AFR Americans for Financial Reform Education Fund

This Week in Wall Street Reform | Nov 19 - 30

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

AFR Statement: Senators Must Reject Kraninger Nomination

Consumer Bureau Nominee Clears Key Senate Hurdle | Government Executive
Kathy Kraninger, the White House homeland security specialist who is President Trump's nominee to be permanent director of the Consumer Financial Protection Bureau, moved a step closer to confirmation on Thursday in a cliffhanger vote.

The Senate voted 50-49 along party lines to end debate on her nomination, which had cleared the Senate Banking, Housing and Urban Affairs panel last August in a similarly close tally.

Ocasio-Cortez Seeks Spot On House Banking Panel | The Hill
Rep.-elect Alexandria Ocasio-Cortez (D-N.Y.) said Thursday she is interested in a seat on the powerful House committee overseeing the financial sector.

Ocasio-Cortez told Hill.TV in an interview Thursday that she's "looking at" serving on the House Financial Services Committee, which leads congressional regulation and supervision of U.S. banks, lenders, insurers and housing industry.

The Financial Services panel is one of the most sought-after House committees. It's members boast significant influence over Washington's relationship with Wall Street, and easy access to millions of dollars in financial sector campaign donations.

Trump Administration's Own Analyses Indicate Many Of Its New Regulations Will Hurt Vulnerable Americans | Los Angeles Times
President Trump's push to roll back federal regulations will take a significant toll on Americans' health and finances, according to a surprising source — the Trump administration itself.

These human costs – which include more deaths from air pollution, higher medical bills and increased student debt – rarely get mentioned by the president, who often touts the economic benefits of his deregulatory campaign.

But a review of thousands of pages of federal regulatory and legal filings shows that multiple agencies predict in their own analyses that the changes will cause an extensive list of harmful, even deadly, effects.

Maxine Waters Targets Global Banks With Financial Services Shakeup | Axios
The most notable proposed change: is lumping oversight of "International Financial Institutions" — which could mean anything from the World Bank to foreign banks — with the existing Terrorism and Illicit Finance subcommittee, while scrapping the Monetary Policy and Trade subcommittee.

- As word leaks out about the proposal, it's catching the attention of foreign banks. It's a strong signal that Waters is not just talking about going after the likes of Deutsche Bank, sources familiar with the proposal tell Axios.
  "[Waters has] not been shy about the direction and focus she would take if she got the gavel; she's just now literally putting it in writing which got folks' attention. Sort of like, "oh...she wasn't kidding!", the source who shared the proposal with Axios told us via text.

House Progressives Are Facing An Unexpected Problem In The Quest For Committee Power | The Intercept
The **Take On Wall Street** coalition has gone so far as to write up a fact sheet for progressives on the importance of the committee, citing its centrality to tackling homelessness and the housing crisis, ensuring racial and economic justice, and fighting poverty. The pitch cited laws like the Truth in Lending Act, the Equal Credit Opportunity Act, and the Community Reinvestment Act, which ensures lending in low-income areas, as well as Federal Reserve policy, which aims to prevent recessions and ensure full employment in all communities. "(House Financial Services Committee) is an especially compelling assignment for House progressives, both to lay the foundation for bold policies and to exercise critical oversight," the document reads.

Whether that pitch lands, and progressive members-elect decide to go after a Financial Services seat, could have wide-ranging consequences for banking policy, corporate governance, fair housing, student loans, retirement security, and virtually every aspect of the national economy.

Too Rich To Jail | New York Times (Maureen Dowd)
President Obama and his Attorney General Eric Holder Jr. made a terrible mistake by letting the miscreant bankers off the hook rather than saying, as F.D.R. did, "I welcome their hatred."

Some saw it as the end of the Democratic Party. Democrats were the party of workers, charged with protecting people from big money, big banks and big fraud. Obama, the great hope to revitalize the left, immediately folded. Some analogized that the failure to send bankers to jail or even on perp walks made the party's white blood cell count drop to the point that G.O.P. infections could run wild.

In his 2016 book, "Listen, Liberal," Thomas Frank wrote that "the hope drained out of the Obama movement" at the meeting between the fledgling president and Wall Street C.E.O.s in March 2009: "After warning them about 'the pitchforks' of an angry public, Obama reassured the frightened bankers that they could count on him to protect them; that he had no intention of restructuring their industry or changing the economic direction of the nation." (After he left the White House, Obama followed Hillary's lead, buckraking on Wall Street.)

CONSUMER FINANCE AND THE CFPB

AFR Statement: Senate Must Reject Kraninger Nomination

A Senate Vote For Kraninger Is A Vote Against Main Street | The Hill (Rion Dennis, AFR)
Senators who vote this week to confirm Kathleen Kraninger as director of the Consumer Financial Protection Bureau will be endorsing the pro-industry, anti-consumer track record of current Director Mick Mulvaney over the last 12 months, and asking for more.

They ought to take the remaining time before the Senate goes on record to contemplate how she will run an agency that is supposed to protect the public from Wall Street and predatory lenders.

