



## This Week in Wall Street Reform | Aug 18 - 31

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### CONSUMER FINANCE AND THE CFPB

#### [Appeals Court Throws Wrench Into CFPB Debt Collection Rewrite](#) | Bloomberg Law

A federal appeals court may have thrown a wrench into the Consumer Financial Protection Bureau's plans to allow debt collectors to validate consumer debts through text messages, email and other electronic communications.

The U.S. Court of Appeals for the Seventh Circuit on Aug. 8 found that using hyperlinks to direct consumers to a debt validation notice [does not comply](#) with the Fair Debt Collection Practices Act. The decision in *Lavallee v. Med-1 Solutions LLC* comes as the CFPB is taking comments on a May proposal for the first-ever federal rules for debt collection.

#### [Consumer Watchdog Starts Hiring After 15% Staff Drop Under Trump](#) | Wall Street Journal

The Consumer Financial Protection Bureau is looking for workers again, following departures during a hiring freeze and budget cuts by Trump administration officials that took over the agency in late 2017.

The [consumer-finance agency](#) recently lifted a nearly two-year hiring freeze, according to an internal email reviewed by The Wall Street Journal. It also has accelerated recruiting for senior officials in recent weeks, according to recent public job postings.

“Broadly speaking, the completion of the staffing planning process means: the “hiring freeze” is lifted,” CFPB Director Kathy Kraninger said in an August 15 staff email.

### [What Happens When You Don't Pay a Hospital Bill | The Atlantic](#)

On March 8, 2011, Joclyn Krevat, an occupational therapist in New York, was sitting at her computer when she received a most unusual LinkedIn request. The wording was the familiar: “I’d like to add you to my professional network.” The sender was familiar, too, but not for the reason Krevat expected. It was from a debt collector.

Karen Pollack, the head of a debt-collections practice called KP Recovery Solutions, had been trying to collect on some medical bills Krevat had recently incurred for a heart transplant. Krevat’s debts, which were reviewed by The Atlantic, made up plot points in the worst kind of American health-care horror story. In December 2009, Krevat, who was 32 at the time, thought she was coming down with the flu. Instead, she was admitted to the hospital and diagnosed with giant cell myocarditis, a severe inflammatory heart disease that can lead to heart failure. After seven weeks on life support, a heart became available, and she had a transplant. For a year afterward, she wasn’t able to return to work.

### [GUEST COMMENTARY: Proposed update to debt collection act would follow more harassment | NWI \(Northwest Indiana\)](#)

If you’ve ever been to small claims court, you have likely seen a small sliver of what is typically an all-but-invisible, but huge money-making machine: the debt collection process. An attorney with a stack of files starts by disclosing to the folks who make their way into the room that he’s attempting to collect a debt. The group huddles, discussing how much it’s going to cost to put this behind the debtors, possibly reaching some sort of payment agreement before the judge enters the room. Debt collection is big business: in 2018, an estimated 8,000 collection companies brought in over \$12 billion in revenue in the U.S. And across the state, Hoosiers are on the business end of this booming industry each and every day.

## **EXECUTIVE COMPENSATION**

### [Committee Finds Megabanks Coming up Short in Closing the CEO-to-Worker Pay Gap | U.S. House Committee on Financial Services](#)

Following up on full Committee hearings in [March](#) and [April](#) where Committee Democrats asked megabank CEOs hard-hitting questions on issues including their alarming CEO-to-worker pay ratio despite making record profits in recent years, Congresswoman Maxine Waters (D-CA), Chairwoman of the House Financial Services Committee, and Committee Democrats asked megabanks for more information on their CEO compensation packages, worker pay, and the CEO-to-Worker pay gap.

Compensation for Megabank CEOs and Other Employees

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), publicly traded companies, including megabanks, are required to disclose the ratio of what they pay their CEO to the median annual compensation of their workers.

## PRIVATE FUNDS

### [Private Equity's Abuse of Limited Liability](#) | Credit Slips

One of the central features of the [Stop Wall Street Looting Act](#) that was introduced by [Senator Elizabeth Warren and a number of co-sponsors](#) is a targeted rollback of limited liability. This provision, more than any other, has [gotten some commentators' hackles up](#), even those who are willing to admit that there are real problems in the private equity industry and welcome some of the other reforms in the bill. (See also [here](#) and [here](#), for example.)

