This Week in Wall Street Reform | Oct 28-Nov 2

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Fed Proposes Easing Capital Rules, Testing Of Some Banks | Associated Press

The Federal Reserve is proposing to ease requirements for holding capital and cash for U.S. banks that are big, but not as big as the Wall Street mega-banks.

The Fed's proposal issued Wednesday is the latest move by federal regulators to relax government oversight of financial firms in line with President Donald Trump's objectives.

The Fed governors, by a 3-1 vote, put out the proposals for public comment. They also are looking to ease the schedule for the agency's "stress tests" for banks, based on their size and risk.

See AFR's statement on the proposal.

Wall Street Moves To Gut Post-Crisis Financial Reforms | The Intercept

The Volcker Rule would make a financial crisis much less likely, according to Marcus Stanley, policy director at **Americans for Financial Reform**. But even the current muscular rule hasn't yet been aggressively enforced. In the three years since Volcker took effect, only Deutsche Bank has been penalized for a violation, and that was a case in which the bank self-reported that its compliance program was inadequate — not one in which regulators took the initiative.

Wall Street Tries To Shape Democratic Victory By Backing Moderates | Bloomberg

For the first time in a decade, the securities and investment industries are spending more on Democrats than Republicans ahead of the Nov. 6 midterm elections. Bankers are also giving to Democrats.

A big part of that is anti-Trump, but a lot of the money is flowing to moderate Democrats, a sign Wall Street is seeking Washington allies to temper the impact of progressives such as Representative Maxine Waters and Senator Elizabeth Warren, who are poised to hit the industry with subpoenas and tougher oversight.

In Miki Bowman, Smaller Banks Await Potential Fed Ally | Wall Street Journal

She hasn't previously worked at the Fed or the Treasury Department. She didn't graduate from an Ivy League university. She has never managed billions of dollars of assets or mused publicly about the finer points of monetary policy. She isn't an economist.

None of that matters to advocates for thousands of small- to medium-size banks that successfully lobbied Congress to set aside a seat on the Fed's seven-member board of governors for one of their own. They see in Ms. Bowman, age 47, a potential ally as the Fed revisits financial regulations a decade after the 2008 financial crisis.

[The U.S. Secretly Halted JP Morgan's Growth For Years](#) | Bloomberg
For almost six years, Washington secretly shackled JPMorgan Chase & Co., the nation's biggest bank.

Now the chains are off, thanks to bank-friendly regulators in the Trump administration.

In actions never before made public, Obama administration regulators prevented the bank from opening branches in new states as punishment for violating banking rules, according to people familiar with the matter. JPMorgan's ambitious plan to expand nationally, announced earlier this year, was made possible by the Trump administration's rollback of those restraints, which date from 2012, said the people, who asked not to be identified discussing regulators' impact on the bank's plans.

Podcast: Why You Should Worry A Little Bit About Markets And The Economy | Politico Money

Trump's Deregulatory Efforts Keep Losing In Court — And The Losses Could Make It Harder For Future Administrations To Deregulate | Brookings Institution

Trump era deregulation has prompted a number of legal challenges, largely on the grounds that agencies have not followed the procedures required to change rules. Most but not all of these challenges have been to EPA deregulatory efforts. Analysts on both the left and right ends of the political spectrum have agreed that the administration has fared poorly in the courts. This conventional wisdom is correct. According to a running tally of court challenges to Trump-era deregulatory rules, the administration has prevailed in one case and either lost or abandoned its position in 18 cases.[1] This 5 percent "win rate" is far below the normal agency win rate, which averages 69 percent across eleven studies.[2]

Why Republicans Actually Like Maxine Waters | Politico
Republicans who work with the California Democrat on the House Financial Services Committee see something different: a rare deal-maker in a polarized Congress.
Waters, who would chair the committee if Democrats win the House, has shown a surprising willingness to work across the aisle and with industry groups, even helping to deliver White House-backed legislation to ease regulations and crack down on China.

The Wall Street Flunkies | Medium (Jim Lardner)
In a contest for Top Flunky, Rep. Wagner would be a plausible contender. Then again, Rep. Bruce Poliquin of Maine could also make a case for himself. The American Bankers Association, he could point out, has decided to fund TV spots for his reelection as part of an effort to build a "pro-banking bench in Congress." While the bankers don't say exactly why they have such vast confidence in Poliquin, it could have something to do with his 100% voting record both on the House floor and in the House Financial Services Committee—his 100% pro-Wall-Street record, that is, according to **Americans for Financial Reform**, a coalition of more than 200 consumer, labor, faith and civic and community organizations.

