AFR Americans for Financial Reform

This Week in Wall Street Reform | Jan. 20 – 26

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THE TRUMP ADMINISTRATION, CONGRESS AND WALL STREET

Democrats need to stand with working Americans vs. big banks | Washington Post (Katrina Vanden Heuvel)
Today, progressives are again trying to dissuade their colleagues from compromising the interests of working Americans at the behest of the banks… Sen. Sherrod Brown (D-Ohio) recently asked, "Hourly wages have stagnated for 40 years, and too many Americans are still feeling the impact of the 2008 financial crisis. Who needs help the most?" Brown is posing the right question. But when it comes to protecting working Americans from recklessness on Wall Street, too many of his fellow Democrats are still giving the wrong answer…

While it doesn't go as far as the extreme legislation to dismantle Wall Street reform that House Republicans advanced last June, the Senate bill is terrible policy. Under current law, banks with more than $50 billion in assets are considered "systemically important financial institutions" and therefore are subject to extra scrutiny. The Senate bill would lift that threshold to $250 billion, relaxing oversight of 25 of the 38 largest banks in the country. According to **Americans for Financial Reform**, those banks are collectively responsible for $3.5 trillion in assets and received nearly $50 billion in bailout money during the financial crisis. The bill would also roll back mortgage-lending protections and weaken the so-called Volcker Rule that prohibits banks from making certain reckless bets — some of the same careless behavior that led to the last recession.

White House move could force out Hoenig | Political Pro
The White House tonight adjusted Jelena McWilliams' nomination to the FDIC board in a way that could force Vice Chairman Thomas Hoenig to leave the agency when his term ends in April. McWilliams had originally been nominated for the seat that was vacated by Jeremiah Norton in 2015, but the administration withdrew that nomination and instead tapped her for Hoenig's seat. Her term length would have been six years either way...

Large banks are not particular fans of Hoenig, a proponent of a high capital requirements in the form of a simple leverage ratio.

GOP to Trump: Hurry up on Infrastructure | Politico Pro

CONSUMER FINANCE AND THE CFPB

Consumer Financial Protection Bureau? | CU Times (Michael Ogden)
Former CFPB Director Richard Cordray did what he could with what he had to work with in starting the agency and getting it to where it was in the fall of last year when he stepped down. Where was it in October of 2017? Polls done by American Future Fund, a GOP polling company, found that the public overwhelmingly loved what the agency was doing for consumers.

Enter Acting CFPB Director Mick Mulvaney, and the President's current head of the Office of Management and Budget, as well as a founding member of the Freedom Caucus. Since Mulvaney stepped into this role at the CFPB, and taken cues from the President, he's dismantling the rules and the agency in big and small chunks nearly every day.

The CFPB's New Mission | The Atlantic
Since the day in late November when he showed up at the Consumer Financial Protection Bureau, doughnuts in hand, Mick Mulvaney has said that things were going to change. For almost two months, the acting director appointed by Trump has implemented seemingly small, but important, shifts that indicate what the bureau will look like in the years ahead. In a memo to bureau staff made public by ProPublica, Mulvaney finally laid out his vision for the agency: a government entity that doesn't "push the envelope."

In an email to the bureau's staff, Mulvaney said that he had been struggling to come up with a central thesis for how exactly the agency would change. Mulvaney wrote that the philosophy of the previous director, Richard Cordray, was "to aggressively 'push the envelope' in pursuit of the 'mission;' that we were the 'good guys' and the 'new sheriff in town,' out to fight the 'bad guys.'" The acting director then declared, "That is what is going to be different."

CFPB Acting Head Insists He's Not Out To Destroy Bureau | Law360
Mulvaney, who has been serving as the CFPB's acting director since Nov. 24, told reporters at a White House briefing ahead of a potential government shutdown that he fully intends to have the bureau continue policing financial markets for fraud and abuse.

