This Week in Wall Street Reform | June 30 - July 6

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CONSUMER FINANCE AND THE CFPB

Debt Collectors Wage Comeback | Wall Street Journal
Debt collectors are making a comeback.

Debt-collection lawsuits have increased in some state and municipal courts, following a decline during a regulatory tightening after the financial crisis. Debt purchases by collectors are also rising, according to data by large publicly traded debt-collection companies.

"There was some fear. Now there is more clarity in the market," said Jan Stieger, executive director of Receivables Management Association International, a trade group of debt buyers. She said industry debt purchases have rebounded in the past two years or so, with several buyers returning to the market in early 2019.

Watch: Candidate Seth Moulton Talks About the Advantages of Postal Banking

How Post Offices Can Beat Payday Lenders | Washington Monthly

The fight to curb payday loans has reached one of America's oldest institutions: the Postal Service. Democratic representatives Bill Pascrell of New Jersey and Ayanna Pressley of Massachusetts recently introduced an amendment to the Financial Services and General Government Appropriations Act authorizing post offices to provide small loans, savings accounts, and other financial services. The amendment sets aside $1 million to cover any overhead. It passed the House of Representatives on June 25.

Bank access is a severe problem in the United States. In 2017, 6.5 percent of U.S. households were "unbanked" (no bank access), and 18.7 percent were "underbanked" (reliant on financial institutions that were not banks). Almost half of the country could not pull together $2,000 within thirty days in the event of an emergency (or at least they would struggle greatly to). Many of these people would have to take out payday loans to deal with such a shock.

New Plaintiffs Join Lawsuit Against CFPB For Delaying Section 1071 Implementation | National Law Review
The National Association for Latino Community Asset Builders (NALCAB) and two individual small business owners have joined the lawsuit filed against the CFPB in May 2019 by the California Reinvestment Coalition in a California federal district court seeking a declaration that the CFPB's failure to issue regulations implementing Section 1071 of the Dodd-Frank Act violates the Administrative Procedure Act and requiring the CFPB to promptly issue such regulations.

Section 1071 amended the ECOA to require financial institutions to collect and maintain certain data in connection with credit applications made by women- or minority-owned businesses and small businesses. Such data includes the race, sex, and ethnicity of the principal owners of the business. In April 2011, the CFPB issued guidance indicating that it would not enforce Section 1071 until it issued implementing regulations. In May 2017, the CFPB issued a RFI and a white paper on small business lending in conjunction with a field hearing on small business lending. The RFI was intended to inform the CFPB's Section 1071 rulemaking.

The NALCAB alleges that its members are directly harmed by the CFPB's failure to implement Section 1071 because they are "hindered in their efforts to provide and secure loans for members of the affected communities." It claims that without the data mandated by Section 1071, its members "have to expend additional organizational resources–and in some respects are entirely unable–to identify particular needs and opportunities."

CFPB is Taking a Fresh Look at Bank Overdraft Fee Rule | Marketplace
The Consumer Financial Protection Bureau just wrapped up a public comment period on a rule that extends some protections to consumers who overdraw their checking accounts. The CFPB must examine the rule under a federal law that requires agencies to review rules that might affect small businesses.

Before the Federal Reserve Board set the 2009 overdraft rule, banks could automatically enroll people in overdraft protection and slap them with a fee — typically around $35 per transaction.

With the rule in place, people can choose to have banks reject purchases at the point of sale instead to avoid those fees.

CU Trades Say Overdraft Programs Are Essential; Consumer Advocates Call Them Abusive | Credit Union Times

Overdraft services are essential for some credit union members, trade groups said, asking the CFPB not to take any additional action to restrict them.

But the head of New York City’s Department of Consumer Affairs said the services amounts to just another type of predatory lending.

And a coalition of consumer groups said that overdraft programs allow financial institutions to prey on consumers.

Lorelei Salas, New York City’s commissioner of consumer affairs, said when it comes to overdraft, the harm outweighs the benefits.

“Overdraft acts as an instant loan, allowing consumers to transact when their balances are low,” she said, adding that the service frequently further drain a consumer’s financial resources.

“Alternative financial services are a more appealing option when checking accounts at mainstream financial institutions prove so costly,” she added, concluding, “No banking product should drive consumers to shadowy back-alley financial services.”

A coalition of consumer groups, including the Center for Responsible Lending, said that overdraft programs harm consumers and charge fees that are “grossly disproportionate to costs to financial institutions.”

As CFPB Reviews Overdraft Rules, UK Regulator Makes Pro-Consumer Changes | US PIRG

We've commented twice (group comment and our own, adding our recent report on Campus Banking Practices to the record) in a CFPB ten-year regulatory review of the Overdraft Rule established by the pre-CFPB regulators in 2010. The overdraft rule was a response to massive increases in overdraft fee collection triggered largely by small transactions on debit cards. In the late '90s, the banks, in the rollout of debit cards to replace "plain-old" ATM cards, had changed the default switch on the cards to allow, not deny, overdrafts. Hmm.

The 2010 rule prohibits overdraft fees on debit and ATM transactions unless you opt-in to fee-based "standard overdraft protection," but if you do opt in, the protection fees average over $32 per overdraft. CFPB has even accused some banks of deceptive marketing of the service to encourage opting-in. We urged CFPB not to weaken the opt-in rule, which protects consumers against the $38 dollar cup of coffee ($3 for the Joe; $35 for the fee). Our key request goes further: We asked the CFPB to flat-out ban overdraft fees on debit and ATM transactions.