We are talking about a group of men and women notable not just for their service to Wall Street and the heaps of campaign cash they have attracted in return, but for the fact that according to recent polling a number of them could soon be *removed from office.* And quite a few of their likely replacements, it should be noted, have vowed to do battle against the role of money in politics if elected.

[Parts of America Are Still Struggling Economically. They Don't Matter Much In The Midterms.] **| New York Times**
The concentration of battlegrounds in prosperous areas could have important policy implications for the next Congress, with swing-district representatives more concerned with preserving their region's own good fortunes than with helping large parts of the country that continue to lag economically.

And it does not appear to be helping Republicans in their quest to retain control of the House, defying the hopes that party leaders expressed when they passed a $1.5 trillion tax cut last year without a single Democratic vote.

CONSUMER FINANCE AND THE CFPB

Trump CFPB Moves To Rework Key Part of Obama Payday Regulation | Washington Examiner
"The consumer bureau used to be a great agency dedicated to enforcing the law and protecting consumers, is now to putting predatory lenders ahead of the law and its mission with this attempt to gut consumer protections," said Jose Alcoff, payday campaign manager at **Americans for Financial Reform**, in a statement.

See AFR's full statement.

CFPB Payday Rule Plans On The Way, But Uncertainty Lingers | Law360
In a statement on Friday, the CFPB said that January 2019 is when it expects to unveil its proposed changes to the payday rule, reaffirming plans announced earlier this year to revisit the controversial set of regulations on payday lenders that have wide support among consumer advocates but have been a target of criticism and litigation from the payday lending industry.

January's proposal will focus on the rule's requirements for small-dollar lenders to apply ability-to-repay standards when issuing loans, the agency said Friday, but it won't touch other portions of the rule that put restrictions on lender practices for collecting payments from borrowers. The CFPB said it will also "address the rule's compliance date," which is currently set for August 2019.

Consumer Group Report Disputes CFPB Policy On Military Lending Exams | American Banker
The Consumer Financial Protection Bureau has "ample legal authority" to examine firms for compliance with the Military Lending Act despite the agency's claims to the contrary, a consumer advocacy group said in a report Thursday.

The report by the Consumer Federation of America also said the Department of Defense was not notified before the bureau halted MLA exams.

Earlier this year, acting CFPB Director Mick Mulvaney said the agency did not have statutory authority under the Dodd-Frank Act to enforce the military lending law, in a major reversal from the Obama administration.

Read the Consumer Federation of America's report.

Herring, Other AGs, Seek Continued Consumer Protection For Service Members | Fairfax News

Virginia Attorney General Mark R. Herring and other state AGs today called on the Consumer Financial Protection Bureau (CFPB) and Acting Director Mick Mulvaney to continue protecting military service members against predatory lenders under the Military Lending Act (MLA). In a letter to the CFPB and Director Mulvaney, Herring and a bipartisan coalition of 32 other attorneys general urge the CFPB to reconsider its reported decision to stop examining lenders to ensure they are complying with the MLA.

CFPB's Payday Rollback Plans Don't Go Far Enough For Some Lenders | American Banker
Payday lenders have already scored a huge victory as the Consumer Financial Protection Bureau moves forward on revising unpopular underwriting requirements imposed by the agency's past leadership. But many in the industry say they still want more.

Those affected by the CFPB's payday lending rule hailed the agency's announcement last week of plans to propose changes next year. But they expressed disappointment that the CFPB will address just the rule's "ability-to-repay" provisions, and not limits on how often a lender can debit a borrower's account.

Short Documentary: Let My People Go: South Dakotans Stop Predatory Payday Lending | Center for Responsible Lending and South Dakotans for Responsible Lending

DERIVATIVES, COMMODITIES & THE CFTC

Market Cheats Getting Caught In Record Numbers | Wall Street Journal
Federal regulators have ramped up their pursuit of traders who use a bluffing tactic known as spoofing to manipulate market prices, enforcement officials said, leading to a record number of manipulation cases.

As part of the push, the Commodity Futures Trading Commission earlier this year quietly began receiving daily sets of market data from the world's largest futures exchange, CME Group Inc.

EXECUTIVE COMPENSATION

INVESTOR PROTECTION, THE SEC, AND RETIREMENT SAVINGS

IRA Contribution Limit Lifted For First Time In Six Years | MarketWatch
The Internal Revenue Service on Thursday unveiled the cost-of-living adjustments for pension plans and other retirement items for the 2019 tax year, including the first increase to the contribution limit for the Individual Retirement Arrangement in six years. The limit on annual contributions to an IRA has increased to $6,000 from $5,500 for the 2019 tax year, while the limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased from $18,500 to $19,000. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan remains unchanged at $6,000.

