

## This Week in Wall Street Reform | Jan 27 – Feb 2

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### THE TRUMP ADMINISTRATION, CONGRESS AND WALL STREET

#### [Regulatory Rollback Vote Likely Delayed Until March](#) | Wall St. Journal

Dozens of banks are counting on a bipartisan Senate plan to loosen financial regulations. But they may wait a bit longer than the bill’s backers had expected before the measure comes up for a vote on the Senate floor.

At issue is [bipartisan legislation](#) introduced by Senate Banking Committee Chairman Mike Crapo (R., Idaho) in November that eases postcrisis rules for regional banks, representing the biggest step to ease the financial rule book since Republicans took control of Washington last year. [The bill](#) now has some two dozen co-sponsors from both parties and is expected to easily obtain the 60 votes necessary to clear the chamber when it eventually comes up for a vote.

#### [Deregulation ramps up, could include Fed and SEC](#) | Pensions & Investments (Hazel Brandford)

The Trump administration is considering subjecting independent federal agencies like the Securities and Exchange Commission and the Federal Reserve to more scrutiny of their rulemaking processes and outcomes, said Neomi Rao, administrator of the Office of Information and Regulatory Affairs, on Friday.

"It's something we're thinking about and considering," Ms. Rao said at a Brookings Institution event.

Officials at OIRA, part of the Office of Management and Budget, are revisiting all federal regulations following a 2017 presidential executive order requiring federal agencies to eliminate at least two regulations for every new regulation issued. "The president appointed people to the cabinet because they were reform-minded about getting rid of regulation," Ms. Rao said.

### CONSUMER FINANCE AND THE CFPB

#### [Appeals court rules consumer bureau's structure is constitutional](#) | The Hill

Language in the Dodd-Frank Act that gives the Consumer Financial Protection Bureau’s (CFPB) independence from Congress is constitutional, the U.S. Court of Appeals for the District of Columbia Circuit ruled Wednesday, overturning a 2016 ruling by three of the court’s judges. In a review of the court’s previous decision, PHH v. CFPB, the full court held that the bureau can

exist as an independent agency with a sole director who can only be fired by the president for “inefficiency, neglect of duty, or malfeasance.”

[CFPB Constitutional Fight Faces Tough Supreme Court Path](#) | Law360

[Trump administration is winning the war on the CFPB](#) | Washington Post

[Washington’s New Consumer Cop Is Gutting His Own Agency. Here’s Why You Should Care](#) | Money Magazine

[Can the CFPB remain relevant?](#) | Bankrate

[Trump administration strips consumer watchdog office of enforcement powers in lending discrimination cases](#) | Washington Post (Renaë Merle)

The Trump administration has stripped enforcement powers away from Consumer Financial Protection Bureau office that specializes in pursuing cases against financial firms accused of breaking discrimination laws, according to two people familiar with the matter and emails reviewed by The Washington Post. The move comes about two months after President Trump installed his budget chief, Mick Mulvaney, at the head of an agency that has long been in the crosshairs of Republicans. The Office of Fair Lending and Equal Opportunity had placed penalties on lenders that it said had systematically imposed interest rates on minorities that were higher than those for whites. Now that office, which had been part a powerful CFPB division, will move inside the office of director, where staffers will be focused on “advocacy, coordination and education,” according to an email Mulvaney sent them this week. They will no longer have responsibility for enforcement and day-to-day oversight of companies, he said...

“These changes . . . threaten effective enforcement of civil rights laws, and increase the likelihood that people will continue to face discriminatory access and pricing as they navigate their economic lives,” Lisa Donner, executive director of **Americans for Financial Reform**, said in a statement.

[The Trump Administration Just Made it Easier for Banks to Screw Over Minority Borrowers](#) | Mother Jones (Hannah Levintova)

Since President Trump named him interim director of the Consumer Financial Protection Bureau in November, White House budget director Mick Mulvaney has made one move after another to weaken the financial watchdog he has long disliked... Now he’s added another controversial move to the list: stripping enforcement powers from the Office of Fair Lending and Equal Opportunity, the CFPB department responsible for protecting minority borrowers from discriminatory lending. This office has won some of the CFPB’s biggest victories, levying hundreds of millions in fines against lenders who overcharged nonwhite borrowers for car loans and mortgages...