The UK's Financial Conduct Authority agrees. It has announced sweeping changes to address what it calls its own "dysfunctional" overdraft market. FCA is banning fixed fee overdraft programs (similar to the US "standard overdraft protection"); instead, it is requiring UK banks to treat overdrafts as small loans subject to reasonable interest rates. Some US banks do still offer this historical service, generally referred to as "traditional" overdraft protection.

Overdraft Rule Is Helping Consumers, State AGs Tell CFPB | Credit Union Times
The CFPB's overdraft rule is benefiting consumers and should not be changed, 25 state attorneys general said this week.

"As currently structured, the Overdraft Rule ensures that consumers have an opportunity to make an informed decision about whether to opt in overdraft services for ATM and signature debit transactions," the 25 state officials—all Democrats—said, in a letter to CFPB Director Kathy Kraninger. The group also includes the office of the attorney general for the District of Columbia.

Borrowers Fight Bid To Stay 2nd Circ.'s Payday Loan Mandate | Law360
Consumers leading litigation accusing a tribe-owned lender of charging exorbitant interest rates urged the Second Circuit on Friday not to hold off on enforcing its decision allowing the claims to proceed until the U.S. Supreme Court decides whether to review the case, saying the justices likely won't be interested.

Borrowers Jessica Gingras and Angela C. Given contended there's no reason to stay the appeals court's mandate while a group of companies connected with Chippewa Cree-owned Plain Green LLC's payday lending business — including bankrupt financial technology firm Think Finance Inc. — seek high court review.

High-Interest Car Title Loans Would Be Banned in Arizona Under Ballot Proposal | Arizona Republic
Roughly 20 community groups on Tuesday kicked off a drive to qualify a measure that would curtail auto-title loans that feature high interest rates and, critics say, trap borrowers in a debt cycle.

The year-long effort supporting the Arizona Fair Lending Act seeks to gather more than 237,000 signatures to place the measure on the November 2020 ballot. It comes 11 years after Arizonans defeated Proposition 200, which would have extended payday lending indefinitely. An enabling law expired two years later, ending payday loans here.

Auto-title loans allow vehicle owners to borrow against the equity in their cars and trucks, using their vehicle titles. Critics say the loans charge annualized interest of up to 204%. The Arizona Fair Lending Act wouldn't ban the loans but would cap interest at 36%, prohibit balloon payments and restrict other practices.

Predatory Lenders Prey On Military Members. Here's How To Avoid Being Victimized | CNBC

These so-called predatory lenders, which pop up around military bases, try to entice or deceive young soldiers into taking out loans that impose abusive or unfair terms.

“Predatory lenders like to prey on young military members because they’re often inexperienced with money, have little to no credit and are usually very excited to spend that first paycheck,” said certified financial planner Tara Falcone, founder of the financial education company ReisUP. She is also a former hedge fund analyst and is married to an officer in the U.S. Navy.

The end result is a loan that carries a hefty price tag, with sky-high interest rates and hidden fees. For example, if a soldier is convinced to take out a payday loan, which requires a check dated for the next payday, he could ultimately wind up with an interest rate near 400%. Unscrupulous auto lenders and credit card companies have also been known to target members of the military.

CFPB Filed No Fair-Lending Enforcement Cases Last Year | American Banker
The Consumer Financial Protection Bureau filed zero fair-lending enforcement actions in the 2018 fiscal year and did not refer any violations of the Equal Credit Opportunity Act to the Department of Justice.

In a report to Congress released Tuesday, the agency did not identify any public enforcement actions for fair-lending violations during the fiscal year under former acting Director Mick Mulvaney, now the White House's acting chief of staff.

ENFORCEMENT

Banking Agencies Look To Increase Cooperation On Cyber Exams | Politico Pro
Federal bank regulators have formed an interagency working group to consider increasing their coordination in assessing cybersecurity at large banks, according to people familiar with the matter.

The discussions, which began a couple months ago, are in their early stages, and it’s not clear whether they will yield joint cyber examinations or something more incremental.

But the goal, sources say, would be to increase the efficiency around how exams are conducted and could give the agencies a clearer line of sight into cyber risk management throughout an entire firm, at a time when data security has rocketed to the top of regulators’ worry list.

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

Financial Industry Group Asks CFP Board To Back Off If Reps Comply With Reg BI | Investment News

A trade association representing regional financial services companies is asking the Certified Financial Planner Board of Standards Inc. to back down on enforcing the fiduciary duty associated with the credential if financial advisers are adhering to new Securities and Exchange Commission advice rules.

CFP Board Chief Executive Kevin Keller said the organization will not provide a safe harbor for its new, more expansive fiduciary standard, but it is considering allowing more time for CFPs and firms to adjust before it is enforced.

In a letter today to the CFP Board, the American Securities Association expressed concern that brokers who hold a CFP mark and comply with Regulation Best Interest — the new broker standard the SEC recently approved — could still run afoul of the heightened CFP fiduciary requirement that goes into effect in October.

CFP Board Willing to Lose Thousands of CFPs, if Necessary, Over Fiduciary Issue | Financial Planning
Under pressure from the brokerage industry to follow the SEC's decision to downgrade the legal standard of client care for RIAs, the CFP Board will move forward with its own more rigorous fiduciary standard on Oct. 1 as planned, the board says — and will do so even at the risk of losing tens of thousands of brokers who are CFPs.