MORTGAGES AND HOUSING

Global Investors And Not Families Are Buying Affordable Homes | Next City

As of 2017, the report finds, New York homeowners tend to be wealthier, older, and whiter than most New Yorkers. More than one-third of all homeowners struggle to afford their monthly housing costs. Investor home purchases (most with all-cash offers) have doubled since the foreclosure crisis. Young and millennial home buyers are shut out of the housing market because of skyrocketing prices, stagnant wages, investor competition, and tight lending conditions, the report finds.

Loan Originator Compensation Rule Should Not Be Changed | HousingWire (Jillayne Schlicke)
Due to the continued under-quoting of fees by unethical lenders on the former Good Faith Estimate, The 2015 TRID rule brought a very narrow set of circumstances in which additional fees can be passed on to the borrower once we disclose fees on the new Loan Estimate. Now mortgage companies must absorb the costs of not carefully and continuously supervising and training their LOs.

PRIVATE FUNDS

Activist Hedge Fund Takes $620 Million Stake In Struggling Deutsche Bank | Wall Street Journal
A New York-based activist hedge fund has taken a stake in Deutsche Bank AG, betting the German lender's new chief executive can revive its sagging profits by pursuing a turnaround strategy investors so far have found unconvincing.

No Experience? No Problem. Private Equity Lures Newbie Bankers With $300,000 Offers | Wall Street Journal
Private-equity titans are used to competing for billion-dollar buyouts. Now they are squaring off for 22-year-old spreadsheet crunchers.

An industrywide scramble is under way this week to hire young investment bankers.

Where The Money Goes: Private Capital Gets It, Hedge Funds Don't | Bloomberg
Three-quarters of the way through 2018, money flowing into private funds dedicated to credit, property and other real assets is on track to top last year. Meanwhile, hedge funds and actively managed mutual funds broadly are sliding backward even as volatility spikes in markets.

CEO: BlackRock To Continue Doing Business In Saudi Arabia | San Francisco Chronicle
Blackrock Chairman and CEO Laurence Fink says he believes his company will continue to do business in Saudi Arabia for many years, despite the asset manager's decision to withdraw from an investment conference amid international outrage over the slaying of journalist Jamal Khashoggi last month in the Saudi consulate in Istanbul.

In an interview from the New York Times DealBook Conference in New York posted online Thursday, Fink said it was a hard decision to drop out of the conference.

But Fink said he never believed the decision would jeopardize Blackrock's business in Saudi Arabia.

"We've been there for 15 years," Fink said. "I believe we'll be there for many years in the future."

STUDENT LOANS AND FOR-PROFIT SCHOOLS

How New Tax Policies Affect Student Loan Forgiveness | MarketWatch

One such proposal to change student loans seeks to clamp down on the number of loan forgiveness avenues starting with the one that over 160,000 people have used so far: those who have been defrauded by their schools.

While this proposal elicited strong criticism from all corners with some people claiming that the government does not care about the welfare of students, there are even more changes that were proposed. Some quite favorable.

A Third Of Borrowers Are Spending More On Student Loan Debt Than On Rent | Yahoo Finance

Nearly 9 out of 10 student loan borrowers are struggling financially, and nearly half (44%) will struggle to make their next payment, according to a new report from Student Debt Crisis.

More graduates find themselves in over their heads as soon as they enter the real world, saddled with an average debt load of $39,400, up 6% from the previous year. As wages have stagnated for over a decade, many are struggling to get by with a high debt-to-income ratio. In fact, many borrowers are spending more on their monthly student debt payments than on housing.

New Report Finds Student Loan Debt Has 'Disastrous Domino Effect' On Millions Of Americans | Forbes

Among those responding to the survey, borrowers owed an average of $87,500 in debt but made an average annual income of $60,000. (The average student loan debt nationwide is lower, with students from the class of 2016 carrying an average of $37,172 in student debt, according to 2016 statistics.)

Faced with seemingly insurmountable debt, some borrowers have had to postpone marriage, buying a home and other life decisions indefinitely. "Regularly, I contemplate selling everything and living in my car to help free up money to pay off the debt sooner," wrote a female respondent from Texas. She had had to put off having children, marrying or purchasing a home, she reported, due to the high costs of student debt repayment.