The changes “increase the likelihood that people will continue to face discriminatory access and pricing as they navigate their economic lives,” Lisa Donner, executive director of **Americans for Financial Reform**, said in a statement.

[Trump Administration Shuffles CFPB's Lending-Discrimination Operations](#) | Wall St. Journal

[Change could weaken fair lending office at consumer bureau](#) | CNN

[Trump administration strips consumer watchdog office of lending enforcement powers](#) | Philadelphia Inquirer

[Did Mick Mulvaney just drastically change how the CFPB enforces fair lending laws?](#) | HousingWire

“Fair Lending is a fundamentally important part of the work of the Consumer Financial Protection Bureau, and of a financial system that works for families and communities. The Office of Fair Lending and Equal Opportunity needs the authority, the resources, and the connections to key levers of change to do its job,” said Lisa Donner, executive director, **Americans for Financial Reform**. “These changes, by an improperly appointed acting director, threaten effective enforcement of civil rights laws, and increase the likelihood that people will continue to face discriminatory access and pricing as they navigate their economic lives.”

Vanita Gupta, president and CEO of The Leadership Conference on Civil and Human Rights, said that Mulvaney’s move is “yet another step” taken to disrupt the CFPB’s core functions.

[Trump Administration Just Made Life Easier for Racist Lenders](#) | New York Magazine

[CFPB Change Triggers Concerns About Enforcement of Fair-Lending Practices](#) | Consumer Reports

See joint statement by [AFR and Leadership Conference on Civil and Human Rights](#)

[What Richard Cordray built, President Trump is remodeling drastically](#) | Cleveland Plain Dealer

[We Need a Consumer Champion to Lead the Consumer Bureau](#) | U.S. PIRG (Mike Litt)

[Can the CFPB remain relevant?](#) | Bankrate

[Payday Rules Relax on Trump's Watch After Lobbying by Lenders](#) | NY Times

Mick Mulvaney, the White House budget director and a former South Carolina congressman... has emerged as something of a white knight for the payday lending industry. “I think now we’re in a period that is relatively passive,” said Dennis Shaul, the chief executive of the Community Financial Services Association of America, the primary lobbying group for payday lenders. “I think it is advisable for us to largely draw a curtain on the past and try to go forward...”

“He seems extremely reasonable,” said W. Allan Jones, a founder of one of the industry’s top lobbying groups who operates about 900 payday lending stores across the country...

Consumer advocates and Democrats say they are worried that the industry’s lobbying will backfire by allowing less reputable payday lenders to prey on the most vulnerable Americans —

the exact people Mr. Trump vowed to protect. “Payday lenders are clearly watching this with bated breath,” said José Alcoff, manager of the Stop the Debt Trap campaign at **Americans for Financial Reform**. “I think this is clearly a case where the system is getting more and more rigged, where they have, as they say, the fox in charge of the henhouse.”

### [A slap on CashCall's wrist signals there's no downside to deceiving borrowers](#) | **LA Times (Michael Hiltzik)**

The company's conduct was "deceptive," for the loan structure was "intentionally complicated" to prevent borrowers from discovering that the loans violated state and federal laws and were "void and uncollectable." Among the many sleazy aspects of these loans, they carried annual interest rates as high as 355%, vastly in excess of the legal limits in the borrowers' states.

Yet, when it came time to penalize the Orange, Calif., lender and its owner, J. Paul Reddam, Walter turned strangely solicitous. On Jan. 19, the judge rejected a motion by the Consumer Financial Protection Bureau, which had brought the lawsuit against CashCall and Reddam, seeking \$287.2 million in penalties, including \$235.6 million in restitution to borrowers... Instead, Walter decreed a penalty of only \$10.3 million. That's the lowest-tier punishment available under the federal Consumer Financial Protection Act, and applies in cases in which the wrongdoer didn't knowingly break the law.