"We're just not going back on the standards," CFP Board Chairwoman Susan John tells Financial Planning. "We are not delaying and we are not changing the standard … This is the right thing to do and we are going to do it."

Representatives from the brokerage industry have been holding meetings with CFP Board officials seeking to persuade it to match its standards to those of the SEC's new Regulation Best Interest rulemaking package, according to both John and brokerage industry lobbyist Kent Mason.

SEC's Reg BI Adds Unexpected Fiduciary Hurdle for Retirement Advisors | ThinkAdvisor
While many advisors who provide retirement-related advice may be inclined to gloss over the new rule, the DOL has indicated that its forthcoming revamped fiduciary rule will follow along the same lines as the SEC rule—meaning that nearly all advisors will soon need to become familiar with a fairly uniform set of principles. Importantly, Regulation Best Interest unexpectedly will apply to some retirement plan rollover transactions, so that understanding these new rules will be critical to advisors who provide clients with certain rollover-related advice.

Advisors who make recommendations regarding rollover of retirement assets will now be required to comply with Regulation Best Interest and establish that the rollover was in the client's best interest.

Establishing that the rollover transaction was in the client's best interests can be accomplished in a number of ways, including by showing that the advisory services provided by the advisor with respect to the rollover IRA add value as a tool for meeting the client's goals. This may be the case even if the fees associated with the IRA are higher than those in the employer plan, as the rule clearly states that fee levels are not the only relevant consideration. In other situations, investment options or investment mix in the rollover IRA may better suit the client's goals.

The Rolling Stones, Still Filling Stadiums, Know What You Need: An Annuity | New York Times

I'd like to believe that the Stones are as ageless as Peter Pan. But it turns out that the band chose, as its sole tour sponsor, the Alliance for Lifetime Income — a trade association that promotes the sale of annuities. Yet preparing for retirement isn't what "(I Can't Get No) Satisfaction" is all about.

Perhaps none of this should be surprising. The Stones started performing in the summer of 1962, and all four current members are over 70. They are not really immortal, and neither am I (or so I'm told).

And yet, as a Stones fan since the 1960s, I never expected to see this phrase: "You can get what you need, when you have an annuity."

SEC Lawsuit is Sinking Kik's Business | Decrypt

Kik, the Canada based messaging startup behind Kin, is embroiled in a lawsuit with the Commission over its $100 million token sale in 2017. The SEC says it was an unregistered security offering, and demands the company give all the money back, with interest.

Kik says it has a case, and is taking on the SEC in a federal court in New York–most projects have quietly caved in and settled out of court. If it can prove its case and win, it'd be a watershed moment, giving a ray of hope–and a legal precedent–to all the other ICOs in the SEC's backlog. If it loses, that could spell the end for Kik, and probably others.

PRIVATE FUNDS

Platforms Aim to Take Private Equity Giants to the Masses | Private Equity News

The idea is radical. Private equity has always been the preserve of the super-rich. But Truffle Invest is just one of several similar platforms with grand plans of "democratising" alternative investments. With yield on traditional investments hard to come by, these new platforms offer ordinary investors the chance to tap higher returns. But not everyone is buying into this bright new future.

"My opinion is that it is an extremely bad idea," said Ludovic Phalippou, professor of financial economics at Saïd Business School, University of Oxford.

Many large, sophisticated institutional investors already struggle to understand alternatives, he said. "Imagine bringing this [world] to smaller investors."

[Hedge Fund, IPI Chief Sue Pritzker to Void $14 Billion of State Debt](#) | Crain's Chicago Business
A hedge fund run by a protege of Appaloosa Management's David Tepper and the chief executive officer of a conservative think tank sued Illinois Governor J.B. Pritzker, saying $14.3 billion of bonds should be invalidated because their issuance violated the state constitution.

Warlander Asset Management, a New York-based hedge fund formed by Eric Cole, and John Tillman, the CEO of the Illinois Policy Institute, said the state's record pension bond sale in 2003 and debt issued in 2017 to pay a backlog of unpaid bills were deficit financings prohibited by the constitution. The lawsuit was filed Monday in Sangamon County circuit court.

Why Healthcare Execs Should Prepare for Private Equity to Come Knocking | Becker's Hospital Review
Private equity's investments in the healthcare sector have become increasingly frequent and diversified in recent years — a trend that is likely to continue.

There were more than 700 private equity deals in the healthcare industry in 2018, and the industry continued to draw private equity investors in the first half of this year. Healthcare is an attractive industry for private equity investment, and the pace of PE deals in the sector isn't likely to slow down in the second half of 2019, according to Haley Beck, vice president of investing at Alpine Investors.

Why the Flight to the Hospital is More Costly Than Ever | Washington Post
The cost of a medical ride in a helicopter or airplane climbed about 60 percent from 2012 to 2016, to a median of $39,000, according to a study of federal data released Monday. The list charges rose to as much as 10 times what Medicare pays for the service, despite a surge of air ambulance carriers entering the market, the study said.

Because many air ambulance companies are not part of insurance networks, patients often get hit with the huge bills, according to the findings by Johns Hopkins University researchers, whose study was published in the journal Health Affairs.

There are virtually no cost controls in the system, Anderson added. Even though the number of air ambulance carriers is on the rise, most local markets are still limited to a single carrier without competition, he said.

Helicopters with advanced medical equipment airlift people from the scene of accidents or move them from smaller hospitals to larger medical centers with more advanced surgical capabilities and burn units. The business has grown exponentially over the past two decades, with private-equity investment ownership of large national chains.