American consumers are on track to owe a whopping $4 trillion in total debt (excluding mortgages) by the end of this year. The CFPB is our front-line defense against debt traps and abusive lending. Senators who support her nomination are putting millions of people at risk of increased hardship and financial insecurity.

Watch: Senator Sherrod Brown's Speech From Senate Floor on Kraninger Nomination

Warren Calls On Colleagues To Vote Against Nomination of Kathy Kraninger To Serve As Director Of The CFPB | Elizabeth Warren Press Office
United States Senator Elizabeth Warren (D-Mass.) sent a detailed 11-page letter to all 99 of her colleagues in the Senate, urging them to vote against the nomination of Kathy Kraninger to serve as Director of the Consumer Financial Protection Bureau (CFPB).

In the letter, Senator Warren highlights Ms. Kraninger's lack of relevant consumer financial experience, her full-throated endorsement of Interim CFPB Director Mulvaney's work to undermine protections for students, seniors, and servicemembers, and her disastrous tenure as an official at the Office of Management and Budget (OMB).

The letter addresses concerns about Ms. Kraninger's time at OMB and her role in some of the Administration's most troubling policies, including the child separation efforts at the Southern border and the catastrophic response to Puerto Rico's recovery from Hurricane Maria.

Mick Mulvaney's Year At CFPB Has Pleased Financial Services Industry, Which Wants More | Wall Street Journal
Mr. Mulvaney, appointed by President Trump last November, over the past year has made a number of changes that the financial industry has hailed, including a pullback in enforcement actions, an easing of supervisory activities, and a pledge to redo a new payday-loan rule that lenders warned would decimate them.

But many in the industry had expected Mr. Mulvaney to move more swiftly to blunt the power of the agency and ease regulations in areas such as mortgage disclosures, debt collection, and prepaid cards.

“Mulvaney has not turned the ship quite as starkly as he said he would,” said Ori Lev of Mayer Brown, a law firm that represents large banks such as Citigroup Inc. and HSBC Holding PLC.

Credit Union Trades Support Kraninger & Still Want CFPB Commission | Credit Union Times
“Credit unions look forward to working with a new, permanent…Director, one that we hope will recognize the unique structure of credit unions and the enormous benefit credit unions provide to American consumers in need of financial services,” Nussle wrote.

Would CFPB Nominee Mirror Mulvaney Or Go Her Own Way? | American Banker
As she moves closer to Senate approval as head of the Consumer Financial Protection Bureau, Kathy Kraninger is still somewhat of a mystery to the agency and industry she would oversee.

Now a senior official at the Office of Management and Budget, Kraninger has signaled that she favors a pro-free-market, limited government approach to regulation and will hew closely to the vision of her boss Mick Mulvaney, the acting CFPB director who also heads the OMB. But unlike Mulvaney — who before running the CFPB referred to the bureau as a "sick, sad joke" — Kraninger is not linked with such rhetoric, making her views about the agency uncertain.

Report: Pushing The Envelope: The Consumer Financial Protection Bureau Under Mick Mulvaney | Senate Committee On Banking, Housing And Urban Affairs, Minority Staff
Congress created the Consumer Financial Protection Bureau – or CFPB – to look out for ordinary American consumers, and take on big banks and shady financial institutions that scam customers. During its first six years on the job, the Bureau stood up for working families, obtaining almost $12 billion in relief for more than 29 million Americans, handling more than 1.2 million consumer complaints, and putting rules in place to make mortgages safer and fairer for homeowners. 1 It held Wells Fargo accountable for the bank’s egregious fake-accounts scandal. It brought landmark fair lending cases to stop redlining and other discriminatory practices. Wall Street and the financial industry have armies of lobbyists at their beck and call – the CFPB was there to deliver results for American consumers.

Since taking control of the CFPB last year, however, Mick Mulvaney has undermined the CFPB’s important mission and turned an organization meant to stand on the side of the American people into yet another outlet for the financial industry to push its agenda. A close examination of Mr. Mulvaney’s record shows that he has undercut the Bureau, kept Congress and the public in the dark, and put his thumb on the scale in industry’s favor. Over and over again, Mick Mulvaney has used his position at the Consumer Protection Bureau to do favors for corporate special interests, rather than look out for the American people he’s supposed to serve.

CFPB's Disclosure Sandbox Puts Consumers At Risk | American Banker (Linda Jun, AFR)
Paul Volcker, the former chairman of the Federal Reserve, once quipped that the ATM was "the only useful innovation in banking for the past 20 years." Today's regulators, especially ones taken with the new fintech industry, would do well to remember that new doesn't necessarily mean better for most people.

In the name of innovation, the Consumer Financial Protection Bureau now wants to exempt companies from the most basic rule of any functioning marketplace: transparency. The agency, created eight years ago to do what its name suggests, but now under the thumb of a Trump administration ideologue opposed to that mission, is concocting rules that would allow companies to muddy or dispense with basic consumer disclosures, hiding behind the banner of "innovation."

