This Week in Wall Street Reform | July 7 - 13

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CONSUMER FINANCE AND THE CFPB

Financial Watchdog Shifts From Enforcer to Educator | Wall Street Journal
A federal regulator set up after the financial crisis to be a watchdog over the financial industry is shifting its mission from enforcement to consumer education.

Under the leadership of Kathy Kraninger, a Trump appointee who took over the agency seven months ago, the Consumer Financial Protection Bureau has increased its focus on financial literacy. The CFPB continues to boost spending on consumer education and engagement this year, after raising such spending by 76% during the fiscal year ended Sept. 30, 2018, to $77.8 million, nearly twice the level from two years earlier when Obama officials still ran the bureau.

The shift was apparent when the CFPB showcased its work under Ms. Kraninger in June, leading with a program it created to help consumers build emergency savings called "Start Small, Save Up." The CFPB also plans to roll out soon a saving "boot camp," a series of videos and booklets to teach consumers how to save, CFPB officials said.

CFPB Likened to Predator-Protection Agency Under Kraninger's Watch | International Financial Law Review
After six months in the role, the new director of the Consumer Finance Protection Bureau (CFPB) has made it abundantly clear that she does not intend to run the agency the way it was originally intended in the Dodd-Frank Act. Following in the footsteps of Trump-appointed acting director Mick Mulvaney, newly appointed director Kathleen Kraninger's first actions have shown that consumer protection is far from the priority under the new regime.

Although avoiding the inflammatory political rhetoric of her predecessor, on the enforcement side there has been a dramatic drop in action. Action that have been taken have also had very minor repercussions.

New York's Top Financial Regulator Wants to Protect Consumers | Wall Street Journal
New York's new financial services regulator said her focus will be on ensuring data privacy and consumer protection as she takes the reins of an eight-year-old agency.

Linda Lacewell, 55 years old, said in an interview that the New York State Department of Financial Services would step up to police everything from financial marketing to online lending, especially as the federal Consumer Financial Protection Bureau has moved from oversight to education.

"Where CFPB steps down, DFS has to step up," said Ms. Lacewell, who was formally confirmed to her post by the state Senate on June 20. New York Gov. Andrew Cuomo nominated her for the job in January, and she began meeting with regulated companies soon after.

Banks Say Many Will Nix Remittances Without CFPB Action by 2020 | Bloomberg Law
Some banks are warning they may stop offering international money transfers if the CFPB tightens requirements on consumer cost disclosures.

An exemption from the Consumer Financial Protection Bureau's 2012 international money transfer rule allows financial institutions to provide consumers with estimates—rather than exact costs—of the fees, exchange rates, and amounts that recipients will receive for each transaction. But it's set to expire next year.

Banks Take A Pass On Rollback Of Overdraft Rule | American Banker
Banking industry groups appear for the most part to be passing on an opportunity to water down a 10-year-old consumer protection rule meant to restrict overdraft fees.

The Consumer Financial Protection Bureau said in May it was taking a fresh look at requirements that bank customers opt in to overdraft protection before they are charged for ATM or debit transactions that draw their accounts negative. The agency became the rule's enforcer in 2011, two years after the Federal Reserve issued it.

CFPB officials said they were looking at whether the rule “should be amended or rescinded,” which seemed like an open invitation for banks to attack the rule and perhaps bolster fee income.

But after an initial comment period expired this month, key trade groups find themselves in rare alignment with consumer advocates in their requests to leave the rule largely intact.

“There is ample evidence that in the ten years that the rule has been in effect, it has worked as intended to promote informed consumer choice about overdraft services,” Jonathan Thessin, senior counsel for the American Bankers Association, wrote in a letter to the CFPB. “Consequently, the rule should not be amended.”

US Consumer Debt Jumped to Nearly $4.1 Trillion in May | Business Insider
Americans borrowed money at a solid pace in May, a sign that consumers have remained optimistic about the economy despite expectations for growth to cool.

The Federal Reserve said Monday that consumer credit, which measures outstanding nonmortgage debt, climbed about 5% to nearly $4.1 trillion in May. The pace was slightly slower than a 5.2% increase in the previous month.

The healthy uptick in credit levels can reflect upbeat outlooks for the economy and for consumer spending, which accounts for more than two-thirds of business activity. Retail sales rose for a third straight month in May, even as economists dimmed their outlooks for growth in the US and elsewhere.

Payday Loan Alternative Moves Forward In California | American Banker
A bill to regulate companies that provide early access to workers’ unpaid wages passed a California Assembly committee this week by a wide margin. That should be a good sign for proponents, right?

Well, not exactly. The debate that preceded the vote highlights the questions that still surround the bill, and alternatives to payday loans in general.

If enacted, it would become the nation’s first regulatory framework for firms that charge fees for access to income workers have earned, but not yet received because of time lags in the pay cycle.

Consumer groups and lawmakers want to put some limits and consumer protections around the product. Meanwhile, earned income access startups seek the bill because it would differentiate them from payday lenders.

Profit Potential Murky as Banks Pressed to Displace Payday Loans | Bloomberg Law
When a federal regulator last year nudged banks to start offering small-dollar loans to customers as an alternative to payday lenders, it had one taker.