Market concentration is another hallmark of the explosion in use and costs. The Government Accountability Office, a federal watchdog agency, said in 2017 that just three private companies were flying 692 of the industry's 1,045 helicopters in 2015.

Private-Equity Backed Air Ambulances Leave Behind Massive Bills | Bloomberg
Favorable treatment under federal law means air-ambulance companies, unlike their counterparts on the ground, have few restrictions on what they can charge for their services. Through a quirk of the 1978 Airline Deregulation Act, air-ambulance operators are considered air carriers—similar to Delta Air Lines or American Airlines—and states have no power to put in place their own curbs.

Prices for emergency medical flights have increased dramatically, as air-ambulance operators expanded their networks and responded to a wider set of emergencies, including traumas, strokes and heart attacks.

Wealthy investors lured by the industry's rapid growth have acquired many of the biggest air-ambulance operators, leaving control of the business in the hands of private-equity groups. American Securities LLC bought Air Methods for $2.5 billion in March 2017. Rival Air Medical Group Holdings, which includes Air Evac and several other brands, has been owned by New York private-equity firm KKR & Co. LP since 2015. Two-thirds of medical helicopters operating in 2015 belonged to three for-profit providers, the GAO said in its report.

Private Equity Returns Are Being 'Distorted' by Loans, Research Finds | Institutional Investor
Taking out a loan instead of taking money from investors increases a private equity fund's internal rate of return by 6.1 percentage points — but that performance boost is just a "distortion," according to a new paper from professors at Carnegie Mellon's Tepper School of Business.

In their paper — "Distorting Private Equity Performance: The Rise of Fund Debt" — the professors, James Albertus and Matthew Denes, attempt to quantify the effects of subscription credit lines, a form of debt financing that is increasingly being used by private equity managers seeking to put off calling capital from their investors.

Using data from Burgiss, an analytics provider for private capital investors, the two assistant finance professors calculated how a private equity fund's IRR would change if it had called capital from investors rather taking out a subscription line of credit. They found that the use of these loans resulted in a "substantial" increase in IRR, with the effect amplified for younger funds.

MORTGAGES AND HOUSING

Letter to Regulators: Coalition Letter on IRS Opportunity Zone Rules

Housing Is Providing Another In A Line Of Troubling Signs Pointing To An Economic Downturn | CNBC

A Federal Reserve economist says the current housing backdrop is similar to recent economic slumps, with several metrics “consistent with the possibility of a late 2019 or early 2020 recession.”

“Data on single-family home sales through May 2019 confirm that housing markets in all regions of the country are weakening,” the St. Louis Fed’s William R. Emmons said in a report posted on the central bank district’s site. “The severity of the housing downturn appears comparable across regions—in all cases, it’s much less severe than the experience leading to the Great Recession but similar to the periods before the 1990-91 and 2001 recessions.”

Democrats Angered by HUD’s Hiring of Trump Aide Who Quit After Racist Posts | New York Times
Senate Democrats are calling for Housing Secretary Ben Carson to justify his hiring of a former Consumer Financial Protection Bureau official who resigned this year after the disclosure of racially provocative comments he made spanning more than a decade.

Last month, White House officials placed Eric Blankenstein, a former policy supervisor at the bureau who had been responsible for enforcing the country’s fair lending laws, in a relatively low-profile position in the general counsel’s office at the Department of Housing and Urban Development. He was to work on issues related to Ginnie Mae, a government corporation that guarantees mortgage-backed securities.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Watch: 2020 Democrats Answer Questions At National Education Association Forum | PBS

Democratic Candidate Pete Buttigieg Calls For National Service Plan That Offers Student Debt Relief | CNBC
Democratic presidential candidate Pete Buttigieg on Wednesday proposed a plan to dramatically expand service opportunities for America’s young adults while offering them financial incentives such as debt relief.

“A New Call to Service” aims to create a network of 1 million national service members by 2026, Politico and other outlets reported.

Buttigieg, who will introduce the plan today in Iowa, said it was prompted by his own service in the U.S. Navy Reserve, which taught him valuable skills such as how to engage with people of differing views.

Beto O’Rourke Pushes Student Loan Forgiveness For Public School Teachers | CNBC

Presidential candidate Beto O'Rourke announced a plan to forgive 100% of student loan debt for all public school teachers, as part of a far-reaching plan for massive investment in public education.

O'Rourke, a Democrat from Texas, said Friday that debt forgiveness would be a way to recognize teachers' dedication to their students and allow them to concentrate fully on their work with their students.

"Those educators struggling under these conditions, providing that kind of wraparound care for every child entrusted within their care, I want to make sure they can focus on that job, that child in front of them and not have to work a second or third job, as so many do," he said at a candidate forum organized by the National Education Association.

What Free College Really Means | New York Times (E. Tammy Kim)
We will likely hear a lot of back and forth over the policy details during the Democratic primary race. Would the Sanders and Warren plans reach the neediest students? Wouldn't debt forgiveness disproportionately help the middle class? Yet such criticisms, while well-intentioned, miss the emotional core of free college. The point, the red-hot sell, is that some things, like education, should be had by all — on equal terms. The debate over student debt is ultimately about our nation's indefensible inequality.

Bankruptcy: An Option For Student Loan Debt? | The Final Call
Prior to 1976, federal and private student loans were dischargeable through bankruptcy, today, however, federal legislation prevents it. About 11 percent of student loan debt was in default or seriously delinquent at the end of 2018, according to the New York Fed.