Two-Thirds Of Student Loan Borrowers Have Less Than $1,000 In The Bank | MarketWatch

That finding echoes other data indicating that a wide swath of Americans don't have enough saved to weather an unexpected financial disaster. It provides a window into the ways student loans may interact with other bills, amid relatively slow wage growth, to put borrowers into a tough financial position. It also tracks with other research indicating that despite a decent economy and a wide array of programs borrowers can use to manage their federal student loans, they're still struggling.

"When you have only a few dollars month to month to allocate towards your expenses and you have rent costs or potentially a mortgage, you have health care costs, you are spreading an already low amount of money across an array of high expenses and the money doesn't stretch far enough," said Will Sealy, the co-founder and chief executive officer of Summer.

[Meet 5 Midterm Candidates Running With Student Debt In Mind — And In Their Lives](#) | MarketWatch

With the first generation of students who experienced our debt-financed higher education system coming of age politically, it's no wonder student debt is making a bigger appearance in campaigns, said Mark Huelsman, the associate director of policy and research at Demos, a left-leaning think tank.

"There's a reason why a lot of people started running for office and some of it is to actively change the economic situation for people like them," he said. "Increasingly student debt is a piece of that."

As a result, ideas like tuition-free college, state crackdowns on student loan companies and in some cases even student debt cancellation are featured more prominently this year than in any previous midterm cycle, he said. Meet a few of the candidates running with student debt in mind.

Student Loan Debt Impacts Millennial Buyers | Forbes

According to the MagnifyMoney team, "Millennials with student loan debt tend to have larger mortgages on lower-value homes. The home values of millennials younger than 35 with student loan debt are 5% lower than those without student loan debt. The median value of homes for those with unpaid student loans was $157,000 in 2016, while millennial homeowners without student debt had homes with a median value of $165,000."

Brian Karimzad, co-founder of MagnifyMoney and senior vice president of research at LendingTree, goes behind the numbers with a few surprises. "Homeownership rates are nearly identical to those without student loan debt. About 34% of millennial graduates with student loans are homeowners, while 36% of those without student loans are homeowners."

SYSTEMIC RISK

Charting Progress On Too Big To Fail | Financial Services Forum

In the past decade, three broad sets of changes have been made to address TBTF. First, large banks have taken significant steps to reduce their complexity and improve their ability to fail without significant knock-on effects to the rest of the economy. Second, the legal and regulatory regime has undergone material changes to facilitate a less costly failure and more effective resolution of a large bank. Third, public transparency around the government's unwillingness to provide extraordinary support in the event of a future failure scenario has increased markedly. As a consequence of these three changes, bank creditors have realized that they bear default risk, and the cost of funding large banks has increased as a result. Taken together, these developments point to a world in which large banks and large bank creditors would be required to deal privately with the consequences of failure

Janet Yellen Sounds Alarm Over Plunging Loan Standards | Financial Times

The US needs to deal with a “huge deterioration” in the standards of corporate lending instead of focusing on deregulation, Janet Yellen has warned.

In an interview with the Financial Times, the former chair of the Federal Reserve said she was particularly alarmed by loosening standards in the $1.3tn market for leveraged loans, which are offered to companies with weaker credit ratings.

“I am worried about the systemic risks associated with these loans,” said the former central banker. “There has been a huge deterioration in standards; covenants have been loosened in leveraged lending.”

There was a risk lessons from the crash were being forgotten, as banks embark on an aggressive lobbying push to water down reforms that were put in place at the start of the decade, Ms Yellen told the FT.

Fed Proposes Eased Rules For All But The Biggest US Banks | Bloomberg
Foreign banks aren’t included in the proposals, though regulators said they intend to follow up “in the near future” with a new system for those firms. The possibility of relaxing rules for non-U.S. lenders -- including some of the largest banks in the world -- is “quite concerning,” said Marcus Stanley, policy director at **Americans for Financial For Financial Reform** in Washington.

Podcast: ‘What Happens When The Music Stops?’: Baird’s John Taft | American Banker

TAXATION

What Billionaires Want: The Secret Influence Of America’s 100 Wealthiest | The Guardian
Our new, systematic study of the 100 wealthiest Americans indicates that Buffett, Gates, Bloomberg et al are not at all typical. Most of the wealthiest US billionaires – who are much less visible and less reported on – more closely resemble Charles Koch. They are extremely conservative on economic issues. Obsessed with cutting taxes, especially estate taxes – which apply only to the wealthiest Americans. Opposed to government regulation of the environment or big banks. Unenthusiastic about government programs to help with jobs, incomes, healthcare, or retirement pensions – programs supported by large majorities of Americans. Tempted to cut deficits and shrink government by cutting or privatizing guaranteed social security benefits.