While divergent regulatory approaches by the Federal Reserve, Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency may have something to do with that, analysts say the bigger issue may be the costs of underwriting, servicing and marketing small loans.

“I think it’s less regulatory and more can we make money,” said Brian Klock, an analyst at Keefe, Bruyette & Woods who covers large regional banks.

So far, only Minneapolis-based U.S. Bank has announced plans to offer small-dollar installment loans since the OCC encouraged such moves in May 2018. The goal, according to Comptroller of the Currency Joseph Otting, was to reshape a regulatory environment that pushed banks out of small-dollar lending and left the field to payday lenders.

Westland Woman Had 350% Interest Rate On $1,200 Loan — And A Loophole Allows It | Detroit Free Press
Super-high interest loans should be illegal and several states have tried to put a stop to them through usury laws that set caps on interest rates, as well as requiring licensing of many operators. The cap on many types of loans, including installment loans, in Michigan is 25%, for example.

Yet critics say that states haven't done enough to eliminate the ludicrous loopholes that make these 300% to 400% loans readily available online at different spots like Plain Green, where Swiger obtained her loan.

News Release: AFR Statement on Financial Services Committee Markup on Credit Reporting

EXECUTIVE COMPENSATION

Private Equity Titans Get Even Richer With Corporate Conversions | Bloomberg Tax
Shares of several U.S. private equity firms have jumped since they announced plans to convert themselves into corporations, making some of the world’s wealthiest people even richer.

Steve Schwarzman’s net worth surged 20% to $16.2 billion since April, when Blackstone Group LP said it would abandon the partnership structure to attract a wider array of investors. Blackstone shares rose to a record of $47.48 on July 3, two days after the conversion was finalized.

Wall Street Chiefs’ Pay Doesn’t Sync With Returns | Wall Street Journal
Wall Street companies delivered significant losses to their shareholders last year, but the pain didn’t spread to the top.

The chiefs of banking and financial institutions in the S&P 500 received a median raise of 8.5% last year, compared with 5.6% for CEOs in the broader index, according to a Wall Street Journal analysis.

Meanwhile, firms in the sector posted a median total shareholder return—or stock-price changes plus dividends—of negative 17% in 2018, while the median return for the index as a whole was negative 5.8%.

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

Reg BI Didn't Need a 'Best Interest' Definition: SEC Chief Clayton | ThinkAdvisor
Securities and Exchange Commission Chairman Jay Clayton on Monday rebuked criticisms that the agency's recently approved Regulation Best Interest for brokers should have defined the term "best interest."

In comments to investors at a Monday roundtable in Boston, Clayton defended Reg BI and argued that the rule is not "deficient" because it fails to define "best interest."

Barbara Roper, director of investor protection for the Consumer Federation of America, called Clayton's comments "straw man arguments."

The consumer group "made clear that we weren't expecting them [the SEC] to identify the single best investment available anywhere in the market, and that often more than one investment would fulfill that obligation," Roper told ThinkAdvisor in an email message on Tuesday. "But we did ask them to clarify that brokers would be required to narrow down the pool of acceptable options beyond what is required under suitability. They refused to do that, leaving us to wonder how the SEC's obligation to make recommendations 'in' the customer's best interest is any different from FINRA's interpretation of suitability as requiring brokers to make recommendations 'consistent with' the investor's best interest."

SEC Chief Defends Rules That Warren Called a Gift to Wall Street | Bloomberg
In a Monday speech, Clayton, a former Wall Street deals lawyer appointed by President Donald Trump, rejected the attacks. He called the objections "false, misleading" and in some cases, "policy preferences disguised as legal critiques."

Speaking from Boston, Clayton ticked through what he said were seven false claims made about the rules. At one point, he dismissed contentions that the regulations lower the so-called fiduciary duty that investment advisers must adhere to.

SEC Head Defends Reg BI, But Only Succeeds In Igniting More Criticism | Investment News

Securities and Exchange Commission Chairman Jay Clayton took on critics of the agency's recently approved investment advice reform package in a lengthy defense Monday, but his remarks didn't calm the fierce debate.

In a speech Monday in Boston at Babson College, Mr. Clayton addressed "criticism and misinformation" about the new advice measures, which passed in the SEC in a 3-1 vote on June 5.

They include Regulation Best Interest, designed to raise the broker standard, an interpretation of the fiduciary standard that will continue to apply to investment advisers, and a client relationship disclosure, Form CRS.

"I believe that much of the criticism — which focused broadly on the extent of the investor protections under Reg BI and our fiduciary interpretation — is false, misleading, misguided, and unfortunately, in some cases, is simply policy preferences disguised as legal critics," Mr. Clayton said.

SEC Chief Slams Democratic Criticisms as False and Misleading | Financial Advisor IQ
In light of prominent Democrats slamming the SEC's new package of rules on broker and investment advisor conduct, the commission's chief is striking back at the critics, according to news reports.

Furthermore, the chairman dismissed claims that the rules would diminish the fiduciary standard currently applied to investment advisors, according to Bloomberg.

"I recognize that some interest groups would have preferred a different approach," Clayton said, according to the publication.