### [High-Interest Lenders Benefit From Trump's Deregulatory Stance](#) | **Wall St. Journal**

The Trump administration's revamp of a powerful consumer-finance regulator is reaping dividends for high-interest lenders: The agency is easing its oversight of the industry after closely scrutinizing it during the Obama era. Under its new Trump-appointed leadership, the Consumer Financial Protection Bureau recently called off a four-year investigation into World Acceptance Corp., a South Carolina-based lender that targets subprime borrowers with short-term, small-dollar loans carrying annual interest rates of as much as 100%. The company's shares have nearly tripled since President Donald Trump's election victory in November 2016. Other high-interest lenders, including Enova International Inc. and EZCorp Inc., have also seen their stocks jump.

### [Dems Demand Answers From Mulvaney on New Payday Lending Policy](#) | **Credit Union Times**

### [States mull loosening of laws in response to CFPB payday rule](#) | **American Banker**

### [You Can't Fire Equifax, but Your Employer Can. Mine Just Did.](#) | **NY Times (Ron Lieber)**

As something of a case study, I asked my employer, The NY Times, to cancel its contract with Equifax for a service called Work Number, which provides employment verification and other details like work history and salary. After a few days of consideration, it said it would do so.

In its work for employers, Equifax sucks up other data of all sorts and puts it to use in various ways. Brian Krebs, who runs the Krebs on Security website, reported in May 2017 that an Equifax payroll services unit had allowed thieves to wallow around in the individual salary data of many people for nearly a year. Even after Equifax disclosed the big breach in the fall, sloppy practices continued.

### [Safe Bank-Fintech Partnerships Can Help Consumers](#) | **Law360**

[These consultants want some regulatory slack for fintech startups](#) | Delaware Business Times

Two former political advisers want to make Delaware a hub for the emerging financial technology sector. The effort is still in its early stages, but the basic idea is to create a regulatory lab or sandbox where companies can test their products without the burden of certain rules and regulations.

Meghan Wallace, a consultant and former education adviser to Gov. Jack Markell, compares the idea to a kind of clinical trial. “Before a pharmaceutical goes to market, there’s a trial period,” she said. “These companies are essentially testing in the same way that a drug trial functions.”

[The CFPB and the Rule of Law](#) | DavisPolk FinReg Blog (Randall D. Guynn, Margaret E. Tahyar, Eric McLaughlin & Ryan Johansen)

[Mulvaney's CFPB Turns Down Loan Company's Bid to Reshape Settlement](#) | National Law Journal

The Consumer Financial Protection Bureau this week slightly increased the civil penalty a loan marketing company must pay to resolve accusations that it scammed former National Football League players and 9/11 first responders, rebuffing its push for more favorable settlement terms from the Trump-appointed leadership at the agency.

[New service, same old Equifax: Credit locking app freezes up](#) | NY Times

[Freeze Your Credit Instead of Messing With Equifax's New App](#) | Two Cents

[How the Finance Industry Is Trying to Cash In on #MeToo](#) | NYTimes ( Matthew Goldstein & Jessica Silver-greenberg)

Companies that offer money to plaintiffs in anticipation of future legal settlements are racing to capitalize on sexual harassment lawsuits. That is setting off alarms in some quarters because the industry, like payday lenders, has a history of providing cash at exorbitant interest rates to customers who need the money for living and sometimes medical expenses.

[Shoe Finally Drops: CFPB Makes Changes to Prepaid Rule and Delays It](#) | National Law Review

[Newsweek and International Business Times inflated users for CFPB ad campaign](#) | USA Today

The fake users were bought because IBTimes.com was losing traffic from real readers, the report alleges. Instead, the traffic came from pop-up or pop-under browser windows on other websites where users could illegally download videos or other files.

## **DERIVATIVES, COMMODITIES AND THE CFTC**

[CFTC raises bar for virtual currency contracts](#) | PoliticoPro

[To regulate or not to regulate? Cryptocurrencies beg question](#) | The Hill (Paul Kupiec)

As cryptocurrencies like bitcoin gain in popularity, investors and policymakers alike are asking if

cryptocurrencies should be regulated. Government regulation is heresy for libertarian investors attracted by the promise that cryptocurrencies will end the tyranny of the inflation tax and government's fiat money monopoly. Then there are those who prefer the anonymity of cryptocurrency for illegal transactions. But with every new blockchain glitch and exchange hack, pragmatic cryptocurrency investors see a need for investor protections that may only be possible with greater government oversight.