Instead of 'pushing the envelope,' Mulvaney is mailing it in at CFPB | The Hill (Nick Jacobs)

Congress should not hold CFPB hostage in budget talks | American Banker (Christine Hines)
The CFPB's foes want to remove the bureau from under the Federal Reserve System, where it is housed and funded. They want to relegate it to the politically charged, corporate lobbyist-influenced congressional appropriations process. This move would sabotage the CFPB's independence and its critical function to oversee the consumer finance markets.

The Other Government Shutdown: Mulvaney's Weeklong Assault on the Consumer Bureau | Allied Progress
While much ink has been spilled on the back and forth between members of Congress and the White House as negotiations continue this week in an effort to avoid a government shutdown,

one key Trump administration official escaped widespread scrutiny as he launched a brazen effort to shut down an independent federal agency from the inside.

Appeals court sets expedited timeline for CFPB succession case | Politico Pro
The D.C. Circuit of the U.S. District Court of Appeals has agreed to expedite an appeal from the Consumer Financial Protection Bureau's deputy director.

The appeal is part of the fight over who should be acting director of the bureau following director Richard Cordray's resignation in November. Deputy Director Leandra English maintains that she, not Office of Management and Budget Director Mick Mulvaney, should be acting director of the CFPB until a new permanent director is named and confirmed… According to a file tweeted by English's lawyer in the case, Deepak Gupta, the court expects her case for an injunction to be provided by Jan. 30 while the Trump administration will have until Feb. 23 to provide its brief against the injunction.

Feds drop action against payday lenders with local ties | Kansas City Business Journal
The Consumer Financial Protection Bureau pulled a legal action filed last year against four payday loan companies with ties to Kansas.

The federal agency dismissed a case filed in April against Golden Valley Lending Inc., Silver Cloud Financial Inc., Mountain Summit Financial Inc. and Majestic Lake Financial Inc. That action claimed that the companies charged interest rates of between 440 percent and 950 percent, stating that a typical $800 loan required total payments of $3,320 over a 10-month period.

See statement by Stop the Debt Trap campaign.

'Legalized loan sharking': payday loan customers recount their experiences | The Guardian
Mick Mulvaney, White House budget director and interim director of the Consumer Financial Protection Bureau, recently announced a review of rules on payday loans.
Payday loan companies focus on the needy, often operating out of strip malls or corner stores. Interest can be 300%, plus fees. Borrowers often hand over post-dated checks which are cashed if they do not repay on time.

Mulvaney also called the CFPB a “sick, sad joke”. But he is now in charge of the bureau as it considers delaying or scrapping tough payday loans rules introduced last year.The controversial industry has been a source of campaign contributions for Mulvaney, a former South Carolina congressman. He denies any undue influence.

Under the regulations, lenders must determine if a borrower can afford to repay a high-interest, short-term loan in full within 30 days. The rules also cap the number of loans one person can take out. The Guardian spoke to three people who say payday loan companies lured them into a trap.

CFPB drops probe into lender that gave to Mulvaney's campaigns | American Banker
The Consumer Financial Protection Bureau has dropped a probe into an installment lender that

had been accused of trying to profit from repeat borrowers.

World Acceptance Corp., based in Greenville, S.C., said in a press release Tuesday that it had received a letter from the consumer agency "indicating the investigation into the company's marketing and lending practices has been completed."

Newly Defanged, Consumer Protection Agency Drops Investigation of High-Cost Lender | American Banker
In 2013, ProPublica published an investigation of the subprime lender World Finance. World was charging annual interest rates that could exceed 200 percent, often trapping customers in cycles of debt by enticing them to renew the loans over and over. In states where laws barred such high rates, the installment lender loaded many loans with nearly useless insurance products that bloated the cost. The company boasted over 800,000 customers, part of an installment loan industry that claimed to loan to millions.

Last week, [the CFPB] dropped a lawsuit against a group of payday lenders that charged interest rates that touched 950 percent. The companies were associated with a Native American tribe, a common dodge the industry has used because it allows lenders to evade state interest-rate caps. And around the same time, it turns out, the CFPB also sent a letter notifying World Finance that it was dropping its investigation into the installment lender.

See statement by Stop the Debt Trap campaign.

