brunt of which was borne by smaller retail investors.

[2] Analysis based on small business lending data and deposit data from the Call Report.
[3] Analysis based on the Federal Reserve's H.8 data collection.
[4] Analysis based on small business loan data from the Call Report.

FSOC Policies Are Eroding Consumer Protections and Allowing Wall Street Firms to Break the Law

The administration is actively working to kill off the most successful consumer protection agency in the history of the country: the Consumer Financial Protection Bureau (CFPB). The CFPB works to protect hardworking Americans from financial scammers and crooks who seek to rip them off Throughout its history has provided more than $21 billion in relief to almost 200 million Americans. That's why Wall Street has tried to kill off the CFPB—they don't want to return ripped-off money to Main Street Americans.

The administration has all but shut down the CFPB, cutting almost the entire staff. This will result in a huge increase in criminals targeting Americans nationwide. We have seen repeatedly that scammers have no limits. For example, servicemembers, veterans, and their families are targeted by financial predators, which is why the law requires the CFPB to focus on protecting them. They lost a total of $584 million to fraud in 2024, a nearly 25% increase over 2023. According to one survey, nearly 80 percent of veterans say they were specifically targeted because of their military service. Despicably, the administration has significantly reduced the CFPB services and programs that are intended to protect servicemembers, veterans, and their families, leaving them exposed to losses they can't afford.

So far, the reduced Trump-era CFPB has removed over a dozen financial protection rules designed to fight predatory practices, increase market transparency, and save households billions of dollars. For example, the Credit Card Penalty Fee Rule was saving consumers $9 billion a year, but that rule has been removed, putting that money back in the pockets of credit card companies. Similarly, consumers will no longer benefit from $5 billion in savings from overdraft fees because of the repeal of the Overdraft Fee Rule.

Also, the CFPB has dropped dozens of court cases and stopped almost all enforcement actions, preventing scammers and crooks from paying the consequences of their actions and allowing them to keep billions of dollars they ripped off. For example, the CFPB dropped enforcement actions against Capital One in which the bank was deceiving its customers about the interest rates it offered, which cost customers billions of dollars.

FSOC Policies Threaten Financial Stability

Through its agenda of rapid, broad-based deregulation, the FSOC is blatantly undermining its own mission and ignoring both financial stability and oversight—two key parts of its mission that are embedded in its name. The FSOC is supposed to be protecting the country from financial crashes and taxpayer bailouts, but it is instead prioritizing Wall Street profits and bonuses over the wellbeing of Main Street Americans.

The costs of financial stability must be paid at some point—either up front by Wall Street to prevent crashes from happening in the first place or by Main Street taxpayers when Wall Street's deregulated risk-taking causes financial crashes and government bailouts backed by the taxpayer.

The deregulatory actions of the FSOC shift the balance and clearly put the costs onto hardworking Americans.

Deregulation of Large Banks Significantly Increases Risks to Financial Stability

The effects of deregulation on financial stability can be seen most obviously with our largest banks. The banking agencies are stripping back the regulation and oversight frameworks for large banks. Taken together, this will create a perfect storm in which:

- Large banks will be allowed to take all the risks they want, unchecked by agency oversight, and
- At the same time will not have the proper financial protections in place that are intended to prevent their failure when those risks lead to huge losses.

First, agency supervision and oversight of large banks is being eroded to the point where it essentially will be destroyed. The purpose of bank supervision by the agencies is to make sure banks are avoiding excessive risk taking, have strong risk management in place, and are practicing good financial discipline. Without strong supervision, banks take big risks because more risk means higher profits and bigger bonuses for the executives—for example, Wall Street banks were passing out $100 million bonuses to traders before the 2008 crash. Now that supervision is being eroded, large banks will once again take huge risks across their financial activities.

Second, the banking agencies are significantly reducing bank capital, the financial “cushions” large banks have to protect against losses and failure. Put simply, the level of capital a bank has indicates the amount of losses the bank can absorb before it fails. Once all the agencies’ deregulatory actions are completed, the largest banks will be able to absorb only around 4% of losses across their financial activities before they fail. This is the same cushion these banks had just before the 2008 crash and is less than the percentage loss in value for certain Treasury securities just last April, which are considered to be the safest assets available.

Risky Investment Funds Also Create Significant Financial Stability Risks

Risks that threaten financial stability loom at other financial institutions as well, especially at hedge funds. This can be seen with the increasing and massive amounts of hedge fund borrowings which they use to engage in more and more financial activities with “other people’s money.” More borrowing means more risk, because borrowed money is money that has to be paid back. Paying that money back becomes a lot harder, if not impossible, when there are losses on the risky bets that were made with the borrowed money. This can cause huge losses at hedge funds and the financial institutions they borrow from (typically banks), which create significant risks to financial stability.

That’s exactly what happened in March 2020. Hedge funds had accumulated huge positions in Treasury markets using borrowed money from large banks. When those bets turned against them, hedge funds started selling massive amounts of Treasuries to cover their losses and pay back the banks. This was a major contributor to the turmoil in Treasury markets and financial instability that led to a bailout of markets by the Federal Reserve. History is quickly repeating, but the threat to financial stability is now even greater as hedge funds now have record high positions in Treasury markets.

Investment Funds Borrowing from Banks Amplifies Financial Stability Risks

What makes the threat to financial stability so much worse is that much of the borrowing by risky funds comes from banks. Those same banks borrow money from depositors and financial markets. For example, hedge fund borrowing from banks is at an all-time high. The risks that come with borrowing money are multiplied, because there is borrowing on borrowing—i.e., banks borrow money that is then lent to financial institutions like hedge funds. When these risks start to unravel, they will spread throughout the financial system and amplify. The Fed's already-bloated balance sheet is likely to prevent the agency from intervening in the way it has in the past to bail out the financial system.

Conclusion

The Financial Stability Oversight Council—one of the most important and powerful protections that emerged from the financial devastation of the 2008 financial crash—is blatantly undermining its own mission and ignoring both financial stability and oversight. The FSOC should be protecting the country from financial crashes and taxpayer bailouts but instead prioritizes Wall Street profits and bonuses.

Despite its legal mandate to reduce risk, the FSOC's actions to implement its industry-friendly agenda are increasing risk in the economy, banking system, and financial markets. As head of the FSOC, Secretary Bessent must be accountable to the American people for that agenda. As lawmakers question him this week, they should remember that the type of bubble growth used to justify these policies harm the hardworking Americans the FSOC is supposed to protect.

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Better Markets is a public interest 501(c)(3) non-profit based in Washington, DC that advocates for greater transparency, accountability, and oversight in the domestic and global capital and commodity markets, to protect the American Dream of homes, jobs, savings, education, a secure retirement, and a rising standard of living.

Better Markets fights for the economic security, opportunity, and prosperity of the American people by working to enact financial reform, to prevent another financial crash and the diversion of trillions of taxpayer dollars to bailing out the financial system.

By being a counterweight to Wall Street's biggest financial firms through the policymaking and rulemaking process, Better Markets is supporting pragmatic rules and a strong banking and financial system that enables stability, growth, and broad-based prosperity. Better Markets also fights to refocus finance on the real economy, empower the buyside and protect investors and consumers.

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