## ENFORCEMENT

### [Deutsche, HSBC, UBS banks settle with U.S. for alleged 'spoofing' | PoliticoPro](#)

The three banks attempted to manipulate or "spoo" the price of certain precious metals contracts traded on the Commodity Exchange Inc., the CFTC said.

Spoofing involves posting bid or sell orders to the market with the intent to cancel the offer before executing a trade. In 2015, the DOJ and the CFTC brought landmark charges against British trader Navinder Singh Sarao for spoofing that they said had contributed to the 2010 "flash crash" in the stock market.

## EXECUTIVE COMPENSATION

### [How Does the Boss's Pay Compare to the Rank and File? | Wall St. Journal \(Vanessa Fuhrmans and Theo Francis\)](#)

America's biggest companies are about to tell the world for the first time how compensation for their chief executives compares with what they pay their rank-and-file workers. The disclosure, a requirement of the postcrisis Dodd-Frank law, is causing trepidation among top executives and corporate boards, and for good reason: The pay ratio, which is calculated by dividing a CEO's annual compensation by the median employee's pay, is likely to serve as a new lightning-rod in the debate over executive pay.

## FEDERAL RESERVE

### [Federal Reserve Shackles Wells Fargo After Fraud Scandal | NY Times](#)

The Federal Reserve on Friday imposed unusually harsh penalties on Wells Fargo, punishing it for years of misconduct and barring it from future growth until the bank fixes its problems. The central bank blasted Wells Fargo's board for failing to oversee the bank, and it announced that the company would replace four members of its 16-person board by the end of the year.

The move, taking place on Janet L. Yellen's last working day as the central bank's chairwoman, is all the more extraordinary because it comes at a time when federal banking regulators appointed by President Trump are working vigorously to relax rules that were imposed in the years following the financial crisis.

### [Federal Reserve orders Wells Fargo to restrict growth because of 'consumer abuses' | CNBC](#)

## INVESTOR PROTECTION, THE SEC, AND RETIREMENT SAVINGS

### [Trump administration could block investor access to courts](#) | Pensions & Investments (Blair Nicholas, David Kaplan & Brandon Marsh)

In recent years, forced arbitration clauses have swept the nation, closing the courthouse doors to countless injured and defrauded individuals. In private arbitration, the defendant company typically picks the arbitration tribunal, where plaintiffs lose their ability to obtain important discovery and their right to present their case to a jury of their peers. If plaintiffs receive a bad ruling, they have no right to appeal. Confidential arbitration — unlike trials in open, public courthouses — routinely silences victims, conceals the extent of wrongdoing and allows companies to escape accountability. The Trump administration is now inviting corporations to impose forced arbitration on investors. These new efforts to block investors from banding together and pursuing remedies for securities fraud in open court threaten the retirement savings of millions of Americans and the integrity of the nation's capital markets. Given these troubling developments, the investment community must rise up and take affirmative action before it is too late.

### [The Trump Administration's Attempt to Dismantle the Fiduciary Rule](#) | EPI Blog (Heidi Shierholz)

The rule is needed because “conflicted” advice leads to lower investment returns, causing real losses for workers saving for retirement—an estimated \$17 billion a year—for the clients who are victimized. The rule would prohibit common practices such as steering clients toward investments that pay the adviser a commission but provide the client a lower rate of return. It was exhaustively researched by the Department of Labor and debated over several years, survived several court challenges, and was completed in 2016. It was supposed to be implemented on April 10, 2017.

However, unscrupulous players in the financial industry are working to kill the rule so they can continue fleecing retirement savers—and the Trump administration is doing everything it can to help them out. Here's the rundown of the fiduciary rule shenanigans from Trump's first year...