Overturning the CFPB's final payday loan rule by reopening rulemaking or CRA resolution | Ballard Spahr (Jeremy T. Rosenblum)
Republican Congressman Dennis Ross (FL), one of the CRA resolution's sponsors, is reported to have said that despite the CFPB's announcement, he intends to continue to seek passage of the resolution by Congress.

The Consumer Financial Protection Bureau should be allowed to curb their abuses | Bloomberg (editorial)
Enter the CFPB, which last year issued the first federal rule governing payday lending. This limits how many loans can be made in a row, and requires that borrowers be allowed to pay over time, rather than facing the choice of paying in full or extending at exorbitant cost. It also paves the way for traditional banks and credit unions to offer less-expensive alternatives.

The CFPB's approach was hardly heavy-handed. On the contrary, it struck a careful balance between mitigating damage and keeping short-term credit available. After an initial proposal attracted criticism, the bureau made significant changes. And it gave the industry nearly two years to comply.

Nonetheless, just as lenders were preparing to adapt, Mulvaney is changing course. On the day the new payday-lending rules went into effect, the bureau announced that it plans to reconsider them. And in a strong signal of its intentions, it moved to drop a lawsuit against four lenders that had circumvented state laws by associating themselves with Native American tribes -- a corner of the online-lending branch of the industry, which has been responsible for some of the worst abuses.

[Federal consumer watchdog suspends probe into firm accused of preying on detained immigrants](#) | Washington Post
An embattled federal consumer watchdog agency has agreed to suspend its investigation into a Virginia-based company accused of preying on detained immigrants.
The Consumer Financial Protection Bureau — plunged into disarray last month by dueling directors — will pull back on its probe of Libre by Nexus until a federal judge rules on a lawsuit that the company filed against the agency.

Mick Mulvaney Says the Consumer Financial Protection Bureau Works for Payday Lenders, Too | Slate (Jordan Weissmann)
After the subprime crisis, vulture funds swept into the hardest-hit areas and bought thousands of foreclosed-upon homes at firesale prices and floated bonds based on the expected returns from the rents they'd be able to charge in an America with the lowest levels of home-ownership in modern history.

To keep the bond-ratings high (and to support the derivative bonds that hang off of those bonds), these Wall Street landlords have raised rents to historic highs and figured out how to evict everyone, demonstrating to bond-raters that these houses could be flipped onto the market and sold at the drop of a hat, should the winds shift.

In AFR Report: Wall Street and Single Family Rentals, researchers for the Americans for Financial Reform run the numbers on 200,000 single-family homes that are owned by private equity landlords in 13 states -- a small, but representative sample of all the homes these Wall Street behemoths own.

CashCall Owes $10M After CFPB Sought $287M At Trial | Law360
CashCall Inc. will have to pay a $10 million penalty for offering high-interest loans via a tribal lands-based firm in states where payday loans are barred, but a California federal judge Friday denied the U.S. Consumer Financial Protection Bureau's bid for $287 million in restitution and penalties.

Little-known services offer quick fixes that may improve your credit score | Washington Post (Kenneth Harney)
Many mortgage applicants have never heard of “rapid rescoring” or CreditXpert score simulations — in part because some lenders choose not to educate them.
Fixing errors directly with the credit bureaus could take weeks. Enter rapid rescoring, a process that frequently can get erroneous information corrected in as little as two to three days.It works like this: You provide the documentation about the accounts to your loan officer, then request a rapid rescore using the loan officer's mortgage credit-report vendor. The vendor's staff will then verify your documentation with the creditor(s) involved and provide the corrected information directly to the credit bureaus.

Read the fine print | Stardem.com (Mary Hunt)
Learning how to manage your debt starts with understanding what's in the fine print. Some card companies note in the fine print that if there's a dispute, you agree to go to arbitration. That means if you have a complaint with the company, you'll have to pay for arbitration. You might as well stick a sign on your back that says "Kick Me!"