All that may change with Senator Dick Durbin's (D-IL) bill, the Student Borrower Bankruptcy Relief Act of 2019.

"Filing for bankruptcy should be a last resort, but for those student borrowers who have no realistic path to pay back their crushing student loan debt, it should be available as an option to help them get back on their feet," he said. "Our nation faces a student debt crisis, and it's time to restore the meaningful availability of bankruptcy relief to student loan borrowers."

The Student Borrower Bankruptcy Relief Act of 2019 is supported by the Americans for Financial Reform, the Center for Responsible Lending, Consumer Federation of America, Consumer Reports, the National Association of Consumer Advocates, the National Association of Consumer Bankruptcy Attorneys, and more.

Will Income-Share Agreements Be the Next Payday Loans? | The American Prospect
This week, Indiana's Uniform Consumer Credit Code will be amended to exempt state higher-education institutions from having to comply with key consumer protections. The change is so subtle that it has not drawn much attention, but it has huge implications for Indiana students who sign up for "income-share agreements" (ISAs). These contracts commit a student to pledging a proportion of future income in exchange for money to pay for college. Schools like

Purdue University, and the private lenders and investors that it partners with, will no longer be required to comply with many of the rules that apply to other lenders in Indiana.

They are using a familiar playbook: Just like payday loans, auto title loans, and other “alternative debt products” unveiled before them, ISA lenders are creating debt instruments and then convincing policymakers to roll back the rules that keep consumers safe from exploitation, based on immaterial or specious distinctions between their product and traditional loans. Lawmakers should heed the mistakes made in other areas of predatory lending before rushing to replace existing consumer laws covering ISAs with industry-friendly rules.

Sanders is Right: Republican Tax Cuts Cost More Than Forgiving Student Debt | The Guardian
A 2016 plan for free college tuition didn’t go far enough for Bernie Sanders. In this election cycle, the candidate for the Democratic presidential nomination is promising to forgive all outstanding student loan debt.

Although Congress has the legal power to write off such debts, voters might be skeptical about the government’s financial power to do so.

A counter-argument put forward by politicians like Sanders and the New York representative Alexandria Ocasio-Cortez is that Republican tax cuts have cost the government more money than would student loan forgiveness.

These claims are correct.

12 Years After Starting College, White Men Have Paid Off 44% of Their Student Loans, While Black Women Owe 13% More | MarketWatch
Twelve years after entering college, white men have paid off 44% of their student-loan balance on average, according to an analysis released this month by Demos, a left-leaning think tank. For white women, that share drops to 28%. For black borrowers, the picture is even bleaker. Black women see their loan balances actually grow 13% on average, 12 years after leaving school, while black men see their balances grow 11%.

The age at which students enter college also plays a role in their ability to pay off debt. Students who start college at age 20 or older have paid off just 5% of their debt on average, at minimum, 12 years after leaving school. Students who enter school at age 18 or 19 have typically paid off more than one-quarter of their debt 12 years after leaving college, the report found.

JPMorgan CEO Jamie Dimon: Student Loans Are "Irrational" | Forbes
In an interview with Yahoo Finance, Dimon, one of the most well-regarded leaders on Wall Street, criticized the current state of student lending and said the U.S. government "irresponsibly" issued $1 trillion of student loans since assuming control of federal student loans in 2010. He also called out colleges and universities, who Dimon said should take more responsibility for student loans that their students borrow. Dimon said that colleges and

universities should "make good loans that people need to get them to where they're going and get them good jobs at the end."

Student-Loan Servicer Can't Use Federal Law to Avoid Lawsuit Over Alleged Bad Advice | MarketWatch
A federal appellate court has revived an Illinois woman's case that claimed her student-loan servicer actively gave her bad advice on the best way to pay off her debt.

That's not only a win for the borrower — who's coping with student-loan debts like millions of other Americans — it's also possibly the highest court yet to rule on when federal law does and doesn't override state consumer-protection laws in student-loan litigation, experts say.

Your Student Loan Servicers — Navient, Nelnet, and Fedloan — Pay Big Bucks to CEOs and Lobbyists | Philadelphia Inquirer
There's big money in America's $1.5 trillion in student loans — and a lot of it doesn't go just to students.

Much like Wall Street, the student loan financing industry is an interlocking web of well-paid CEOs and lobbyists who move easily among the U.S. Department of Education, student loan servicing firms, and the halls of Congress.

Got Student Loan Debt? Court Ruling Offers A Lifeline | Chicago Tribune (Lisa Madigan and Daniel Zibel)
The decision in Nelson v. Great Lakes would be easy to overlook — how often have you wondered whether section 1098g of Title 20 of the U.S. Code preempts state consumer protection statutes? Yet what the 7th U.S. Circuit Court of Appeals has done is throw a lifeline to the 44 million student loan borrowers who send a chunk of their paycheck to their loan servicers every month — including the growing number who can't afford to send a payment at all. At issue in this case was whether federal law prevents a borrower, represented on appeal by the National Student Legal Defense Network, from using state consumer protection laws to recover from a servicer that provides false, deceptive or misleading information about loan repayment options.

Loan servicers play an important role in the lending system, collecting monthly payments and handling borrower issues as they arise. But in recent years the servicers hired by the U.S. Department of Education have been focusing on the former and ignoring the latter. Most notoriously, one loan servicer reportedly instituted a seven-minute rule that required call center workers to handle all calls in a set time, even if that meant misleading borrowers and putting them into inappropriate payment plans that were quickly set up over the phone.