### [The Man From Sullivan & Cromwell](#) | Intercept (Susan Antilla and Gary Rivlin)

Clayton is a man Wall Street itself might have picked to run its most important federal regulator. Except for the two years that Clayton clerked for a federal judge after graduating law school, he has worked his entire adult life at Sullivan & Cromwell, an elite law firm based in downtown Manhattan that includes many of the country's largest publicly traded companies as clients. Its sleek Washington, D.C., offices overlook the Washington Monument, where the firm's attorneys assist banks and other large firms in their business before the Federal Reserve, the Consumer Financial Protection Bureau, and the SEC. Clayton, who made \$7.6 million in his last year at Sullivan & Cromwell, has advised clients on everything from sensitive regulatory problems to initial public offerings to the large-scale mergers and acquisitions that make Page 1 of the business section. Clayton represented the likes of William Ackman and Paul Tudor Jones, some of the most prominent names in the hedge fund world, the very sorts of figures Trump had skewered early in his presidential campaign, saying, “The hedge fund guys are getting away with murder. ... I have hedge fund guys that are making a lot of money that aren't paying anything.”

## MORTGAGES AND HOUSING

### [Mulvaney could use Dodd-Frank to gut CFPB mortgage rules](#) | **American Banker (Kate Berry)**

The statutory language in Dodd-Frank regarding look-backs is making lenders optimistic, and consumer advocates concerned, about the prospect of the rules being altered. The law states specifically that the CFPB can "modify, expand or eliminate" a rule under the look-back review.

For example, observers said, the agency could dramatically expand the definition of "qualified mortgages," known as QM — a category of safe mortgages deemed to be compliant with the "ability to repay" rule — to give more loans the special designation.

### [CFPB's retreat from collecting mortgage data should sound alarm bells](#) | **Brookings Institution (Makada Henry-Nickie and Aaron Klein)**

See [joint statement](#) by **Americans for Financial Reform**, Consumer Action, and US PIRG

### [Houston lifts mobile home ban on private land after Harvey](#) | **Washington Post**

The Houston City Council has suspended local regulations that bar mobile homes on private property, an effort to help residents displaced by Hurricane Harvey. The Houston Chronicle reports Wednesday's decision helps clear the way for Harvey flood victims who could qualify for Federal Emergency Management Agency trailers. The ordinance authorizes Houston to issue waivers allowing mobile homes on private property for six months, with a possible six-month extension. The ordinance does not supersede deed restrictions.

### [FHFA delays deadline for credit scoring review](#) | **PoliticoPro**

### [New York's Hidden Home Buyer Closing Costs: Luxury Boxes and Mint Mojitos](#) | **NY Times**

Adam R. Rose, vice chairman of Rose Associates, a major New York real estate developer and owner, likened [the real estate industry's inside favors] to "state-sponsored corruption and money-laundering in developing countries."

"The egregiousness of title insurance in New York State is something that inflates premiums to fund lavish entertainment, and it's easily combated," Mr. Rose said.

Nine months ago, New York officials proposed a fix: a complete ban on such expenses... But in Albany, industry opponents are pushing back hard. Lawmakers, perhaps feeling the effect of a \$400,000 lobbying campaign in 2017, have urged state regulators to delay or rewrite the looming gift ban.

## PRIVATE FUNDS

### [Surprise! Private Equity Industry Will Make Money on Allegedly Unfavorable Tax Plan](#) | **Dealbreaker (Jon Shazar)**

It's almost unthinkable. For all of their buttering up of President Trump, for all of the \$100,000-a-plate fundraisers, for all the good of having a Batphone connection to the Oval Office from Steve Schwarzman's desk, private equity had lost the Great Tax Reform Robbery of



2017. There'd be limits—serious limits—on deducting all the leverage in a leveraged buyout. There'd be a new three-year holding requirement to get capital-gains tax treatment. Plus the new lower corporate tax rate means there'd be a smaller number from which to deduct one's now-smaller interest deductions. Add in the SALT hit that most p.e. people will take from living in the habitable parts of the country, and it looked like Big Private Equity got a major-league hosedown, just like the president was telling his shit-kicking constituents in the less-habitable parts of the country...

As it turns out, no need to worry. As one might have expected from the cockroach-like survival ability of the carried-interest loophole, a tax plan that would actually hurt private equity billionaires is, in fact, unthinkable in 21st-century America.

