


What Project 2025 means for banks

Article



The news: With President-elect [Donald Trump soon returning to the White House](#), there's a lot of uncertainty about what lies ahead for banks and their customers.

Financial institutions (FIs) are right to expect [a more relaxed regulatory environment](#) than under President Joe Biden, and Project 2025—co-authored by some of Trump's closest advisors and cabinet nominees—sheds some light on how the administration could handle the Federal Reserve, with sweeping consequences for banks.

What the plan says about banks: Project 2025 discourages banks from “taking risks that are too large and lead to still another taxpayer bailout.” To do that, the authors proposed:

- 1. Limiting emergency interventions:** Restrict the central bank’s “lender of last resort” role to eliminate implicit bailout guarantees, pushing the financial industry to self-regulate or fail.
- 2. Shrinking the Fed’s balance sheet:** Eliminate corporate bond holdings, limit mortgage-backed securities holdings, and reduce the Fed’s Treasury holdings to avoid market distortions and reduce federal debt monetization. This would likely mean less liquidity in the market, which would drive up borrowing costs.
- 3. Narrowing the Fed’s mandate:** Focus solely on price stability, removing the regulator’s goals tied to employment or politically influenced initiatives like environmental, social, and governance (ESG) factors.
- 4. Exploring long-term reforms:** Consider transitioning to free banking or a gold standard to reduce federal control over the money supply.

What this means for banks: If elements of Project 2025's proposals are implemented, they could bring significant changes to how banks operate, especially regarding risk management, liquidity, and regulatory oversight.

Here’s how the proposed changes might impact banks:

- Banks would need to adopt stricter lending practices and hold larger capital reserves, as there would no longer be any guarantees of emergency support. (However, Project 2025 disincentivizes excess reserves by recommending that the Fed no longer pay interest on them.)
- Shrinking the Federal Reserve’s balance sheet could reduce market liquidity, making it harder and more expensive for banks, business, and consumers to access funding. This could slow lending and increase competition for deposits—while also bringing down asset valuations.
- Banks might face fewer compliance burdens in these areas but could lose incentives tied to sustainability or employment initiatives.

Could this actually happen? While it’s highly unlikely Project 2025’s monetary proscriptions will become reality exactly as it’s written—because major overhauls to the regulator’s purview

require congressional approval—it's important for banks to understand the tone that this document sets for the incoming administration.

Updating the Federal Reserve Act would require an act of Congress. And despite Republicans controlling both chambers, they lack the 60 Senate votes needed to do so. But such radical changes would likely lack the support of industry leaders, which is why [lobbying will remain important](#) in 2025.

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