Americans for Financial Reform

This Week in Wall Street Reform | Feb 17 – 23

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THE TRUMP ADMINISTRATION, CONGRESS AND WALL STREET

Bank-deregulation drive gets boost as House GOP tempers rollback plans | Politico
Hensarling has been taking over the House floor week after week and advancing dozens of targeted rollbacks — in cooperation with Democrats — in anticipation of negotiations with the Senate. [Hensarling told Politico] there are as many as 35 House bills that have strong bipartisan support that could be on the table to be added to the Senate bill. "Whether the negotiations take place before the fact, after the fact, informal conference, formal conference, there's a lot of different options there."

Democrats get campaign cash from banks ahead of deregulation vote | Financial Times
A number of key Democrats in the US Senate are finding pockets of financial support for re-election races this year from a cluster of banks that have stepped up campaign contributions ahead of a vote on industry deregulation...

The bill has attracted support from banks approaching the $50bn mark, which have most to gain from the deregulation and have blanched at the cost of complying with tougher requirements on capital and liquidity, as well as stress tests and so-called living wills.

Individuals connected to one lender just beneath the threshold, Signature Bank, have donated $112,000 to Democratic senators so far in the 2017-2018 election cycle… That is about eight times as much as people affiliated with the New York-based bank gave to Democrats in the entire 2015-2016 cycle…

"This bill lets larger banks get even bigger by acquiring smaller banks without triggering any increased regulatory scrutiny," said Marcus Stanley, policy director at **Americans for Financial Reform**. "That's precisely the wrong direction to go."

10 Years Later: The Financial Crisis State | Center for American Progress (Joe Valenti)
While the economic recovery has been uneven, both the financial sector and the overall economy today are back to where they were before the crisis began in 2007—if not at even greater levels. In October 2009, the nation's unemployment rate hit 10 percent and currently stands at 4.1 percent—lower than the 4.4 percent rate reached before the crisis. Yet, the Trump administration and Congress seem to have forgotten the causes and consequences of this crisis as they seek to undermine the key protections put in place to prevent it from happening again.

Last June, the U.S. House of Representatives passed the so-called Financial Choice Act, which would massively weaken financial safeguards and enforcement by taking a wrecking ball to these protections, and the House Financial Services Committee continues to review and pass other dangerous bills. Meanwhile, in December, the Senate Committee on Banking, Housing, and Urban Affairs passed S. 2155, or the Economic Growth, Regulatory Reform, and Consumer Protection Act—a major deregulatory bill that would deregulate 25 of the 38 largest banks and open wide the doors to massive loopholes in mortgage lending, similarly risking another crisis. And at the Consumer Financial Protection Bureau, created by the Dodd-Frank law, controversial acting Director Mick Mulvaney is drastically scaling back the agency's rule-making and enforcement.

A decade after meltdown, Senate moves to roll back bank rules | Politico (Zachary Waymbrodt)
U.S. senators are planning to mark the 10th anniversary of Wall Street's meltdown this year with a gift to the nation's banks: a bill that would unravel regulations put in place after the crisis. The proposed rollback of some key post-crisis rules – which could advance in the coming weeks – is one of the few examples of bipartisanship in Washington since President Donald Trump's election.

Wall Street welcomes Trump's shift on regulation | Financial Times

Book Trump? Interest Groups Press Case at His Properties | NY Times
Payday lenders got regulators to rethink rules on how closely to vet borrowers. E-cigarette makers got a delay in federal oversight of many vaping products. Candy makers praised a decision to hold off on more stringent labeling standards. And title insurers declared "victory" for getting changes that benefited them in the tax overhaul. What do all these American special-interest groups have in common? They were among those that booked meetings, retreats and conferences at hotels and golf resorts owned by President Donald Trump.

CONSUMER FINANCE AND THE CFPB

Under Trump, consumer agency promises to do the bare minimum, and nothing more | LA Times (David Lazarus)
Let's say there was a federal agency charged solely with protecting consumers from financial abuse. And let's say that agency was so good at its job, it succeeded in returning $12 billion to consumers who had been ripped off by greedy banks and lenders.

How would you reward that agency? If you're President Trump, the answer is to slash its funding by 23% and get rid of rules "that unduly burden the financial industry."

Payday Lenders Try To Fight Borrower Protections With Fake Comments | AFR blog
Months before the Consumer Financial Protection Bureau proposed a new rule in 2016 that threatens the profits of avaricious payday lenders across America, the industry's leaders gathered at a posh resort in the Atlantis in the Bahamas to prepare for battle. One of the strategies they came up with was to send hundreds of thousands of comments supporting the industry to the consumer bureau's website. But most of their comments, unlike those from the industry's critics, would be fake. Made up.