The idea that limited liability is a sine qua non of the modern economy is practically Gospel to most business commentators. These commentators assume that without limited liability, no one will ever assume risks, such that any curtailment of limited liability is a death sentence for the private equity industry.

### [Hahnemann bankruptcy pays millions to consultants, lawyers charging up to \\$795 an hour](#) | Philadelphia Inquirer

The closure of Hahnemann University Hospital was sad news for the 2,500 employees who are now out of work, thousands of patients forced to find a new health-care provider, and hundreds of doctors-in-training who had to scramble to find a new place to complete their medical residencies.

But the bankruptcy, like most, is proving to be a boon for dozens of lawyers and accountants hired to figure out a way to pay off the Philadelphia company's debts and find a new owner for St. Christopher's Hospital for Children. Regardless of the eventual outcome, these professionals are getting paid up to \$795 per hour.

### [A Top Financier of Trump and McConnell is a Driving Force Behind Amazon Deforestation](#) | Intercept

Two Brazilian firms owned by a top donor to President Donald Trump and Senate Majority Leader Mitch McConnell are significantly responsible for the ongoing destruction of the Amazon rainforest, carnage that has developed into raging fires that have captivated global attention.

The companies have wrested control of land, deforested it, and helped build a controversial highway to their new terminal in the one-time jungle, all to facilitate the cultivation and export of grain and soybeans. The shipping terminal at Miritituba, deep in the Amazon in the Brazilian state of Pará, allows growers to load soybeans on barges, which will then sail to a larger port before the cargo is shipped around the world.

### [A Paradox at the Heart of the Newspaper Crisis](#) | New York Times

Phil Luciano, a columnist at The Peoria Journal Star, got a story tip recently about Caterpillar, the heavy equipment company that was based in Peoria, Ill., for 90 years before a recent relocation to Cook County.

The tip seemed promising enough. But as one of only seven full-time reporters at the paper, he felt stretched too thin to do much about it.

“Who’s our Caterpillar reporter?” Mr. Luciano asked. “We don’t have one right now.”

In recent years, The Journal Star has been hit with the kind of cutbacks that have become common for newspapers nationwide as they steer a bumpy course toward a digitally focused future. The newsroom had more than 80 guild employees in the 1990s, and now has about a dozen.

## MORTGAGES AND HOUSING

### [Another Day. More Risk to Consumers](#) Bloomberg Business

U.S. mortgage firms are getting back into joint marketing and advertising arrangements, reviving a controversial practice that was effectively banned in the aftermath of the 2007-2008 subprime mortgage crisis. Such arrangements involve mortgage originators and title insurers, hungry for sales leads, paying a real estate broker or homebuilder to promote their services and products, or to rent a desk in their offices.

### [FDIC’s New Mortgage Appraisal Rule Ignores Lessons of Great Depression](#) | NCLC

After a vote [today](#) by the Federal Deposit Insurance Commission (FDIC) Board of Directors, banks making home mortgages will no longer need to obtain an appraisal for mortgages under \$400,000. With the increased threshold approved by the FDIC today, a total of 72% of home mortgage transactions will be exempt from the Dodd-Frank Act’s rules protecting the integrity of appraisals. The vote, quietly [supported](#) by the Consumer Financial Protection Bureau (CFPB), raised the existing threshold for mandatory appraisals from \$250,000. Congress first required banks to get appraisals in 1989, after the savings and loan crisis, and gave banking regulators permission to exempt loans below a dollar-value threshold. But in 2010, after shoddy appraisal practices were found to play a major role in the Great Recession, Congress required the CFPB to first sign off on any plans to increase the threshold.

The CFPB’s support for this plan is a reversal of the Bureau’s 2017 objection to an identical plan. The Bureau, then led by Richard Cordray, [shared concerns](#) (see page 36) that the higher threshold posed a risk to consumers. That objection forced the regulators to drop the plan because the [Dodd-Frank Act bars](#) federal banking regulators from increasing the threshold unless the CFPB concurs that the new threshold provides reasonable protection for consumers.