ENFORCEMENT

KPMG indictment suggests many who weren't charged knew regulator data was stolen | Marketwatch
A grand jury indictment unsealed Monday by the U.S. Department of Justice charges five former KPMG audit executives and one former professional at its regulator, the Public Company Accounting Oversight Board, with conspiracy and wire fraud, alleging they repeatedly used stolen confidential regulator information to subvert KPMG's regulatory inspection process.

The DOJ complaint suggests, however, that at least five more unnamed KPMG partners and one outside consultant either knew or chose to ignore the illegal source of the information.

The DOJ and the SEC allege that three KPMG partners lured three PCAOB employees — Brian Sweet, Cynthia Holder and Jeffrey Wada, all certified public accountants — into the conspiracy with promises of jobs at the accounting firm in exchange for stolen information.

BNP Paribas Pleads to Antitrust Conspiracy, Agrees to $90M Fine | New York Law Journal

EXECUTIVE COMPENSATION

Why Companies Fear Disclosing CEO-to-Workers Pay | Bloomberg Businessweek (Anders Melin)
U.S. companies must soon begin disclosing what many would rather keep secret: The ratio between the CEO's compensation and the paycheck of the company's median worker. The mandate was included in the 2010 Dodd-Frank Act to shed light on the growing income gap between executives and workers. Opponents say it's only meant to embarrass executives and won't be useful to investors. One critic called it an example of "bigotry against the successful..."

The disclosures will likely fuel the debate on U.S. income inequality. Some companies and directors are worried about how the media will characterize their ratios. Others are more concerned with how employees will react, especially the half that earns below the median wage, and how the information might affect negotiations with unions. These worries led business groups to lobby Republican lawmakers in 2017 to scrap the pay ratio, arguing that it was too difficult to calculate.

FEDERAL RESERVE

Senate confirms Jerome Powell as Fed chairman | The Hill
The Senate on Tuesday voted to confirm Federal Reserve Governor Jerome Powell as the next chairman of the central bank by an overwhelming bipartisan margin. The vote on Powell's confirmation quickly cleared the simple majority of senators necessary to confirm him to replace Fed Chairwoman Janet Yellen on Feb. 3. The final count stood at 84-13, one of the widest margins of confirmation for a Trump nominee.

INVESTOR PROTECTION, THE SEC, AND RETIREMENT SAVINGS

Morgan Stanley, Merrill Lynch Get Brokerage Boost | Wall St. Journal
Wall Street's efforts to reinvent the traditional brokerage business are starting to pay off. The latest financial results from Morgan Stanley and Merrill Lynch, showing strength in fee-based revenue and a plateau in broker defections, represent some of the early rewards of the strategic transformation these firms have undertaken in the years since the financial crisis.

Faced with chastened investors, stricter regulations and increased competition from cheap automated advisers and brokers-turned-independent advisers, these traditional brokerages have been trying to transform themselves into businesses that are more profitable, more attractive to younger investors and have a bigger share of clients' assets and debt.

SEC Weighs a Big Gift to Companies: Blocking Investor Lawsuits | Bloomberg
In its determination to reverse a two-decade slump in U.S. stock listings, a regulator might offer companies an extreme incentive to go public: the ability to bar aggrieved shareholders from suing.

The Securities and Exchange Commission in its long history has never allowed companies to sell shares in initial public offerings while also letting them ban investors from seeking big financial damages through class-action lawsuits. That's because the agency has considered the right to sue a crucial shareholder protection against fraud and other securities violations.

The hedge-fund delusion that grips pension-fund managers | Economist
Hedge-fund managers may be feeling quietly smug about their performance in 2017. They returned 6.5% on average, according to Hedge Fund Research, a data provider, their best year since 2013.But those returns do not really suggest that they are masters of the investing universe. The S&P 500 index, America's main equity benchmark, returned 21.8%, including dividends, last year. More tellingly, a portfolio split 60-40 between the S&P 500 and a mixture of government and corporate bonds (an oft-used benchmark for institutional portfolios) would have returned 14.8%. Last year was the fifth in a row when hedge funds underperformed the 60/40 split.