They hired a team of three full-time writers to craft their own comments opposing the regulation. The result was over 200,000 comments on the consumer bureau's website with personal testimonials about payday lending that seemed unique and not identical, supporting the payday lending industry. But if you dig a little deeper, you would find that many of them are not real.

The Madden Decision, Three Years Later | Debanked (Paul Sweeney)

CFPB Wants to Know How Well It Engages With Public, Stakeholders | Credit Union Times
The CFPB Could Be a Force for Good | Wall St. Journal (Todd Zywicki)

Disgust as Mulvaney Silences Defender of the Little Guy | Good Men Project (Alex Shultz)

US, UK regulators join forces on regulating financial technology firms | The Hill

EXECUTIVE COMPENSATION

As companies reveal gigantic CEO-to-worker pay ratios, some worry how low-paid workers might take the news | Washington Post
A potentially embarrassing math calculation employers have long hoped to escape — one that pay experts thought was dead following President Trump's election — can no longer be avoided. In recent weeks, a few public companies have begun disclosing a ratio, required for the first time this year, that compares the pay of their chief executive with the pay of their median employee.

At industrial giant Honeywell, the largest company yet to disclose, the ratio was 333 to 1. At Teva Pharmaceuticals, the Israel-based generic pharmaceutical company, it's 302 to 1. And at the regional bank Umpqua Holdings, it's about 55 to 1. As of Wednesday morning, companies had disclosed the figure for only about 20 CEOs, according to the research firm Proxy Insights. But with Corporate America's annual meeting season getting underway — the majority of public companies release their annual reports and proxy voting documents in the coming months — investors, the public and employees are about to get a much closer look at how their pay compares not only with that of their CEO, but that of their peers.

INVESTOR PROTECTION, THE SEC, AND RETIREMENT SAVINGS

SEC may negate investors' ability to fight securities fraud | The Hill (Paul Bland Jr.)
Trump's Securities and Exchange Commission (SEC) is threatening to fire the starting pistol in a new race to the bottom that could rob hard-working Americans of their retirement savings. For decades, when a corporation misled or deceived its investors after selling securities through an initial public offering (IPO), those investors could band together in a class-action lawsuit to seek accountability for this kind of fraud… Now, however, there are serious indications that the Trump administration's new chair of the SEC, Jay Clayton, may be about to change everything. As Bloomberg has reported, the new SEC leadership might be seriously considering letting corporations use forced arbitration to ban securities class actions in their IPOs.

Regulators to Pull Back on Obama-Era Mutual-Fund Rules | Wall St. Journal

SEC chair Clayton says market needs 'clarity' on adviser-client relationship | Investment News
Securities and Exchange Commission Chairman Jay Clayton put a fiduciary-rule proposal at the top of the agency's rulemaking agenda on Friday, saying that the market needs "clarity" on the relationships between financial advisers and clients.

"I don't think it's any secret that we're going to make a big effort to try to bring clarity and harmony to the investment adviser, broker-dealer standard of conduct regulation — something that's important to me," Mr. Clayton said at the Practising Law Institute's SEC Speaks in Washington. "It's something that the market needs. I think it's something that regulators need."

SEC abruptly cancels vote on fund rules | PoliticoPro
The SEC abruptly canceled a meeting today scheduled to revisit mutual fund rules the agency adopted in 2016.

The vote, scheduled last week, was to be the first in two years where the SEC had a full, five-member commission. But the quick cancellation suggests Chairman Jay Clayton is facing political tumult over revising the SEC regulations.

Supreme Court: Dodd-Frank whistleblower protection is narrow | Washington Post
The Supreme Court ruled Wednesday that whistleblower protections passed by Congress after the 2008 financial crisis only apply to people who report problems to the government, not more broadly. The justices said that a part of the Dodd-Frank Act that protects whistleblowers from being fired, demoted or harassed only applies to people who report legal violations to the U.S. Securities and Exchange Commission. They said employees who report problems to their company's management but not the commission don't qualify.

Gap in Dodd-Frank Leaves Many Whistleblowers Unprotected | Coalition for Sensible Safeguaeds (Shanna Devine)

SEC updates guidance on disclosing cyber breaches | The Hill

What to do about retirement account ID theft | What to do about retirement account ID theft (Bob Sullivan)
Criminals armed with a flood of data stolen in recent data breaches are newly targeting consumers where it might hurt most: their retirement accounts. The lucrative crime of brokerage account takeovers isn't new, but it appears identity thieves are having more luck recently raiding victims' retirements, tricking brokers into emptying accounts and mailing checks that can exceed $100,000.

It's critical for consumers to realize that retirement accounts have few of the protections afforded to credit and debit card holders; getting "refunds" after an incident like this involves much more than a few phone calls.