## [Woodstock Release: Once Again, Trump Administration Puts Profit before People, Ignores Needs of Most Vulnerable](#) | Woodstock

Today, the Trump Administration took another major step backward, changing course on lending policies that could widen the racial wealth gap. Housing and Urban Development (HUD) announced a [proposal](#) to change its Disparate Impact rule, which is intended to root out discrimination in lending under the Fair Housing Act. This happens on the same day that historic and strong protections against predatory consumer lending by the Consumer Financial Protection Bureau (CFPB) were scheduled to go into effect, but did not.

If adopted, today's proposal by HUD will make it more, not less, difficult for people of color to combat housing policies and practices that have a disparate impact on them. HUD, under the leadership of Secretary Ben Carson, has erected additional barriers to people seeking to challenge discriminatory policies and practices.

## [As U.S. watchdog retreats, mortgage firms reprise cozy marketing arrangements](#) | Reuters

U.S. mortgage firms are getting back into joint marketing and advertising arrangements, reviving a controversial practice that was effectively banned in the aftermath of the 2007-2008 subprime mortgage crisis.

Such arrangements involve mortgage originators and title insurers, hungry for sales leads, paying a real estate broker or homebuilder to promote their services and products, or to rent a desk in their offices.

They were effectively banned by the Obama administration under the Consumer Financial Protection Bureau's then director, Richard Cordray. He brought more than two dozen enforcement actions, including against big banks like JPMorgan Chase and Wells Fargo & Co, alleging the arrangements violated federal laws that bar kickbacks or referral fees that could increase the cost of buying a home.

## [HUD Proposal Would Significantly Obstruct Enforcement of Long-Standing Civil Rights Protections](#) | NCLC

The following is a statement by Odette Williamson, National Consumer Law Center (NCLC) attorney and director of NCLC's Racial Justice and Economic Opportunity Project.

Today, the U.S. Department of Housing and Urban Development's (HUD) issued a proposed [rule](#) that, if adopted, will perpetuate existing racial and economic segregation in America's neighborhoods, and undermine civil rights and fair housing laws.

Disparate impact claims under the [Fair Housing Act](#) protect consumers against lending policies and other types of practices that appear neutral on their face but in practice unfairly harm certain groups of people. The Fair Housing Act has been used effectively for five decades to challenge lending discrimination and the wealth-stripping practices that trap individuals and communities of color in a cycle of disinvestment and poverty. Even with this

tool, after a decade of losses, the Black home ownership rate is currently at a historic low. Creating barriers to using this important tool will have a profoundly negative impact on homeownership, especially in communities of color historically targeted by predatory lenders.

#### [Civil Rights Turned Topsy-Turvy](#) | **New York Times**

The Trump administration is so busy trying to undo longstanding civil rights protections and blocking new ones that it is stumbling over its own feet. Those twin goals have collided in recent days in a way that's worth unpacking for what it reveals about the upside-down civil rights era we seem to be entering.

On Oct. 8, the second day of its new term, the Supreme Court will hear arguments on whether Title VII of the Civil Rights Act of 1964 — the basic statutory protection against discrimination in employment — should be understood to prohibit discrimination against gay men, lesbians and transgender individuals. The administration, rejecting the view of the Equal Employment Opportunity Commission, has filed briefs in the last few days (which lawyers for the E.E.O.C. refused to sign) arguing that the answer is no.

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#### [News Release: HUD Proposing to Roll Back Civil Rights Protections in Housing](#) | **AFR**

Today, the Department of Housing and Urban Development (HUD) proposed drastic changes to its Disparate Impact rule that would effectively dismantle the Fair Housing Act's protections against systemic discrimination. Disparate impact is a legal theory that allows people to challenge policies that have a discriminatory effect and limit housing opportunities for people of color and other groups. It is a critical tool in fighting discrimination and protecting equal access to housing. This proposal comes during intense national discussion about race, discrimination, and harassment.

HUD's proposal:

- Places a drastically higher burden on victims of discrimination by creating multiple new hurdles to even begin a disparate impact case
- Prioritizes profits above people by allowing defendants to easily defeat a case if it simply costs more to not discriminate
- Protects discrimination by algorithm by carving out special defenses that allow defendants to evade responsibility for relying on algorithms

**[BREAKING: Trump Administration Launches Attack on Core Civil Rights Protection](#) | NFHA**

The National Fair Housing Alliance today condemned one of the Trump administration’s most extreme moves yet to dismantle civil rights protections. A [proposed rule](#) to be released by the Department of Housing and Urban Development (HUD) would destroy a key civil rights legal tool under the Fair Housing Act called “disparate impact.” HUD’s rule would make it much harder to challenge covert discriminatory practices by financial institutions, insurance companies, and housing providers, and open the floodgates for widespread discrimination against millions of people, particularly communities of color, women, immigrants, families with children, people of faith, LGBTQ persons, and people with disabilities.