California Wipes Out $8.6m In Student Debt – And Helps Poor Patients Get Access To Doctors | Sacramento Bee

The state of California will be paying off $58.6 million in student loans this year for 247 physicians who, in exchange, committed to serve a greater percentage of the state's poorest and frailest residents: those covered by Medi-Cal.

"By removing the burden of student loan debt, this program will encourage more providers to make different choices when entering the health care market and be able to provide care for the Medi-Cal population," said Jennifer Kent, director of the Department of Health Care Services, the agency administering the loan repayment program.

Those who accept the awards agree to ensure that Medi-Cal patients represent 30 percent of their caseload for five years. That proportion of Medi-Cal patients would be something of a gold standard, according to research by Janet Coffman, a professor in the Philip R. Lee Institute for Health Policy Studies at the University of California, San Francisco.

Sens. Isakson, Reed Introduce Bill To Wipe Out Student Debt For Disabled Veterans | Financial Regulation News
Legislation that would wipe out outstanding student loan debt for veterans who were permanently disabled in service was introduced in the U.S. Senate.

Currently, veterans who are deemed "totally and permanently" disabled by the U.S. Department of Veterans Affairs (VA) are eligible to have their student loan debt canceled. However, many veterans who qualify for this relief are not receiving it and may not even be aware of it. In 2018, the VA provided data to the Department of Education on veterans who would qualify, and then the Department of Education would alert eligible veterans of the debt relief.

DOE Makes It Easier for Predatory For-Profit Coding Schools to Dupe Students | Dice Insights
Department of Education (DOE) Secretary Betsy DeVos is making a critical rule change that will allow for-profit schools and career certification providers to prey on unwitting students. It could also mean the proliferation of even more suspect coding schools.

The "Gainful Employment" (GE) rule is a critical one. It requires for-profit colleges to make debt-to-earnings ratios available to students or potential students. This per-program ratio displays students' earning potential so they could better understand their earnings and debt carried after graduation. (It was also a mandatory disclosure for schools that wanted federal funding.)

SYSTEMIC RISK

Banks are Passing Their Stress Tests with Flying Colors. Uh Oh. | The Week

The latest round of tests concluded last week, and virtually all the big Wall Street players passed with flying colors. The Fed had some reservations about Credit Suisse, but otherwise the 18 biggest banks had enough capital on hand to weather a crisis.

Can we all breathe a sigh of relief that America's financial system rests on a firm foundation? Unfortunately, maybe not. Over the less few years, policymakers have toned down the "stress" part of the stress tests.

Part of the problem is just the practical challenge of simulating an economic crisis. As Mark Whitehouse pointed out, it's never just the unexpected shock — the burst housing bubble or stock collapse — that's the problem, it's all the cascade effects that have to be accounted for in the model too. It's an open question whether the stress tests were ever robust enough to really test Wall Street's resilience.

But even if they were at first, they might not be now.

America's Banks Sail Through the Fed's Annual Stress Tests | The Economist
On June 21st the Fed announced that America's banks passed this year's tests with flying colours. That paves the way for bumper payouts to shareholders. The four largest retail banks, JPMorgan Chase, Bank of America, Wells Fargo and Citigroup, plus the two biggest investment banks, Goldman Sachs and Morgan Stanley, purchased $93.1bn-worth of their own stock in 2018. That will rise to $117.9bn in 2019. Most banks have also raised their planned distribution of dividends by more than 10%. On June 27th the Fed approved these capital plans for America's 18 largest banks (though their approval for Credit Suisse is conditional on the bank addressing what the regulator regarded as weaknesses in its plans for share repurchases and dividends).

But there are fears that the Fed made the tests easier in other ways. A smaller cohort of banks—just the very biggest—was tested this year, following a roll-back of Dodd-Frank passed by Congress in 2018 which meant smaller banks need not be tested every year. And banks were also given more information about how the test would be conducted. In previous years they had received details only about the catastrophic scenarios, not about the models the Fed would use to test them. Banks had complained that this made their task akin to trying to hit a moving target in the dark.

Lending To Nonbank Lenders Is Growing — Maybe Too Much | American Banker
Amid warnings that the next financial crisis could be caused by rising levels of corporate debt, banking regulators have taken some comfort in the fact that the riskiest corporate loans are being made not by banks, but by private equity firms, hedge funds and other nonbank lenders.

Yet banks could still be on the hook if the economy sours and those loans to already highly leveraged firms start to default. The reason: Many of those nonbank lenders are getting their funding from regulated banks that then keep the loans on their balance sheets.

In just the last two years, bank loans to nondepository financial institutions have increased by 23%, to $850 billion at March 31, according to data compiled by FedFis. By comparison, total commercial loans on banks' books have climbed 16% in that same time frame while residential mortgages have risen 10%.

The question is, how great of a risk do those loans to nonbanks pose to banks?

ELECTIONS, MONEY, AND POLITICS

Rep. Gottheimer Asks Regulators to Deregulate Banks He's Invested In | Sludge
Gottheimer and his colleagues argue that inter-affiliate swaps do not raise systemic risk concerns because "they do not create additional counterparty exposure outside of the corporate group and do not increase interconnectedness between third parties."

Some consumer advocates, however, disagree. "Loosening this regulation is a straight-up giveaway to the biggest Wall Street banks whose high-risk trading activities got us all into deep trouble in 2008," Carter Dougherty, a spokesperson for Americans for Financial Reform, told Sludge. "This rule is critical for protecting bank affiliates that handle customer deposits."