"But, after careful consideration, our approach addresses multiple, interrelated issues in a way that best achieves our goals of enhancing investor protection and decision making, while — again — preserving your access and choice."

Compliance with Reg BI Will Not Satisfy CFP Board's Fiduciary Requirements | Financial Advisor IQ
A trade group for regional financial services firms wants the Certified Financial Planner Board of Standards to refrain from going after CFP-designated professionals who comply with the SEC's recently-implemented overhaul of investment advisor and broker conduct rules, according to news reports. But the head of the CFP Board says that's not going to happen, InvestmentNews writes.

When the SEC voted to approve its Regulation Best Interest in June, the CFP Board took the opportunity to emphasize that "nearly 85,000 CFP professionals will be obligated to provide financial advice under a fiduciary standard," as reported.

But CFP Board chief executive Kevin Keller tells the publication that compliance with Reg BI would not be enough to comply with the CFP's fiduciary requirement.

"CFP standards are higher than the regulatory floor, and that's what makes CFP meaningful," Keller tells InvestmentNews. "That's what makes CFP valuable in the minds of clients and prospective clients of members of the American Securities Association."

SEC's Blass Rebuts Assertion Reg BI Is Tougher Than Fiduciary Standard | Investment News
One of the authors of the package, Dalia Blass, director of the SEC Division of Investment Management, said Wednesday that Regulation Best Interest — designed to raise the broker bar above suitability — has not eclipsed the fiduciary duty investment advisers must continue to meet under the new SEC regulations.

"It is not true to say that the broker-dealer standard is higher than the fiduciary standard," Ms. Blass said at a Securities Industry and Financial Markets Association seminar in Washington.

Some in the brokerage industry, as well as SEC commissioner Hester Peirce, have suggested that Reg BI, as it's known, has sharper teeth than a fiduciary duty because it requires brokers to mitigate conflicts of interest.

But Ms. Blass said investment advisers also must mitigate or eliminate conflicts in the interpretation of the adviser standard that was part of the rule package.

N.Y. State Lawmaker Reviving State-Level Fiduciary Rule Bill | Financial Advisor IQ
A New York state legislator who had previously introduced a bill to impose a state fiduciary duty on financial professionals is drafting a new version of the measure he claims will be stronger than the **SEC**'s recently-approved package of broker and investment advisor standards, according to news reports.

Last year, Assemblyman **Jeffrey Dinowitz**, D-Bronx, introduced a bill requiring advisors to disclose whether they were fiduciaries, but the legislation died in a secondary committee, InvestmentNews wrote at the time.

And apparently Dinowitz, who's chairman of the New York Assembly's Judiciary Committee, isn't satisfied with the SEC's package. He's now working on another bill that would hold financial advisors in New York to the fiduciary standard, and hopes to introduce it when the next legislative session starts in January, InvestmentNews writes.

PRIVATE FUNDS

Watch: Presidential Candidate Julian Castro Quizzed About Need To Hold Private Equity Firms Accountable At Netroots Nation | United for Respect

[Charming Charlie Is Closing All Of Its Stores](#) | CNN
Charming Charlie has fallen victim to the [ongoing retail apocalypse.](#)

The women's fashion accessory retailer has filed for bankruptcy for the second time in two years and announced Thursday it will close all of its stores.

Charming Charlie has more than 260 stores in 38 states and employs more than 3,300 people. It was founded in 2004.

Liquidation of its stores is expected to last nearly two months. Sales on its website have already stopped.

[Private Equity's Latest Scheme: Closing Urban Hospitals and Selling Off the Real Estate](#) | The American Prospect
On Thursday, thousands of union workers and community members are expected to rally against the decision of private-equity tycoon Joel Freedman to close Philadelphia's 171-year-old Hahnemann University Hospital. Workers and community members are accusing Freedman of closing a vital medical center for the poor in order to sell the prime real estate to build luxury condos and hotels.

The closure of the hospital means that more than 2,500 union workers will be thrown out of work and tens of thousands of mostly poor Philadelphians, who rely on the hospital for primary care, will see their lives upturned as they search for other options. Nearly half of the residents who use Hahnemann are on Medicaid and [two-thirds are black and Latino](#), according to The Philadelphia Inquirer.

"This is nothing short of a public-health emergency. People will get hurt, and they will die as a direct result of this one man's action," says Dylan Toolajian, an oncology nurse and a union member of the Pennsylvania Association of Staff Nurses and Allied Professionals (PASNAP).

[Connecting An Australian Private Equity Buyout To Swansea University](#) | Financial Times
Earlier this year, a consortium of buyers took an Australian company private in a multi-billion-dollar deal. The move wasn't a play on commodities, real estate or any other of the other lines of business you might associate with the country's economy.

Instead, it was all about education.

Navitas, which was founded in Perth in 1994, was bought for [$1.5bn USD](#) by a consortium which included private equity firm BGH, Australiansuper, the country's largest pension fund, and Rod Jones, its former chief executive.