**[LDF to Fight Against Proposed HUD Rule Weakening Disparate Impact](#) | NAACP**

The NAACP Legal Defense and Educational Fund (LDF) is committed to fighting a proposed rule that is part of the Trump Administration’s broad attack on fair housing and civil rights. On Monday, the U.S. Department of Housing and Urban Development (HUD) will formally release a proposed rule that will roll back the agency’s use of the disparate impact standard. The Fair Housing Act established the standard, which is a critical tool in challenging housing discrimination.

Disparate impact is a longstanding tool used to prevent policies that have a discriminatory impact on underserved communities – policies that operate covertly and do not state an intention to discriminate but do so in operation. As recently as 2015, the U.S. Supreme Court upheld the use of disparate impact in housing discrimination in *Texas Department of Housing and Community Affairs v. Inclusive Communities*. In spite of this ruling, the Trump Administration seeks to ignore the courts and create administrative rules that act contrary to legal decisions.

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### [Trump Administration Must End Attack on Civil Rights Enforcement](#) | Leadership Conference on Civil & Human Rights

This reported proposed HUD rule is yet another example of this administration’s ongoing mission to undermine our civil rights laws and protections. Disparate impact theory, which recognizes that unlawful discrimination can occur through a policy’s unjustified effect, has been repeatedly validated by the courts. If this rule goes into effect, millions of people in America will be more vulnerable to housing discrimination and will have fewer tools to challenge it. Everyone, no matter who they are or what their color, should be able to rent or own a home. Unlawful discrimination can happen whether or not a policy has a discriminatory intent. Policies like disparate impact help us to address that kind of discrimination and are crucial to ensuring equal opportunity in our country. The Trump administration must abandon its ongoing assault on civil rights enforcement and abandon this reported proposed rule

## STUDENT LOANS AND FOR-PROFIT SCHOOLS

### [Soaring Student Debt Opens Door to Relief Scams](#) | Wall Street Journal

Financial Preparation Services of Irvine, Calif. boasts on its website three glowing testimonials for its debt-relief services for student loans. It quotes Anthony Zwichiowski of California, Dawn Robinson of New Hampshire and a smiling Dean Edelman of Virginia, who says using the company “was the smartest move I have made since graduating.”

One or more of the three ostensibly happy borrowers also appears, with slight variations, on at least 25 other websites of purportedly different companies offering student-loan debt-relief in the last four years, The Wall Street Journal found.

### [CFPB Appoints Private Education Loan Ombudsman](#) | CFPB

The Consumer Financial Protection Bureau (Bureau) announced the appointment of Robert G. Cameron to serve as the Bureau’s private education loan ombudsman. Mr. Cameron is a Colonel and Staff Judge Advocate for the Pennsylvania Army National Guard. He has served in the United States Army for 29 years. Mr. Cameron also joins the Bureau from the Pennsylvania Higher Education Assistance Agency where he was a high-ranking official responsible for litigation, compliance, and risk mitigation efforts.

The Dodd-Frank Act created a private education loan ombudsman position within the Bureau. The Dodd-Frank Act gave the Treasury Secretary, in consultation with the CFPB Director, the authority to designate the ombudsman. The ombudsman is responsible for receiving, reviewing, and attempting to resolve complaints from private student loan borrowers. The ombudsman is also responsible for compiling and analyzing complaint data on private education loans and making appropriate recommendations to the Secretary of the Treasury, the Bureau Director, the Secretary of Education, and Congress.

### [Trump Eases Student Loan Forgiveness for Disabled Veterans](#) | Politico

President Donald Trump on Wednesday directed the Education Department to more easily forgive the federal student loans owed by veterans with disabilities, making a move Education Secretary Betsy DeVos had resisted for months.

