Alert

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Cozen Currents: The General Election Begins

The Cozen Lens

- With Super Tuesday, the State of the Union, and the release of President Biden's FY25 budget, this past week has been a politically consequential one. This series of events mark the pivot to the general election several months earlier than is traditionally the case, setting up a long slog of a presidential rematch that the majority of Americans would have preferred not to happen.
- As President Biden's first term approaches its end, he's earned his status as the president that has accomplished the most to fight climate change. It hasn't exactly moved the needle though with voters.
- One year after the failures of Silicon Valley Bank and Signature Bank stoked fears of a broader banking crisis, regulators are working to finalize a sweeping overhaul of bank capital requirements in an effort to prevent future unexpected collapses.

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A Very Important Week for Biden

Super Tuesday. Last week's primaries solidified President Biden and former President Trump's roles as their parties' respective presumptive nominees.

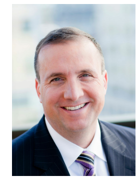
- Biden swept the Super Tuesday primaries last week, winning all 15 states that held contests (albeit losing American Samoa by less than a dozen votes). Rival candidate Rep. Dean Phillips (D-MN) dropped out of the race afterward, leaving Biden without even token opposition for the 2024 Democratic presidential nomination.
- Despite Biden's success in the primaries, Super Tuesday revealed divisions within the Democratic Party. In opposition to his handling of the Israel-Gaza War, activists have pushed Democratic primary voters to vote for "uncommitted" and netted 29 percent of the vote in Hawaii, 19 percent in Minnesota, 13 percent in North Carolina, and nine percent in Massachusetts and Colorado. In a tight general election race, Biden can't afford to lose voters from his base.
- Trump had a similarly successful Super Tuesday, winning all of the primaries and caucuses except Vermont. There he was edged out by former Governor Nikki Haley (R-SC), but she dropped out, clearing his path to the nomination.

The State of the Union. Last Thursday, Biden delivered one of the most important speeches of his presidency.

- Biden faced high stakes going into the State of the Union last week. The address is perhaps his biggest platform before the election. The target of criticism based on his age and ability to serve as president, Biden needed a strong performance to show that he's up for the job. Democrats will argue that his energetic delivery should assuage these concerns.
- Recognizing that the general election campaign is here, Biden went on the offensive. He attacked Republicans over January 6th and threats to democracy and reproductive rights and drew frequent contrasts with "my predecessor."

FY25 Budget. Congress hasn't finished FY24 spending bills yet but the FY25 appropriations process already kicked off.

- The White House released Biden's FY25 budget yesterday. House Republicans didn't wait for Biden though, instead marking up their own budget resolution last week that proposes



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Related Practice Areas

- Government Relations - Cozen O'Connor Public Strategies major cuts to Inflation Reduction Act green subsidies. This is a reverse of the traditional order of appropriations, in which "the president proposes, and Congress disposes." Biden's budget will be dead on arrival, making it instead more of a political document reflecting his priorities.

- Biden's FY25 budget is an opportunity for him to throw red meat to his base and motivate voters. It's good campaign fodder to make promises for his next term that he will have no obligation to deliver on while the House GOP stands in the way.
- While FY25 appropriations officially begin this month, Congress is likely to punt until after the election. Passing government funding for the next fiscal year that starts a month before Election Day is unrealistic. Depending on the outcome, lawmakers may push it until the next Congress and president are in office.

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Taking Stock of Biden's Climate Agenda

The Accomplishments. President Biden and congressional Democrats successfully enacted the largest climate legislation in history.

- The marquee climate package, the Inflation Reduction Act (IRA), contains hundreds of billions in tax credits encouraging clean energy. The cost of these credits may be even twice or three times as large as originally anticipated due to unexpected uptake.
- Executive actions have been no less bold, and the Environmental Protection Agency has unsurprisingly been the star of the show. The agency has revised sharply upwards its estimate of the social cost of carbon dioxide emissions, finalized a rule to make two-thirds of passenger vehicles electric by 2032, written rules to reduce emissions from coal and natural gas power plants, and cracked down on methane emissions from oil and gas wells.
- Other significant administration actions include: the Securities and Exchange Commission finalized its climate disclosure rule for publicly-traded companies this month; the Department of Energy has increased energy efficiency standards for a wide range of appliances and paused approved export licenses for liquefied natural gas (LNG); and the president has protected over a million acres of land by designating national monuments.
- All of this is expected to have a meaningful impact on the climate. The Rhodium Group estimated last year that the US would see a 32-51 percent reduction in greenhouse gas emissions by 2035 compared to 2005 levels.

The Disappointments. Domestic and international pressures have pushed Biden to adopt an all-of-the-above approach to energy policy, meaning more oil and gas too.