Why a Warren Win Worries Wall Street… And Wealth Managers | Financial Advisor IQ
Pedestrians taking the shortest route need only 17 minutes to walk from Wall Street to Warren Street in Lower Manhattan. But the ideological divide between those two locations stretched light years last week when campaign workers for Democratic presidential hopeful U.S. Senator Elizabeth Warren occupied a bar on Warren Street for a debate watch party.

"She is the one candidate that Wall Street most fears. If she is the candidate, there will be WWIII between Trump and the securities industry and her," predicts Andrew Stoltmann, a Chicago-based plaintiff lawyer and a director and past president of the Public Investors Arbitration Bar Association.

Warren Starts Winning Begrudging Respect On Wall Street | Bloomberg
There's a new whisper on Wall Street—maybe Elizabeth Warren isn't so bad.

The Democratic senator, who rose to national prominence by calling for tough regulation after the financial crisis, is winning respect from a small but growing circle of senior bankers and hedge fund managers. As the presidential candidate from Massachusetts takes aim at the "rich and powerful" with a slew of tax-raising policy proposals, some financial types who fit that description say she's proven capable and makes some good points.

"If she ends up being the nominee, I'd have no trouble supporting her at all," said David Schamis, chief investment officer of Atlas Merchant Capital, where he's a founding partner alongside former Barclays Plc head Bob Diamond. While Warren isn't Schamis's top choice, he said: “I think she is smart, hardworking, responsible and thoughtful. And I think she thinks markets are important.”

OTHER TOPICS

[Are the States up to the Task of Regulating Facebook?](#) | American Banker
Facebook’s plan to launch a cryptocurrency has raised concerns that state banking regulators may not have sophisticated enough tools to oversee large, international companies.

States are the primary regulators of technology firms, at least when it comes to payments. Facebook, Google, Apple and Amazon each have money transmitter licenses in more than 40 states and the District of Columbia.

Yet it's not clear the states have the resources to oversee those firms, which represent a tiny fraction of the total companies the states are expected to supervise and examine. At the moment, states also don't seem to have an easy way to share information with each other about what they do find. Though state examiners currently conduct from 20,000 to 30,000 examinations of nonbanks every year, there is no nationwide system to share examination findings of nonbanks.

Congress Demands Facebook Halt Work on the Libra Cryptocurrency | CNN Markets
In a letter published on July 2, Maxine Waters and other Democrats on the House Financial Services Committee ordered Facebook to halt the release of Libra until Congress can hold public hearings to assess the risks – and benefits – of the cryptocurrency.

Non-profit organizations ranging from Americans for Financial Reform to Public Citizen and Consumer Reports had called for a moratorium on Facebook’s Libra in a Citizen.org petition, arguing that the government must determine whether Libra is “too dangerous” to be released into the wild.

Coalition Calls On Congress To Torpedo Facebook Currency | WND
A coalition of grass-roots, public-interest groups is urging Congress to end Facebook’s newest plan, a digital currency called Libra.

Or at least put it on hold.

In a letter this week, the groups say Facebook’s new cryptocurrency raises “profound questions about national sovereignty, corporate power, consumer protection, competition policy, monetary policy, privacy and more.”

The signers are American Family Voices, Americans for Financial Reform, Center for Digital Democracy, Center for International Policy, Consumer Action, Consumer Federation of America, Consumer Reports, Courage Campaign, Demand Progress Education Fund, Demos, Digital Intelligence Lab, Economic Policy Institute, Economic Strategy Institute, EPIC, Friends of the

Earth-US, Global Witness, Institute for Agriculture and Trade Policy, Institute for Local Self-Reliance, Lake Research, Media Alliance, National Association of Consumer Advocates, National Consumer Law Center, Network for Environmental & Economic Responsibility, Oakland Privacy, Open MIC, Public Citizen, Revolving Door, RootsAction, SEIU, SumOfUs, Open Markets, U.S. PIRG and Woodstock Institute.

Advocates Urge Lawmakers to Block Facebook's Digital Currency | Politico
"A coalition of Wall Street watchdogs, consumer advocates and privacy groups is putting new pressure on Congress and financial regulators to impose a moratorium on Facebook's upcoming Libra digital currency," POLITICO's Zachary Warmbrodt reports. "In a letter to top lawmakers and several agencies, 33 groups said policymakers should force the social media giant to pause the project until 'profound questions' are addressed."

— "'All of us believe the risks posed by Facebook's proposal are too great to allow the plan to proceed with so many unanswered questions,' they said. Organizations that signed the letter include Public Citizen, Americans for Financial Reform, Consumer Reports, the Economic Policy Institute, Global Witness and the Open Markets Institute."

Inside the Congressional Staff Meeting About Libra | The American Prospect
Facebook said that they assumed the FTC (Federal Trade Commission) or the CFPB (Consumer Financial Protection Bureau) would regulate Libra. Questions were asked about what basket of currency would be used and other practicalities, and the answers were fairly vague. Gemini, another cryptocurrency, was referred to as a "regulated exchange" because I guess there are 43 states that have some form of protections on it (with the implication being that that is adequate).

We were assured that even if a Libra user used WhatsApp or Messenger, WhatsApp/Facebook would not access specific information about their transactions beyond that they were interested in or using Libra. That would of course be enough information to know a lot more about users.

Ultimately we need more than a briefing. Currency backed by reserves is coinage. Because Facebook is proposing to take over a role traditionally under the purview of central banks, not private companies, we should expect the skepticism we heard in the room from staffers to be publicly aired by House Financial Services Committee members on July 17.