Veterans and other student loan borrowers who are “totally and permanently” disabled are entitled under existing law to have their federal student loans canceled by the Education Department. But they previously had to fill out paperwork to have their loans discharged — a bureaucratic obstacle that veterans’ advocates slammed as too burdensome for many severely disabled veterans.

### [U.S. Unveils Rules on Forgiving Student Loans After School Fraud](#)

Josh Mitchell, *Wall Street Journal*, 8.30.19

### [DeVos Toughens Rules for Student Borrowers Bilked by Colleges](#)

Stacy Cowley, *New York Times*, 8.30.19

## SYSTEMIC RISK

### [Is The U.S. Economy Strong Enough To Withstand Another Slowdown Or Recession?](#)

| NPR

More than a decade ago, the United States lapsed into a severe recession, and it was accompanied by a big crash in the financial markets. Big banks had to be bailed out by the government. After that happened, Congress passed laws aimed at preventing another meltdown. Now the U.S. economy is showing signs of weakness, and we wondered if the financial system is strong enough to withstand another slowdown - or even a recession.

### [Here’s Why Critics Think Changes to the ‘Volcker Rule’ Could Increase Risk and Leave Taxpayers Bailing Out Banks \(Again\)](#) | Fortune

After big banks received a bailout during the Great Recession (with taxpayer money) one guardrail that followed was increased regulation. Part of the overall Dodd-Frank regulatory framework was the Volcker Rule, which put boundaries on types of risky transactions banks could undertake. After years of bank lobbying, two regulatory bodies out of a necessary five last week agreed to a set of changes that would soften the rule. The other three look ready to agree, potentially removing important limits on the types of risk banks can take, critics say.

The Volcker Rule's intent was to protect taxpayers. "Depository institutions [like consumer banks] are very much under the safety net of the government," said Andrew Metrick, a professor of finance and management at Yale and director of the university's Program on Financial Stability who served in the Obama administration on the staff that created the Volcker Rule.

### [Volcker Rule Overhaul Approved by OCC Ahead of FDIC Board's Vote](#) | Bloomberg

Wall Street regulators are set to roll out a Volcker Rule overhaul that's meant to respond to banker complaints about the trading ban's complexity and compliance demands. In a Tuesday [statement](#), the Office of the Comptroller of the Currency announced it had signed off on the five-agency rewrite of the post-crisis measure ahead of a Federal Deposit Insurance Corp. board vote later in the day. Other regulators responsible for Volcker, including the Federal Reserve and the Securities and Exchange Commission, are expected to approve the rule in the coming weeks. The OCC statement didn't make public the Volcker overhaul that it approved.

### [Banks Want Efficiency. Critics Warn of Backsliding.](#) | New York Times

A decade after big banks needed government support to dig out of the financial crisis, the Federal Reserve is slowly, but steadily, making a series of regulatory changes that could chip away at new requirements put in place to prevent a repeat of the 2008 meltdown. Some of the changes, seemingly incremental and technical on their own, could add up to a weakening of capital requirements installed in the wake of the crisis to prevent the largest banks from suffering the kind of destabilizing losses that imperiled the United States economy. Another imminent change will [soften a rule](#) intended to prevent banks from making risky bets with customer deposits.

## OTHER TOPICS

### [States are trying to change a system that keeps poor people in jail. The bail industry is blocking them.](#) | CNN

On the side of a building just outside the country jail in Des Moines, Iowa, there is a drive-thru window. But it is not dishing out burgers and fries. The main item on its menu is freedom, and it can come at a steep price.

"Get your bail bond here. Don't wait at jail." reads the old-timey script on a sign in the yard.

The unassuming tan building with green and burnt orange accents sits on a small hill before the jail. There is no way to miss Lederman Bail Bonds on the way in or out of the correctional complex.

### [SEC Chief's Crypto Skepticism Sets Up Facebook Clash Over Libra](#) | Bloomberg

The scene was straight out of the era of Bitcoin mania: a man on an Amtrak train to New York speaking loudly into his mobile phone, discussing a digital token he was promoting and bragging about how he planned to pump up the price.

But unknown to the crypto entrepreneur, sitting a few seats away was Securities and Exchange Commission Chairman Jay Clayton, the U.S.'s top market cop. Clayton had been growing increasingly concerned that many initial coin offerings -- a twist on an IPO where investors get tokens instead of stock -- were scams. He listened for a while, his anger building, and then stood up.