- In his first week in office, Biden followed a campaign promise to impose a moratorium on new leases for oil and gas extraction on federal lands. A spike in oil and gasoline costs in summer 2022 leading to high energy prices amid rampant inflation, however, forced him to change tack. The president has now approved almost 50 percent more oil and gas drilling permits than former President Trump had at this point in his term. The approval of the Alaskan Willow Oil Project in particular aroused the ire of young people on platforms like TikTok.
- On the topic of LNG, Biden faces immense pressure from within and without to keep the spigot open. In the wake of Russian sanctions, many European and Asian allies have reoriented to buying American LNG instead, leaving them dependent on its exports.

The Election. Climate deniers wish Biden would do less; environmentalists are pushing him to do more. And many people have no idea what's happening at all.

- The IRA may be the largest-ever investment in preventing climate change but Biden entered office with a $2 trillion climate plan. The realities of passing legislation in an evenly divided Senate made that impossible, but that's cold comfort to people facing the prospect of a bleak future on a worse Earth. Biden's choice to approve so many fossil fuel leases has especially attracted the attention and anger of environmentalists.
- Most people aren't activists or as tuned-in as the administration's biggest critics or advocates. Polls show most Americans are unaware of the IRA. While Biden's re-election campaign has a long road ahead in educating the American people, polling suggesting that many of these provisions are broadly popular, even if Biden hasn't yet gotten credit, is good news for them.

- The survival of Biden's actions on climate are entirely election-dependent though. A second Trump term with a GOP-controlled Congress would repeal large sections of the IRA, roll back hundreds of environmental protections, and turn the government into a platform for climate denialism. Trump has stated his intention to be a dictator on "Day One" in order to "drill, drill, drill."

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The State of Banking Regulation, One Year Later

A Regional Crisis. Since the March 2023 regional bank meltdown, regulators have said time and time again that the banking system is sound. One big question hanging over these reassurances though is the impact of regional banks' exposure to the declining commercial real estate (CRE) sector.

- Rising interest rates and high rates of post-pandemic office vacancies are fueling concern that banks' commercial real estate loan portfolios could cause trouble for regional lenders. Regulators are planning to take a closer look at the loan portfolios of more than 20 banks of concern.
- Nowhere is the issue more obvious than at New York Community Bankcorp which cut its dividend in January and set aside additional money for troubled office and co-op loans. The bank's struggles are indicative of a wide-spread problem among regional lenders, which hold a higher concentration of CRE loans. A report from JP Morgan last year found that smaller banks have 4.4 times the exposure to CRE loans than larger banks.
- Regulators are taking notice. Federal Deposit Insurance Corporation (FDIC) Chair Martin Gruenberg said the area is an issue of "close supervisory attention" for the agency. In testimony before the Senate Banking Committee last week, Federal Reserve Chair Jerome Powell said, "This is a problem we'll be working on for years more, I'm sure. There will be bank failures."

The Nation's Capital. While not a direct response to the past year's banking jitters, Biden administration regulators are planning to finalize a significant change in bank capital requirements this year.

- Federal Reserve Vice Chair for Supervision Michael Barr unveiled proposed capital rules last summer that would result in an average increase in capital reserves for banks with over $100 billion in assets of 16 percent. Observers believe the proposal, which is part of an international revamp of bank regulations, was strengthened in response to the regional bank failures.
- US banks are vehemently opposed to the changes, and unlike most fights between regulators and those being supervised, this one is impossible to miss. Banks launched a campaign to scale back the proposal late last year that has included advertising across news sites, podcasts, and even on NFL Sunday Night Football.
- Lawmakers echo banks' concerns that the proposed rules go overboard, warning they could limit access to credit for small businesses and everyday American workers. An odd coalition of Democrats, Republicans, and housing advocates have also warned the rules could reduce mortgage lending for affordable housing and restrict green energy financing.

Banks v. Their Regulators. The key question for banks and industry observers is whether concerns over a banking crisis have faded sufficiently for agencies to lay off sweeping regulatory changes or if the regional bank challenges with CRE loans will keep the pressure on to finalize tougher requirements.

- For now, the Fed, FDIC, and Office of the Comptroller of the Currency (OCC) are pushing ahead with the capital revamp, but significant modifications are expected. Powell told lawmakers last week that "broad and material changes" can be expected and outlined possible adjustments to operational risk and mortgage lending risk weights. The change is an acknowledgement of the bipartisan concerns and a surprising victory for banks only a year after the series of failures.
- One thing to watch for is whether further regulation is coming, even if the capital requirements are modified or withdrawn. The Fed, FDIC, and OCC are reportedly weighing

new regulations to be proposed this spring that would strengthen liquidity requirements for banks. The proposal would directly address the issues that led to Silicon Valley Bank and Signature Bank's collapse.