The Single Most Reliable Recession Indicator of the Past 50 Years Has Officially Started Blaring | Slate
As of this week, the U.S. Treasury yield curve has now been inverted for a full quarter—an incredibly dull-sounding turn of events that happens to be an unusually reliable warning sign that an economic downturn is on the way. The yield curve has flipped prior to each of the last seven official recessions over the past 50 years, without a single false-alarm during that stretch. If securities could talk, in other words, they'd be screaming bloody murder about trouble ahead.

When finance types say that the yield curve is "inverted," what they really mean is that the typical order of the debt markets that prevails when the economy is healthy has been turned on its head. Usually, long-term U.S. government bonds offer higher yields than short-term ones, because buyers demand higher interest rates in return for locking up their money for greater periods of time. There are a few reasons why this is the case, but a big one is that the longer it takes to get repaid, the more risk there is that inflation will eat up your investment.

When the yield curve is inverted, however, the opposite becomes true: The returns on long-term bonds dip below returns on short-term ones. Again, there are many reasons that this could happen, but it's generally interpreted as a sign that the market expects weak or nonexistent growth in the coming years, and very little inflation.

Watch: Research From The Center For Household Financial Stability At The St. Louis Fed Shows That Age, Race And Education Mark An Economic Divide In The U.S. | St. Louis Fed
Oren Cass, author of "The Once and Future Worker," headlined a Center event at the St. Louis Fed that also featured Center Lead Economist William Emmons. A key question that Cass, Emmons and a panel of local leaders addressed was, "How is it that so many people are struggling financially despite a growing economy?" Cass focused on what he said is a flawed educational system that prioritizes the one-fifth of Americans on the traditional track of high school to college to career—at the expense of nearly all other workers.

Listen: Taking Stock Of The June Jobs Numbers | NPR
According to the Labor Department, employers added 224,000 jobs in June, despite a disappointing May. The strong job market could reduce pressure on the Federal Reserve to cut interest rates.

The Latest Jobs Report Is Great News For Wall Street. Not So Much For Workers. | Vox
Hiring picked up in June with 224,000 new jobs added to the US economy — a remarkable jump after several months of slowing job growth, according to the latest jobs report from the Bureau of Labor Statistics.

Yet all this good news doesn't mean much to middle- and working-class families: Workers only got an average hourly pay raise of 6 cents in June, even less than they got in May. Job security is the only benefit employees can count on these days.

Low unemployment and high job creation means that nearly every American who wants to work and is able to has snagged a job by now. And those who lose their jobs, or decide to leave, probably won't have a hard time finding another position.

But millions of Americans are working part-time jobs when they would rather get full-time gigs, or at least work more hours. The number of people in that group has been mostly shrinking but still added up to 4.3 million workers in May.

Of Course Trump's New Fed Nominee Thinks Trump Is An Economic Genius | Vanity Fair
Earlier this year, Donald Trump's Fed Board nominees crashed and burned when it turned out that, in addition to being economically illiterate, they had résumés that included hawking

worthless penny stocks and writing misogynistic, racist, and generally disturbing op-eds. And while some people's takeaway from that experience might have been to pick a nominee whose views don't indicate they might try to destroy the Fed from the inside, that's obviously not how Donald Trump rolls. Instead he's tweeted his intention to recommend one Judy Shelton to the Fed Board.

What does the president like about Shelton? Well, first and foremost, she's offered regular praise for his economic policies, cheering his $1.5 trillion tax cut, two-for-one deregulatory approach, and trade war with China. That counts for a lot. Second, she has called for the Fed to lower interest rates to nearly 0%, which Trump has unsuccessfully tried to bully current Fed chair Jerome Powell into doing for over a year now. Third, she's called the Fed the "biggest risk" to the economy, and said things like, "How can a dozen, slightly less than a dozen, people meeting eight times a year, decide what the cost of capital should be versus some kind of organically, market-supply determined rate? The Fed is not omniscient. They don't know what the right rate should be. How could anyone?" She also favors a return to the gold standard and loves herself some for-profit Trump Organization properties.

Investigation Makes a Case in Press for Gender Bias at Wells Fargo | Financial Advisor IQ
Male brokers with negative marks on their record cost Wells Fargo Advisors far more than female brokers with disclosures — yet men are less likely to leave the firm, suggest the authors of an investigation by online publication, the Intercept.

Of the 25 largest settlements involving a Wells Fargo broker from 2005 to 2015, just one involves a woman, according to the website.

The largest 25 settlements involving female Wells Fargo brokers totaled $7 million, with three of the women eventually being terminated, the Intercept, which brands its style of journalism as "adversarial," writes.

The largest 25 settlements involving male brokers, meanwhile, totaled $73.1 million — with none of them getting fired, according to the website.

U.K. Regulators Approve a Crypto Hedge Fund for First Time | Bloomberg
Prime Factor Capital Ltd., a London-based hedge fund manager set up by former employees of BlackRock Inc. and RWE AG, became the first investment firm focused on cryptocurrencies to win the stamp of approval from U.K. regulators.

The company said in a July 1 statement it will be regulated as a full-scope alternative investment fund manager under European Union rules. That will allow the firm to manage more than 100 million euros ($113 million) in assets and target institutional investors, the company said.

The $300 billion market for cryptocurrencies is largely unregulated and digital assets have been used for all manner of illicit activities, from financing terrorism to buying drugs online. That has deterred regulated financial firms from entering the market.