[Investor Karen Firestone: How Vanguard Could Potentially Shake Up This Closed Market](#) | CNBC
Vanguard, the non-profit financial giant that single-handedly revolutionized the investment management world, [reportedly wants to join](#) the private equity party train. Is this another market that it intends to overhaul by passively managing and micro-pricing index fund offerings to the

masses, or is Vanguard worried about missing a possibly overheated market that its clients find sexier than public equity?

Vanguard has watched as its primary market for publicly traded US companies has shrunk from a high of 7,500 at the end of 1995 to around 4,400 at year-end 2018. Although the total public market value has grown considerably through appreciation during this period, the private equity industry has raised $1.6 trillion in funds over the past ten years, with $166.4 billion alone in 2018, according to Pitchbook data.

Two Public Pension Funds 'Wasted $5.5bn On Wall St Fees' | Financial Times
Pennsylvania's two largest public pension funds "have wasted" $5.5bn in fees paid to poorly performing Wall Street investment managers over 10 years, according to a senior elected state official. Taxpayer money paid to Wall Street has come under scrutiny after evidence that many of the largest US pension funds failed to report payments worth billions of dollars to private equity managers.

The claims — involving Pennsylvania's Public School Employees' Retirement System and Pennsylvania State Employees' Retirement System — raise questions about the secrecy surrounding private equity contracts. They also highlight the issue of whether it is appropriate for public pension schemes to employ highly rewarded investment managers. Joe Torsella, Pennsylvania state treasurer, said both funds could have achieved better returns for lower cost if they had followed a simple passive index-tracking strategy instead of employing active fund managers.

"We have paid Wall Street handsomely for mediocre returns," he said. We have paid Wall Street handsomely for mediocre returns. They represent not just a waste of money but also an abuse of the trust of the people Joe Torsella "They represent not just a waste of money but also an abuse of the trust of the people." A review has begun aimed at finding $3bn in cost savings over 30 years. It will also examine investment performance and fees paid. Mr Torsella estimated that Pennsylvania's Public School Employees' Retirement System could have avoided spending $3.9bn in fees if it had followed a simple equity-bond global index strategy. This would also have delivered better returns in seven of the past 10 years. The smaller Pennsylvania State Employees' Retirement System could have saved $1.6bn if it had followed the same strategy. This would have outperformed the pension fund's investment portfolio in six of the past 10 years.

"What has been gained by spending so much on active management and alternatives? The numbers clearly show that one simple low-cost passive strategy would have performed far better and saved a fortune," said Mr Torsella. Both of the funds have agreed to work with a review body, which is expected to present its findings to state lawmakers by the end of the year.

US Hedge Fund Giant To Bid For Four Seasons Care Homes | Sky News

An American hedge fund giant has waded into the auction of Britain's second biggest care home operator, setting up a potential tussle for control with another of the company's major creditors.

Sky News has learnt that Davidson Kempner Capital Management, which manages about $30bn in assets, has indicated plans to table a formal bid for the parent company of Four Seasons Health Care, which collapsed into administration in April.

Davidson Kempner, which acts as landlord to a number of Four Seasons properties, is understood to be serious about its interest in taking over the care home group, which trades from around 250 sites and employs approximately 22,000 people.

It was unclear on Thursday what value any offer from Davidson Kempner would attribute to the business.

The hedge fund declined to comment.

How Hedge Funds Use Drones, Satellite Images And Web Scraping To Gain An Edge | CNN
The biggest bucket of alternative data is scraping publicly available data from the web.

Thinknum is a web platform that allows hedge funds and other investors to comb through online data on hundreds of thousands of public and private companies around the world.

For example, Thinknum tracks vehicle inventory posted online by CarMax and Carvana. That data provides valuable insights into those companies' upcoming earnings as well as demand for vehicles manufactured by major auto makers like Tesla and General Motors.

"You can wait until companies announce earnings and the whole world will know how companies did. Or, you can know two months in advance," said Justin Zhen, co-founder of Thinknum. "The ability to know actionable information in real-time is obviously a huge edge in a very competitive market."

Illinois Dermatology Practice Partners With Private Equity Firm To Expand Clinics | Becker's ASC Review
Peoria, Ill.-based Soderstrom Skin Institute and its management company, MedPro Advantage, have partnered with private equity firm H.I.G. Growth Partners to develop clinics in underserved markets.

The institute has a surgery center and eight clinics in Illinois and Iowa. Edgemont Partners, a healthcare investment bank, served as a financial adviser to MedPro.

MORTGAGES AND HOUSING

Letter to Regulators: Coalition Letter on FHA Single-Family Loan Sale Program

What Does Trump Have Against Fair Lending? | Bloomberg

For more than four decades, U.S. law has required banks to lend fairly and equitably, meaning that they must serve everyone in their communities on equal terms, and can't discriminate on the basis of race or class.

In 1975, Congress created the Home Mortgage Disclosure Act to ensure that U.S. authorities — and the broader public — would have the data needed to ensure that banks were complying with laws on fair lending and community investment. It required institutions that made mortgage loans to report information such as the race of borrowers and the type and amount of loans. The government aggregated the data, providing the most comprehensive available picture of mortgage credit in the U.S.