18 Midterm Election Tax Measures To Watch For At The Polls | CNBC
During the last 15 years, voters have approved about half of tax measures on ballots, and that's a likely outcome this year. Williamson said she expects voter turnout to be higher this year, compared with the average midterm election, which could influence which measures pass.

"I think it's important more generally to think about what it means for states to turn to their voters to raise taxes, which is normally seen as unpopular," she said.

Issues like marijuana taxes and progressive taxation (for example, Colorado's bill to go from a flat income tax to a graduated one) are more dependent on that higher voter turnout, since they are more partisan issues, Williamson said. Soda and tobacco taxes tend to be less divisive, and so, easier to pass.

[‘I Support Higher Taxes:’ The Billionaire Behind The National Debt Clock Has Had It With Trump] | Washington Post

By the end of 2018, the nation will hit milestone: The federal government’s total debt owed to outsiders (known as “debt held by the public”) will exceed all debt that U.S. households have for mortgages, credit cards, cars, student loans and other personal loans for the first time in modern history, according to JPMorgan.

Durst died in 1995 and his son manages the National Debt Clock and the family’s real estate empire now. The normally private Douglas Durst felt compelled to speak out after what he calls the “worst months” he’s ever seen for fiscal policy.

Durst has a message for Congress: Tax the rich more.

OTHER TOPICS

[Federal Reserve Considers Biggest Change To Payment Systems Since 1974] | Kansas City Business Journal

"You have a device in your pocket or handbag that makes this issue really front and center every day," [Esther George], president of the Federal Reserve Bank of Kansas City, said Monday. "The ability to conduct commerce is happening on that mobile phone. The apps attached to it allow you to make payments at the speed of whatever decision you are about to make, whether you are buying or selling something. But it's becoming increasingly apparent that the speed people want to make payments and are able to m ake those payments is not really keeping up with the infrastructure behind that, which assures those payments happen in a reliable way that provides broad access across the country."

[U.S. Charges 2 Former Goldman Bankers In Vast Malaysian Fraud] | New York Times

The charges, the first against any one who once worked for the big Wall Street bank, are seen as an attempt to put pressure on Goldman to reach a potential settlement with federal authorities. Goldman was the primary bond underwriter for the fund known formally as 1Malaysia Development Berhad, or 1MDB.

The fund has become the focus of an international scandal reaching from Malaysia, to the United States to Hong Kong.

[The Crash That Failed] | New York Review of Books
(Robert Kuttner)

There have been hundreds of illuminating books on the great financial collapse. *Crashed*, written to mark its tenth anniversary, will stand for a long time as the authoritative account. In his masterful narrative, the economic historian Adam Tooze achieves several things that no other single author has quite accomplished. Tooze has managed to explain a hugely complex global crisis in its multiple dimensions, and his book combines cogent analysis with a fascinating history of the political and economic particulars.

In Tooze’s account, the survival of neoliberalism is one of several related ironies. Before the crash, economists had thought that the next crisis would be caused by America’s budget deficit and its trade deficit, as well as the shakiness of its codependency with China, which both benefited from the trade deficit and bought Treasury bonds to offset it. But when the collapse came, it was “a financial crisis triggered by the humdrum market for American real estate.”

[Working-Class people Are Underrepresented In Politics. The Problem Isn’t Voters.] | Vox (Dr. Nicholas Carnes)

When working-class people hold office, they tend to perform about as well as other leaders on objective measures; in an analysis of cities governed by majority-working-class city councils in 1996, I found that by 2001, those cities were indistinguishable from others in terms of how their debt, population, and education spending had changed.

When working-class people run, moreover, they tend to do just fine. In both real-world elections and hypothetical candidate randomized controlled trials embedded in surveys (which help to rule out the so-called Jackie Robinson effect), voters seem perfectly willing to cast their ballots for working-class candidates.

The real barrier to working-class representation seems to be that workers just don't run in the first place. In national surveys of state legislative candidates in 2012 and 2014, for instance, former workers made up just 4 percent of candidates (and around 3 percent of winners).

Lessons of the Last Financial Crisis | Harvard Gazette

During audience questions afterwards, one student asked Ferguson if he'd neglected to mention the role of fraud and other white-collar crime in triggering the 2008 crisis. Ferguson replied that almost no bankers ever went to jail.

"Is that because we decided to turn a blind eye to white-collar crime, or is it because they committed no crimes, [they only] bent the rules? I think it's the latter. It is really hard to get convictions when people were essentially complying with regulations," he said.

But doing what's strictly legal, he emphasized, isn't the same as doing the right thing. "As long as they were compliant, nobody felt any compunction about doing things that were morally wrong, if not technically criminal."