SEC to examine companies that pivoted to blockchain | The Hill

SEC charges six in alleged scheme to tip KPMG on audits | The Hill

Cutting through the red tape of adviser regulation is tricky | Investment News (Mark Schoeff)

SEC looking into $15 billion hit taken by General Electric | Washington Post

MORTGAGES AND HOUSING

Puerto Rico Can't Afford Another Crisis, It Needs A Moratorium On All Foreclosures | Newsweek
Two days after Hurricane María passed through Puerto Rico, I was able to get in a car and begin what would be the daily task for the next couple of weeks of looking for water and gas. As

I stepped outside, I realized that this would not be as with other hurricanes that I had experienced in my childhood. Puerto Rico was destroyed, trees had been stripped out of all their leaves, 100-feet-tall cement poles laying on the ground almost pulverized. It looked like a scene taken out from a movie, and a scary one at that.

Fannie Mae CEO reflects on housing 10 years after the financial crisis | Marketplace (interview with Timothy Mayopoulos)

STUDENT LOANS AND FOR-PROFIT COLLEGES

States Flunk Test of Curbing For-Profit College Abuses | Republic Report (David Halperin)
With Trump Secretary of Education Betsy DeVos starkly abandoning protections for students from predatory for-profit colleges, there is a real danger that bad actors in the industry will be able to once again accelerate their sleazy practices and ruin the lives of another generation of Americans.

DeVos Waters Down Disclosure Requirements of Gainful-Employment Rule | Inside Higher Ed
The Department of Education last week said it was further weakening disclosure requirements in the gainful-employment rule.

Under the new 2018 gainful employment disclosure template, career education programs would no longer be required to disclose median earnings data of graduates or charges for room and board. The template also allows those programs to list the job-placement rate from multiple accreditors.

Did Betsy DeVos just trash America's higher education system? | Washington Post (Valerie Strauss)

Projections for student loan defaults are terrifying. It's time to act | Washington Post (Robert Gebelhoff)

Education Department lets for-profit colleges reduce transparency, hurting students | Think Progress (Case Quinlan)
For-profit colleges, some of which have defrauded students, will no longer have to post median earnings of graduates to their websites, the Department of Education announced on Friday. This requirement was part of the gainful employment rule that went into effect in 2015 under the Obama administration, which the Trump administration has continued to scale back.

Shake-up in financial aid office at Education tied to student loan revamp | PoliticoPro

SYSTEMIC RISK

A Wall Street Ally Leads the Charge to Roll Back the Volcker Rule | Bloomberg
A key agency that's taken a lead in revising Volcker -- the Office of the Comptroller of the Currency -- recently circulated a blueprint to other regulators for making the rule more friendly to banks, said two people familiar with the matter. The draft relies heavily on June

recommendations issued by the Treasury Department, which wants to give firms more leeway to trade and soften constraints on their ability to invest in private-equity and hedge funds.

Wall Street critics will likely take exception with the fact that the architect of the OCC proposal was Keith Noreika, a long-time bank lawyer who served as the regulator's acting head last year. In January, Noreika returned to his law firm, Simpson Thacher. Its financial industry clients could benefit if his ideas for overhauling Volcker come to fruition.

Trump's Regulators Want to Kill a Key Financial Rule That Even Republicans Support | New Republic (David Dayen)
Conservatives who are working to undo Obama-era Wall Street reforms do have one regulation they'd like to keep in place: high capital requirements for financial institutions, so that big banks can pay for their own losses if they run into trouble instead of needing a government bailout. The House Republicans' Financial Choice Act follows this model, gutting scores of rules created by the 2010 Dodd-Frank law in favor of a simple capital buffer.

OTHER TOPICS

U.S. derivatives regulator to review bitcoin futures risks | Reuters
The U.S. derivatives regulator will hold two meetings to discuss the procedure and operational controls for listing and trading digital currency futures, it said on Thursday, amid rising concerns over the risks bitcoin poses to the financial system.

The Commodity Futures Trading Commission (CFTC) said it would convene its technology and risk advisory committees this month to discuss its "self-certification" process for listing digital currency futures and how those products are risk-managed and policed.