Yet the subprime-lending boom of the 2000s exposed unacceptable blind spots. After the crisis, Congress and the Consumer Financial Protection Bureau, newly charged with collecting data and enforcing lending laws, sought to shed more light. They added fields that would, for example, allow researchers to better understand the reasons behind denials and to identify loans with risky features such as special introductory rates or the option to pay interest only. In large part, they asked for information that lenders should be collecting for their own purposes.

Now, though, this progress is being reversed. It started last year, when Congress freed banks that make fewer than 500 loans a year from all the new reporting requirements. The change affects the majority of U.S. lenders, which tend to be small operations. And while it doesn't apply to the larger banks that account for most credit, it severely curtails the information available on certain kinds of lending, particularly in poor and rural areas. By one estimate, for example, it excludes about 16% of all loans of less than $100,000.

In Reversal, FHFA Defends Constitutionality Of Its Leadership Structure | National Mortgage Review

Similar to claims about the Consumer Financial Protection Bureau's structure, investors in the mortgage giants Fannie Mae and Freddie Mac have argued the FHFA violates the separation of powers because its single-director structure means shareholder interests may not be considered. Currently, the director of FHFA can only be fired by a president "for cause."

After a federal appeals court reversed a previous court's decision last year and agreed with the shareholders, former acting FHFA Director Joseph Otting's decision said in January that the agency would no longer keep fighting the case.

In a letter Tuesday to the U.S. Court of Appeals for the Fifth Circuit in Texas, a counsel for Calabria said that the FHFA's position moving forward is that its structure under the Housing and Economic Recovery Act is constitutional. Calabria was a Senate staffer when HERA was being drafted.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

[Feds Explain How $23-million Student Loan Relief Scam Kept Victims In The Dark](#) | The Sacramento Bee

Students caught in a debt relief scam for months or even years never realized it — in part because the services they thought were lowering their monthly loan payments were using their passwords to change their contact information, which kept the students' legitimate loan servicers from contacting them, according to federal regulators.

Thousands of students fell victim to the debt relief scheme, which operators of Federal Direct Group and Mission Hills Federal had been running since at least 2014, the Federal Trade Commission said in a news release on Thursday. Students were cheated out of more than $23 million, according to the agency.

The agency said the scammers lured debt-strapped students with "false claims that it would service and pay down their student loans." The scammers tricked indebted students into sending loan payments directly to them — but instead of paying down the loans, the scammers either pocketed the money or made only minimal payments on the loan, according to the FTC.

Broken Promises: Teachers Sue U.S. Over Student Loans That Weren't Forgiven | NPR

The American Federation of Teachers filed the lawsuit Thursday in federal court. In the complaint obtained by NPR, the union is asking the court to order the department to fix the Public Service Loan Forgiveness program so that it meets legal standards. It's also asking the department to come up with an appeals process for people who believe they have been treated unfairly.

Congress created the program more than a decade ago to encourage public service. So, if you make loan payments for 10 years and you work in a qualifying job for the government or a nonprofit, the program promises to forgive the remainder of your federal student loan debt.

For-profit Enrollment Rises And So Does Student Debt, New Federal Data Shows | Politico

More students are attending and graduating from for-profit colleges — and they're more likely to take on more debt and less likely to have a job after they earn their degrees.

That's according to new federal data out this morning that looks at the employment and educational experiences of students who graduated in 2016, one year after they earned their degrees. It's the first time the Education Department has released such data in eight years, and critics of for-profit colleges are sure to seize on the findings. Read the full report.

DeVos On Verge of Trashing Still More Protections Against Predatory Colleges | Republic Report

The Department's proposed regulations on accreditation and other issues are wholly inadequate to protect students and taxpayers against predatory abuses by colleges.

Combined with other Department actions under Secretary of Education Betsy DeVos — the cancellation of the gainful employment rule, the gutting of the borrower defense rule, the refusal to process borrower relief claims, the restoration of discredited accreditor ACICS, the approval of troubling conversions of poor-performing for-profit schools to non-profit status, the effective shut-down of the Department's enforcement unit, the ending of cooperation with other enforcement agencies — this latest rollback represents a brazen handover of policy to the worst actors in higher education, those that have used deception to sell low-quality, over-priced higher education programs to unsuspecting victims.

TWC Still Isn't Making It Easy For Students To Learn About – Or Complain About – Texas Career Schools | The Texas Monitor
Dozens of students have filed complaints on for-profit schools with the Texas Workforce Commission since Jan. 1, 2018, over excessive charges, unqualified instructors and overall shady operations.

Several of the schools targeted in the 600-plus pages of complaints closed shortly after a complaint was filed. However, records show that the Texas Workforce Commission, which oversees the institutions, took no enforcement action on the complaints and played no role in the closures. Other schools named in the complaints continue to operate with no mention of their alleged misconduct on the TWC website.

The agency oversees 576 trade schools across the state. Its site is supposed to provide potential students with an overview of each school, providing graduation and completion rates, programs offered and costs, as well as any substantiated problems reported.

The agency's portal that lists closed career schools was updated after a Texas Monitor story in April noted it had not reported any additional for-profit schools as having closed since 2009, despite the TWC's claim that numerous career schools were shuttered by the agency in the past decade.