### [Give Cuomo credit on the carried-interest loophole](#) | NY Daily News (Leo Hindery Jr.)

Last week, Gov. Cuomo released a budget for 2018 that calls for massive changes to the state's tax system. While the sweeping overhaul would affect every New Yorker, one of the most responsible provisions in the bill would adversely affect only a few hundred taxpayers, rightly so and about time.

## POLLING AND PUBLIC OPINION

### [The Stunning 'Role of Government' Numbers](#) | Roll Call (Stuart Rothenberg)

The two most recent polls that asked respondents about their views of government were conducted after Trump became president — April 2017 and January 2018. Both surveys showed a dramatic swing toward concern that government is not doing enough “to solve problems and help meet the needs of people.”

In the Jan. 13-17, 2018, survey, 58 percent of adults said government should do more, while only 38 percent said government is “doing too many things better left to businesses and individuals” — a 20-point difference. That is a huge gap, historically... The change from a January 2010 NBC News/Wall St. Journal survey (the beginning of Barack Obama's second year in the White House) is remarkable.

While 45 percent of women with at least a college degree said in 2010 that government should do more, 69 percent said so this year — an increase of 24 points.

## REGULATION IN GENERAL

### [Republicans Discover the Mythical Basis for Regulatory Reform](#) | Regulatory Review (Richard J. Pierce, Jr. )

During the six years when Republicans controlled Congress and Barack Obama occupied the White House, Republican leaders proposed and the U.S. House of Representatives often enacted myriad “regulatory reform” bills. They had titles such as the Regulatory Accountability Act, Separation of Powers Restoration Act, and Regulations from the Executive in Need of Scrutiny Act. Each bill was based on a claim repeated ad nauseum by Republican members of the House and Senate: It has become far too easy for an agency to use the notice-and-comment rulemaking process to issue a rule, and courts have become far too willing to rubber stamp the rules that are issued through that process.

[The Congressional Review Act: Trump's First-Year Participation Trophy](#) | CPR Blog (James Goodwin)

[Trump: Congress should give agencies power to fire federal employees](#) | The Hill

[Government and Bureaucracy Play Essential, Fundamental Roles in American Life](#) | Center for Progressive Reform (James Goodwin)

[What Creates the Cost, Mr. President?](#) | Center for Progressive Reform (Matthew Freeman)

[The Congressional Review Act: Trump's First-Year Participation Trophy](#) | Center for Progressive Reform (James Goodwin)

[Looking Back on a Year of Trump's Regulatory 'Fire and Fury'](#) | Center for Progressive Reform (Matt Shudtz)

## STUDENT LOANS AND FOR-PROFIT COLLEGES

[Banks Pay Big Bucks for Top Billing on College Campuses](#) | Wall St. Journal (Melissa Korn and Christina Rexrode)

Colleges and universities are in the business of education. Increasingly, they are also in the business of banking. Banks like [Wells Fargo](#), [PNC Financial Services Group Inc.](#), and [U.S. Bancorp](#) have signed scores of deals with schools nationwide that essentially make the universities their sales representatives.

[How the PROSPER Act Stacks Up for Student Debt](#) | TICAS Blog

The PROSPER Act would replace existing loans with a new ONE Loan program that provides only unsubsidized loans. With three-quarters (67%) of undergraduate Stafford loan borrowers taking out both subsidized loans and unsubsidized loans, it is worth considering whether student loan subsidies could be better designed to have a greater impact on college affordability. However, the PROSPER Act simply eliminates this valuable loan subsidy for undergraduates with financial need without investing the \$27 billion dollars saved back into students. This would increase the cost of student loans by thousands of dollars over their lifetimes for many of the six million undergraduates who receive those loans each year. To just disappear this substantial investment in reducing the burden of federal loans is a major blow to student borrowers and college affordability.

