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January 6, 2025

WASHINGTON POLICY STRATEGY

Potomac Perspective

Today, Federal Reserve (Fed) Board Vice Chairman for Supervision Michael Barr announced that he will resign his leadership post on February 28, 2025, but will remain as a Governor. We explain why we think this is a positive for banks and what the next steps might be.

Michael Barr's announcement that he will resign as the Fed's Vice Chairman for Supervision but remain on the Fed's board seems designed to avoid a potential showdown with the incoming Trump administration. There had been some speculation that President-elect Donald Trump might try to fire Barr. It is unclear whether a president can fire the Vice Chairman for Supervision, but any effort to remove Barr could also have set the precedent for a president to also fire the Fed's Chairman. That issue has been averted for now.

Mr. Barr's resignation is somewhat unexpected and a positive for banks. Since there is currently no opening on the Fed's Board, President-elect Trump will be able to nominate someone from among the current Board members but will not be able to nominate an outsider. Fed Governor Michelle Bowman seems like the likely choice, and we note below where she dissented on some key regulatory proposals during Mr. Barr's tenure. If a replacement has not been confirmed by the time Barr steps aside, the Fed can pick one of the Board members to run its committee, which oversees the Division of Supervision and Regulation. Again, Governor Bowman seems like the likely pick.

Here are some initial takeaways about what Barr's resignation means for banks:

1. Someone else will run supervision, so banks are likely to experience some behind the scenes relief immediately (similar to what will happen at the Office of the Comptroller of the Currency and the FDIC).
2. A new Vice Chairman for Supervision will likely speed up the M&A application process, especially for mid-sized and smaller banks.
3. If there was any doubt, the 2023 Basel 3 Endgame proposal is dead. Barr's replacement could still work with the other agencies to propose a new B3 Endgame rule, but we think such a proposal would be capital neutral industry-wide, which was an original goal of the B3 endgame process. Governor Bowman voted against the 2023 proposal, and we expect she would lead any B3 re-write in a different direction.
4. The Fed has yet to finalize its 2023 proposal to lower maximum debit interchange fees. Governor Bowman opposed that proposal and, if she succeeds Mr. Barr, we think she might push to rewrite that proposal.

Mr. Barr's term as Vice Chairman was scheduled to run into 2026, so while the election of Mr. Trump was a positive for bank stocks, we cautioned that changes at the Fed would be slower than at other agencies. Today's announcement generally puts the Fed on the same schedule as other bank regulatory agencies. While much of the Trump trade appears to be already priced into bank stocks, we think the probability of an accelerated timetable is still a positive for the sector.

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