Only One Candidate's Student Debt Plan Narrows the Black-White Wealth Gap | Rewire
To the extent that there are policy disagreements and distinctions between the Warren and Sanders student debt plans, they stem from the group of borrowers who receive total cancellation under the Sanders plan but only partial, or no, relief from the Warren plan. This makes up about 25 percent of all people with student debt. Given the design of the Warren plan, this consists of two categories of borrowers:

- Those whose household income is more than $250,000 per year, who would receive nothing.
- Those with more than $50,000 in debt, who would see some, but not all, of their debt wiped away.

The $250,000 group is, by definition, high income. Analyzing the second group requires a few assumptions. First, there are limits on the total amount of federal student loans that students can borrow for undergraduate education. Dependent students can borrow up to $31,000, while independent students can borrow up to $57,500. The second thing to note is that the average student debt for a bachelor's degree recipient is around $30,000. Those with greater than $50,000 in debt are largely made up of borrowers who have attended graduate school.

It is for this reason that Warren's plan limits relief by the amount of debt and household income. As a result, her plan would provide broad relief while narrowing the black-white wealth gap. Previous research from Demos and the Institute on Assets and Social Policy has shown that canceling all debt would widen the racial wealth gap, since high-debt, high-income borrowers are disproportionately white. Targeted relief can narrow the wealth gap.

How Student Debt Hinders Teacher Diversity | Washington Post
A report released Tuesday by the Center for American Progress, a left-leaning think tank, makes a connection between the lack of diversity in the teaching profession and the disparate impact of student debt on black and Latino college graduates. The authors say targeted interventions that increase teacher pay and ease the debt burden could help eliminate at least one barrier to recruiting and retaining teachers of color.

Using data from the federal government's National Center for Education Statistics, the authors analyzed student loan debt and repayment rates of people who trained to become educators or worked in the field.

They found 88 percent of black teachers and 76 percent of Latino teachers used federal student loans to pursue a bachelor's degree, compared with 73 percent of white teachers. Barely a quarter of white teachers took on federal student debt to complete a master's degree, compared with 47 percent of black educators and 37 percent of Latino teachers.

SYSTEMIC RISK

Quarles: Revised Stress Capital Buffer Proposal Coming in Near Future | Politico Pro
Federal Reserve regulatory chief Randal Quarles today said the central bank would put forward a revised version of its stress capital buffer proposal in the near future, suggesting it would be modified to reduce the amount of potential volatility in capital requirements from year to year.

In a speech at the Fed's conference on stress testing, Quarles said the tests should be dynamic in exploring salient risks, but it is less useful to have "unexpected swings in capital requirements that don't have any particular relationship to changing risks at individual firms."

One option for reducing this volatility would be "to average the results of the tests from the previous year or years," he said, so "no single year could have an outsized influence" on capital requirements.

Fed's Quarles Pushes Streamlined Stress Tests | Banking Dive

Stress tests should remain stringent but be simpler, more transparent and less volatile, Federal Reserve Vice Chair Randal Quarles told a conference Tuesday. “Like a teacher, we don’t want banks to fail, we want them to learn,” he said.

The Fed last year proposed replacing “in the near future” several of 20 metrics taken during stress tests with a stress capital buffer based on capital losses from the previous year’s stress test.

Former Fed Governor Daniel Tarullo has criticized the plan. “A good bit of … progress could be endangered by a kind of low-intensity deregulation, consisting of an accumulation of non-headline-grabbing changes and an opaque relaxation of supervisory rigor,” he told a conference in May sponsored by Americans for Financial Reform. One fault in using the SCB is that it leaves out the post-stress leverage ratio.

Volcker Rule Revamp Coming by Fourth Quarter, Quarles Says | Bloomberg
The Federal Reserve plans to release a fresh revamp of the Volcker Rule by this year’s fourth quarter after Wall Street assailed an earlier proposal as not going far enough to ease burdens on banks and simplify the post-crisis trading limits.

“I expect early in the fall we will have a proposal out that responds to a lot of the comments we’ve received,” Fed Vice Chairman for Supervision Randal Quarles said during a Thursday panel discussion at the Bipartisan Policy Center in Washington. Quarles said the coming proposal -- which must be approved by several agencies -- will better address how regulators handle the restrictions on trading at banks.

Regulators Exempt Community Banks from the Volcker Rule | American Banker

Federal regulators on Tuesday finalized a proposal excluding community banks with less than $10 billion in assets from the Volcker Rule.

Last year’s bill reforming the Dodd-Frank Act required the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corp., National Credit Union Administration, Securities and Exchange Commission and Commodity Futures Trading Commission to issue a regulation exempting smaller banks from the proprietary trading ban.

The agencies' February proposal exempted banks with less than $10 billion in assets or trading assets that represent less than 5% of total consolidated assets from the rule.

Federal Banking Regulators Adopt Final Rule To Exclude Community Banks From Volcker Rule | Talk Business & Politics
Five federal financial regulatory agencies announced on Tuesday (July 9) that they adopted a final rule to exclude community banks from the so-called Volcker Rule, which restricts banking institutions from engaging in certain proprietary trading and having certain relationships with hedge funds or private equity ventures.