[Monitor raises questions about successor to Corinthian Colleges](#) | Washington Post

[New Federal Data Released on Student Loan Borrowing](#) | Student Loan Report

[Student loans - the other debt crisis](#) | Credit Slips (Alan White)

In a low unemployment economy, an entire generation is struggling, and millions are failing, to repay student loan debt. As many as 40% of ALL borrowers recently graduating are likely to default over the life of their student loans, according to a recent Brookings Institute analysis. Total outstanding student loan debt is approaching 1.5 trillion dollars, exceeding credit card debt, exceeding auto loan debt. Two other key points from the Brookings analysis: 1) for-profit

schools remain the primary driver of high student loan defaults, and 2) black college graduates default at five times the rate of white college graduates, due to persistent unemployment, higher use of for-profit colleges and lower parental income and assets.

The rising delinquency (11% currently) and lifetime default rates are all the more disturbing given that federal student loan rules, in theory, permit all borrowers to repay based on a percentage of their income.

## SYSTEMIC RISK

### [Financial regulators too often think “this time is different”](#) | Economist

In a new IMF working paper, Jihad Dagher examines the political-economy elements of ten financial crises, beginning with the South Sea Bubble in Britain, and finds they had much in common. They were often preceded by periods in which light-touch regulatory thinking was in the ascendant. Such an approach becomes less tarnished as memories of past crises recede, and opening credit taps often brings short-run political rewards. As deregulation proceeds, politicians' electoral hopes—and, sometimes, their own financial interests—rely on the burgeoning booms. So they become more sympathetic to financial interests. When Britain's Parliament voted to protect the value of shares in the South Sea Company, for example, many of its members owned some. Crises are usually followed by a political backlash, which sweeps in new leadership with a mandate to regulate. Warren Buffett's famous financial axiom—that only when the tide recedes can you see who has been swimming naked—also applies to politics. At times of financial excess, voters cannot easily tell responsible leaders from reckless ones. Negligence becomes obvious only later. That makes recklessness an attractive political strategy.

### [Here Comes the Next Financial Crisis](#) | The Nation (Nomi Prins)

With a rag-tag Trumpian crew of ex-bankers and Goldman Sachs alumni as the only watchdogs in town, it's time to focus, because one thing is clear: Donald Trump's economic team is in the process of making the financial system combustible again.

Collectively, the biggest US banks already have their get-out-of-jail-free cards and are now sitting on record profits after, not so long ago, triggering sweeping unemployment, wrecking countless lives, and elevating global instability. (Not a single major bank CEO was given jail time for such acts.) Still, let's not blame the dangers lurking at the heart of the financial system solely on the Trump doctrine of leaving banks alone. They should be shared by the Democrats who, under President Barack Obama, believed, and still believe, in the perfection of the Dodd-Frank Act of 2010.

While Dodd-Frank created important financial safeguards like the Consumer Financial Protection Bureau, even stronger long-term banking reforms were left on the sidelines. Crucially, that law didn't force banks to separate the deposits of everyday Americans from Wall Street's complex derivatives transactions.

### [Deposit-Shunning Banks Get Big Break as U.S. Eases Leverage Rule](#) | Bloomberg

Bank of New York Mellon Corp. and State Street Corp. stand to benefit most as U.S. regulators

rush to ease a key leverage rule, giving the custody-banking giants room to once again accept deposits they've shunned in recent years.

The Federal Reserve and the Office of the Comptroller of the Currency may unveil a proposal as early as next week to ease the leverage ratio from the 5 percent minimum currently in place for the nation's eight largest banks, according to people with knowledge of the plan. BNY Mellon and State Street would see their minimum requirement drop to below 4 percent, giving the pair leeway to soak up billions of dollars in additional deposits, under draft terms described to Bloomberg.

### [Federal Reserve Plans Tougher Big-Bank Stress Tests This Year](#) | Wall St. Journal

The Federal Reserve said Thursday that its stress tests for big banks will imagine a more severe economic downturn in 2018 than in last year's version, as it announced the details of the hypothetical scenario banks must survive to pass the exams. The Fed's latest "severely adverse" scenario imagines unemployment at 10%, severe stress in corporate and real-estate lending markets, and severely difficult economic conditions in developing Asian countries and Japan, the central bank said. Big banks must show the Fed they can survive the hypothetical scenario with enough capital to continue lending. If they fail, they face restrictions on payouts to shareholders. Test submissions are due in April and will be announced by the end of June, the Fed said.