MORTGAGES AND HOUSING

[How S 2155 (the Bank Lobbyist Act) Facilitates Discriminatory Lending] | Credit Slips (Adam Levitin)
If you think it's ridiculous that the CDC can't gather data on gun violence, consider the financial regulatory world's equivalent: S.2155, formally known as the Economic Growth, Regulatory Relief, and Consumer Protection Act, but better (and properly) known as the Bank Lobbyist Act. S.2155 is going to facilitate discriminatory lending. Let me say that again. S.2155 is legislation that will facilitate discriminatory lending. This bill functionally exempts 85% of US banks and credit unions from fair lending laws in the mortgage market. Support for this bill should be a real mark of shame for its sponsors.

There's a lot of bad and wacky stuff in S.2155. Just start with its title. Why would anyone would want to throw more lighter fluid on an already supercharged economy? And isn't it practically daring the Fed to raise rates to offset whatever effect the bill has? Likewise, why do US banks possibly need any regulatory relief when they are at record profit levels--for both megabanks and community banks? This ain't an industry that's hurting.

[The Big Red Herring: The Home Mortgage Disclosure Act (HMDA) Will Help Predators Identify You!] | Shelter Force (Josh Silver)
Equifax, a credit bureau that collects credit history data on behalf of lending institutions and other paying clients, experienced a hack that compromised the personal data, including Social Security numbers and credit history, of 143 million Americans in 2017. That’s half the country.

Now, guess how many consumers had their privacy violated by HMDA in 2017? Zero. In fact, no federal agency has reported a single instance of an invasion of privacy in over forty years of HMDA’s existence.

[HUD agrees to implement rule to help low-income residents] | The Hill
The Department of Housing and Urban Development (HUD) has agreed to allow a rule that helps low-income families find housing go into effect after initially attempting to delay the new regulation. HUD officials had tried to delay the rule for two years, but agreed to implement it after a judge ruled in favor of civil rights groups challenging the delay, according to a press release. The Small Area Fair Market Rent rule will require public housing officials to determine subsidies for rent based on formulas for zip codes, instead of ones for entire metropolitan areas. Previously, rents for entire metropolitan areas were used to calculate the subsidies, which the groups argued meant that the low-income people receiving the funds are forced to live in areas with few opportunities.

REGULATION IN GENERAL

[The Trump Administration Is a Golden Age for Corporate Crooks] | New York Magazine
The Republican Party’s main legislative achievement was to facilitate the direct transfer of hundreds of billions of dollars into the hands of business owners. (The proceeds of the Trump tax cuts are mainly going into stock buybacks, a simple windfall for owners of capital.) But a second, less visible channel is the Trump administration’s program of lax regulation. While the tax cuts spray money at business owners as a whole, weak enforcement of regulations confers a windfall targeted specifically at businesses that cheat their customers or break the law. That,

at any rate, is a ground-level picture of the changes in government Trump has ushered in. A massive shift in power and resources is underway, from consumers and workers to business owners. The natural confluence of interest between Trump's inclination as a proprietor of business scams, and the laissez-faire instincts of his partisan allies, is a golden age for corporate crime.

STUDENT LOANS AND FOR-PROFIT COLLEGES

Education Dept. releases records at center of a lawsuit over accrediting panels | Washington Post

Education Dept. Knew of Whistle-Blower Complaint Before Easing Restrictions on For-Profit College | Chronicle of Higher Education
Weeks before the Education Department sent a letter to a for-profit college in Illinois saying it would relax requirements for institutions affected by a troubled accreditor's loss of federal recognition, the department was alerted that the institution might be abusing federal financial-aid rules.

In an August 9 letter to the department, Michelle Edwards, president of the Accrediting Council for Independent Colleges and Schools, warned that Northwest Suburban College may have been in violation of Title IV regulations.

"On June 8, 2017, ACICS received a formal 'whistleblower' complaint from the former librarian of Northwest Suburban College, Mr. Crispien Van Aelst, who makes a number of serious allegations of misrepresentation and abuse, include [sic] possible Title IV fraud," the letter from Edwards read, in part.

SYSTEMIC RISK

Treasury to Wall Street: 'Too big to fail' should stay | Washington Post (Tory Newmyer)
Sometimes the deregulation friendliest to industry means doing nothing much at all to the rules already on the books. That's the immediate upshot of the report the Treasury Department issued Wednesday on Dodd-Frank's prescription for winding down failing financial institutions (read the report here). The study — the latest installment of a review the president ordered last year of the post-crisis regulatory regime — calls for preserving the authority the law handed the FDIC to seize and dismantle a sinking firm in the event of another meltdown. Longer term, it recommends retooling the bankruptcy code to make it better suited to step in.

That's welcome news for Wall Street banks. They've argued the existing provision, known as orderly liquidation authority, guards against a repeat of the hundreds of billions of dollars in bailouts the feds pumped into mega-firms nearly a decade ago to keep the entire system from going under after Lehman Brothers collapsed.