The final rule — issued by the board of governors for the Federal Reserve, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Securities and Exchange Commission – is part of the Economic Growth, Regulatory Relief, and Consumer Protection Act signed by President Donald Trump into law more than a year ago.

More Than a Decade After the 2008 Financial Crisis, the U.S. is Finally on the Verge of Adopting a Much-Needed Reform Designed to Make the System More Resilient | Bloomberg
More than a decade after the 2008 financial crisis, the U.S. is finally on the verge of adopting a much-needed reform designed to make the system more resilient.

The reform involves an accounting rule that played a big role in making the crisis worse than it needed to be. It effectively prevented banks from recognizing bad loans until losses were "probable" — meaning that payments were already well past due. This left banks' books out of touch with reality, to the consternation of regulators, investors and even the banks' own executives. The losses ultimately came all at once, impairing financial institutions' capacity to make new loans when the economy needed it most.

After that debacle, the Group of 20 developed and developing nations tasked accounting standard-setters with developing a better approach. Their solution: Require lenders to look forward, building provisions based on how much they expect to lose over the lifetime of a loan. Under the new standard, loans with risky features such as low down payments or weak investor protections require larger provisions upfront, even if the borrowers are paying on time. Companies must also publish added information on their loan portfolios and the models they use to forecast performance.

There's one big downside: Earlier provisioning limits payouts to shareholders, because it cuts into initial profits and can require added capital. Hence, financial industry lobbyists have long opposed it, arguing in part that it could lead to undesirable swings in provisions as economic projections alternate between excessive optimism and pessimism. And in recent months, they've garnered some support in Congress: Legislators have introduced bills in both the House and Senate that would block the standard and order regulators to prepare an in-depth study of its potential effect on lending.

Sen. Kennedy Seeks Momentum for MSRB Reform Bill | Bond Buyer
Sen. John Kennedy, R-La. is looking to make his legislation aimed at curbing industry influence on the Municipal Securities Rulemaking Board bipartisan through cosponsors from across the aisle, with sights set on Banking Committee Democrats.

Marcus Stanley, policy director at Americans for Financial Reform, said that there is a widespread feeling that the MSRB is dominated by insiders to a degree that is "greater than is healthy for a self regulatory organization."

"Reforms are called for and I'm glad that Sen. Kennedy is stepping forward to do that," Stanley said.

He said he sees bipartisan interest in the bill because people have interest in federal regulation in the municipal markets.

"We've seen blowups in the muni markets that have really affected cities and public entities across the country," Stanley said, referencing Detroit and Puerto Rico.

Listen: Banks Becoming More Comfortable With DFAST Process | Bloomberg
Christopher Wolfe, Managing Director & Head of North American Banks, Fitch Ratings, joined Bryan Curtis and Rishaad Salamat on Daybreak Asia. He explains why he is expecting more of the same for bank earnings this time around. He goes on to give his analysis of the latest round of Dodd Frank Act Stress Tests. (1:41)

ELECTIONS, MONEY, AND POLITICS

Warren's $19 Million Haul Highlights Big Fundraising Quarter For Democrats | Washington Post
Sen. Elizabeth Warren placed a big bet a few months ago: In a sprawling field of two dozen Democratic presidential hopefuls, and without a tested grass-roots fundraising machine, she pledged not to court wealthy donors who could boost her candidacy with big checks.

That bet has paid off, at least for now, as Warren's campaign announced Monday she had raised $19.1 million in the second quarter of 2019 — a significant sum that secures her spot as a competitive candidate in the top tier of the primary field.

$1 Million Haul For Rep. Katie Porter Is Richest Among Vulnerable Democrats | LA Times
Coming out in favor of impeachment doesn't seem to have slowed the campaign of Rep. Katie Porter (D-Irvine), one of seven California House freshmen who must defend competitive congressional seats in 2020.

Porter's campaign reported Wednesday that it had raised more than $1 million in the second quarter of 2019 and received a big bump from small-dollar donors. Twice as many small donors gave $100 or less in the second quarter than the first, and more than 17,000 unique donors have contributed since January, according to representatives for the congresswoman.

2020 Dems Promise Teachers Pay Raise, Respect at Education Town Hall | The Hill
Ten 2020 Democratic presidential hopefuls descended on Houston on Saturday to try to gin up support among the nation's public school teachers, vowing to boost educators' pay and give their profession the respect it deserves.

Speaking at this year's annual National Education Association (NEA) forum, the 10 contenders laid out their plans to prioritize public education funding and praised teachers as the guardians of the nation's future, also accusing the current administration of not prioritizing one of the country's most valuable professions.

Friday's forum is a critical part of the NEA's nominating process; it said it will endorse a candidate "at the right time." The influential group, which boasts nearly 3 million members, is one of several that the two dozen presidential hopefuls are targeting as they seek to shore up support among a crucial constituency for Democrats.

Where The 2020 Democrats Stand On Banking Issues | American Banker
It is still too early in the Democratic presidential primaries to gauge how much attention the candidates will give to financial services issues. But critical comments toward Wall Street by some of the candidates in the first series of debates last month point to an unfriendly political environment for banks in the nominating process.