Treasury calls for new bankruptcy code to avert federal backstop for failing banks | The Hill (Sylvan Lane)

[Treasury Won't Ditch Post-Crisis Plan for Big-Bank Failures](#) | Bloomberg (Jesse Hamilton)
Marcus Stanley, policy director for **Americans for Financial Reform**, said he was glad to see the authority embraced in the report, but alarmed by specifics of the bankruptcy recommendations that he said "would create special privileges for big banks, rely on unrealistic assumptions, and in their current form would likely increase risks to the financial system."

Rule letting US dismantle giant banks in crisis should stay, Treasury Department advises | LA Times
The new report acknowledged the same concern regulators had during the Obama administration: that the bankruptcy system, though a preferred way of handling company failures, still may not be equipped to handle the collapse of a megabank...

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US 'too big to fail' regime set for Trump overhaul | Financial Times
The Trump administration is proposing to recast a central pillar of post-crisis financial regulation with a new "Chapter 14" bankruptcy process designed to eliminate the risk that taxpayers will have to pick up the cost of a bank failure…

Marcus Stanley of **Americans for Financial Reform**, a group that wants tougher regulation of Wall Street, described the recommendations as a "mixed bag" and said it would be wrong to curtail the FDIC's freedom of manoeuvre.

"The FDIC needs discretion to restructure a company. You can't say in advance that the FDIC has to follow a completely pre-written rule book," Mr Stanley said.

Treasury Downsizes Liquidation Authorities Created to Avert Bailouts | District Sentinel (Sam Knight)
"Treasury stands ready to work with Congress on the enactment of bankruptcy reform and intends to begin administrative implementation of the reforms proposed here that can be accomplished without legislation," the report stated.

The decision to maintain OLA in some form has relieved proponents of Dodd-Frank. **Americans for Financial Reform** policy director Marcus Stanley said he "was glad to see the authority embraced in the report," according to Bloomberg.

Stanley did say he was worried, however, that proposed changes and an emphasis on bankruptcy courts would increase systemic risk, bestowing even greater advantages and implicit guarantees to Wall Street.

TAXES

The 'Tax Cuts for Shareholders' Act | Roosevelt Institute (Lenore Palladino)
Stock buybacks enrich current shareholders—who too often include corporate executives—by reducing the number of stocks for sale and raising the value of the remaining shares. The practice had already been on the rise, but the corporate windfall in the aftermath of the tax bill allows corporations to escalate the practice. That's why many financial analysts are pointing out that the tax bill will lead to a rise in shareholder primacy.

Recently, Morgan Stanley released a research note presenting their expectations of how companies will utilize the corporate tax windfall at the core of Trump's tax law. Analysts expect that 42 percent of the tax savings will be passed on to shareholders, in the form of share buybacks and dividends. That's compared with just 13 percent going to workers through labor compensation.

Tax Regulations at Center of GOP Dispute | Wall St. Journal
A turf battle is breaking out in the Republican Party over which agencies should have a say in writing new regulations stemming from last year's landmark tax legislation. Some Republican senators are pressuring the Office of Management and Budget to get involved in reviewing tax regulations, breaking a 35-year-old practice where tax regulatory work is handled by the U.S. Treasury Department and the Internal Revenue Service and doesn't get a full OMB review.

OTHER TOPICS

Trump's Plan Won't Solve Problems of Crumbling Infrastructure | CEPR blog (Eileen Appelbaum)
With states and localities sidelined by budget realities, the administration appears to be counting on private investors to step-up and propose public-private partnerships. No doubt some projects will attract private financing. The infrastructure plan sweetens such deals by:

- Allowing private investors to recoup their costs and earn profits by placing tolls on existing interstate highways where they are currently restricted;
- Making it easier for large- and mid-sized airports to charge higher passenger fees and extend these fees to small airports;
- Turning rest stops on interstates into commercial areas that can charge for anything except drinking water and toilets; and
- Allowing fees for the use of public recreational water facilities.

Private equity (PE) firms increased fundraising for infrastructure investment following Trump's election. As an advisor to the Trump campaign, private equity mogul (now Commerce Secretary) Wilbur Ross promulgated a no-lose, high-return plan for private equity investment in infrastructure. Shortly after Trump's inauguration, Joe Baratta, global head of private equity at Blackstone Group, the largest private equity firm in the world, announced plans to raise an infrastructure fund of as much as $40 billion in equity. This would be Blackstone's largest fund ever. Global Infrastructure Partners did raise $15.8 billion for what is currently the largest infrastructure fund. Brookfield Asset Management Inc. raised $14 billion for its third infrastructure fund. In 2017, PE firms raised a record amount of money — nearly $40 billion, not counting the Blackstone fund that is still in process — for infrastructure investment; PE funds now hold $70 billion for this purpose.