The debates highlighted the candidates' general support for consumers over corporate interests in multiple industries.

"That was the message over and over," Jaret Seiberg, a policy analyst at Cowen Washington Research Group, said in a note last week. "Candidates argued against big pharma, big tech, Wall Street, and other corporate interests. It seemed like each candidate has a plan on how he or she will tilt Washington away from business and to the average person."

OTHER TOPICS

Pimco's Fels Warns Trump Attacks Put Fed in 'No Win' Situation | Bloomberg
President Donald Trump's criticism of the Federal Reserve is eroding the political independence of the U.S. central bank and leaves it in a "no win" quandary as it debates loosening monetary policy, a top economist at Pacific Investment Management Co. warned.

After Trump returned to attacking the Fed via Twitter on Friday and Turkish President Recep Tayyip Erdogan fired his top monetary policy maker on Saturday, Pimco's global economic adviser Joachim Fels used a report to clients to declare the "heyday of central bank independence now lies behind us."

The risk for Fed Chairman Jerome Powell and his colleagues is that they are in a lose-lose situation as they consider whether to cut interest rates this month and by how much, said Fels. One potential downside is if the Fed seeks to prove its independence by not loosening policy as it might otherwise, and the second is that any easing will be regarded as bowing to political pressure.

SEC Weighs Whether to Regulate Facebook's Libra | Wall Street Journal

U.S. securities regulators are examining whether Facebook Inc.'s planned cryptocurrency should fall under their oversight, a development that could further complicate a project that faces criticism from President Trump and lawmakers.

Staff at the Securities and Exchange Commission are looking at whether Libra's structure effectively makes it an exchange-traded fund, according to people familiar with the matter. If the SEC decided that Libra's design makes it an ETF, Facebook would need the regulator's approval to launch the project.

Facebook has met with the SEC about its questions, in addition to other regulators such as the Federal Reserve Board. Questions about Libra's regulation are likely to surface Tuesday when Facebook executive David Marcus testifies before Senate lawmakers about the cryptocurrency.

WATCH: Cryptocurrencies, Like Facebook's Libra And Bitcoin, Are Under Fire By Some Big Names | CNBC
Cryptocurrencies, like Facebook's Libra and Bitcoin, have come under fire by some big names, like Federal Reserve chairman Jerome Powell and Representative Maxine Waters. "Libra raises serious concerns regarding privacy, money laundering, consumer protection, financial stability," Powell told the House Financial Services Committee. President Trump tweeted that he wasn't a big fan of cryptocurrencies, and billionaire Mark Cuban said Libra "could be dangerous."

The Fed Chair Says Facebook's Libra Raises 'Serious Concerns' | Wired
On Wednesday, Federal Reserve Chair Jerome Powell told the House Financial Services Committee that Facebook's push into finance posed "many serious concerns." In addition to worries about privacy, money laundering, and consumer protections, Libra poses serious risks to global financial stability due to the enormity of Facebook's user base, Powell said. "The process of addressing these concerns should be a patient and careful one, not a sprint," he said, adding that the Fed is collaborating with other federal agencies and central banks abroad.

Maxine Waters Threatens Facebook's Cryptocurrency Plans | Politico
Facebook's audacious vision for creating its own global currency is at risk of being shredded on Capitol Hill, where the social media giant's attempt to educate skeptical policymakers is doing anything but calming nerves.

Democrats led by House Financial Services Chairwoman Maxine Waters (D-Calif.) and backed by a coalition of watchdog groups are warning that Facebook must put its Libra digital currency on hold so lawmakers and regulators can consider whether it's a new threat to consumers and the global economy.

Watch: Can 'Baby Bonds' Help The U.S. Close Its Staggering Racial Wealth Gap? | PBS
Whites in the U.S. have much greater household and individual wealth than blacks and other minorities. In fact, the typical black household has about 10 cents for every dollar of wealth in a typical white household. Some economists and politicians believe this racial wealth disparity will

continue to widen unless it's addressed. As Paul Solman reports, one idea for closing it begins at birth.

Stress Links Poverty To Inflammation And Heart Disease | National Institutes of Health
Poverty can take a toll on health. People with lower incomes have a higher risk of many diseases, including heart disease, diabetes, and cancer. Some of this risk is driven by reduced access to health care. Lifestyle factors also play a role. For example, people with lower incomes have higher rates of smoking. But after accounting for such factors, extra unexplained risk remains.

Researchers have proposed that the body’s stress response may link poverty with disease risk. Long-term stress can increase inflammation in the body. Chronic inflammation is thought to play a role in the development of many health conditions.

U.S. Seizes MSC Container Ship After Record Drug Bust | Wall Street Journal
U.S. authorities have seized a large container ship operated by Switzerland-based Mediterranean Shipping Co., three weeks after customs authorities found 20 tons of cocaine on the vessel.

The MSC Gayane, which is owned by J.P. Morgan Asset Management and chartered to MSC, the world’s second-biggest container ship operator by capacity, is “subject to possible forfeiture,” U.S. Attorney William McSwain said in a statement.

Related Tweet on container ship seizure