Are Fintech Sandboxes A Consumer Protection Desert? | The Hill (Lauren Saunders, NCLC)
"Fintech sandboxes" are all the rage. The Consumer Financial Protection Bureau (CFPB) recently proposed a disclosure sandbox, the Arizona attorney general has adopted a fintech sandbox, and both legislators and regulators in Washington are discussing ways to use sandboxes to promote financial innovation.

A sandbox is a safe place to play, outside of the real world, and outside of real-world rules. Sandboxes are great for little children. But letting companies "play" in the real world, taking real money from real people and exposing consumers to real risks without following the rules, is not child's play.

Small Banks Join Forces To Bring FinTech To Customers | Forbes
While the likes of JPMorgan Chase and Bank of America have the budgets and the staff to develop cutting-edge digital offerings for their customers, their smaller brethren are usually left to their own devices, which means scrambling to catch up.

Aiming to end that cycle and to prevent their banks from becoming irrelevant, a group of a dozen community and regional banks, with the help of consulting firm FinTech Forge, have created a consortium that will work with financial technology startups to develop products and services that meet the digital needs of their customers.

CFPB, Think Finance Say Settlement Talks Are Underway | Law360
The Consumer Financial Protection Bureau and Think Finance LLC asked a Montana federal judge on Friday to pause discovery in the agency's suit accusing the financial technology company of deceiving borrowers and using sham tribal lenders to collect money it wasn't owed, saying an end to the litigation is in sight.

The joint stay motion said the CFPB and the company, along with a host of other entities, individuals and claimants, have been engaging in global settlement discussions related to Think Finance's bankruptcy proceedings for several months. According to the agency and company, a 60-day pause on discovery should give the involved parties enough time to reach a deal that would resolve the agency's suit.

The IRS Hired Private Debt Collectors Who Are Squeezing Poor People And Hurricane Victims | Quartz

An IRS program using private debt collectors to handle delinquent tax bills is improperly demanding payment from hurricane victims and squeezing some of the poorest Americans—all the while turning a profit far below industry standards.

Since April 2017, four debt collection companies have been assigned half a million delinquent taxpayers to contact. So far, they've brought in less than 1% of what Congress hopes the program will ultimately generate. Meanwhile, tax experts and the IRS' own oversight board fear that the targeted taxpayers are being pressured to empty out their savings and take on unnecessary financial risk. The National Taxpayer Advocate, an independent office within the IRS that ensures "every taxpayer is treated fairly," calls the program "a serious threat to taxpayer rights."

Two US senators pushed the IRS to outsource its debt collection to private companies through this program: Chuck Grassley, a Republican from Iowa, and Chuck Schumer, a Democrat from New York who has hailed the initiative for bringing jobs to one of the poorest parts of his state. As if by coincidence, three of the four debt-collecting companies contracted by the IRS are based in Iowa and New York. They declined to comment on the program.

Trump CFPB Pick Met With Private Prison Company At Center Of Immigration Detention Centers | Allied Progress

Following news that eleven Democratic Senators sent letters to private prison contractors GEO Group and CoreCivic regarding mistreatment and unsafe conditions at several for-profit immigration detention centers, Allied Progress pointed to Kathy Kraninger, a senior Office of Management and Budget official and President Trump's nominee for CFPB Director who met with GEO Group in February. Just days later, she also met with officials from ICE and U.S. Citizenship and Immigration Services. Six weeks after that, the Trump administration announced its "zero tolerance" immigration policy which led to family separations.

Series: Sign Here To Lose Everything | Bloomberg Businessweek

- **"I Hereby Confess Judgment:" How an obscure legal document turned New York's court system into a debt-collection machine that's chewing up small businesses across America**
- **The $1.7 Million Man: Meet New York City's highest-earning official. He's a debt collector for predatory lenders.**

American Bar Association's Consumer Financial Services Committee Fellows Protest ABA's Support For H.R. 5082, Which Could Be Attached To Omnibus Budget Bill | National Consumer Law Center

Attorneys selected by the American Bar Association (ABA) to represent the interests of consumers wrote the ABA President today condemning the ABA's decision to back H.R. 5082, the Practice of Law Technical Clarification Act of 2018. The bill would strip consumers of vital protections by exempting attorneys and law firms engaged in debt collection litigation from the Fair Debt Collection Practices Act (FDCPA) and eliminate Consumer Financial Protection Bureau (CFPB) oversight. "The ABA is pushing for a floor vote in the House and also pressuring members of the Senate Appropriations Committee to slip it in to the omnibus budget bill," said April Kuehnhoff, staff attorney at the National Consumer Law Center.

"Without consulting the members of its committee most impacted by the decision, the ABA elected to partner with creditor attorneys in support of H.R. 5082–a position that does not reflect that of the bar at large," said Jennifer Wagner, co-director of Mountain State Justice and Consumer Fellow to the Consumer Financial Services Committee of the ABA. "Enforcement of FDCPA violations and CFPB oversight of attorney conduct do not interfere with attorneys' obligation to represent their clients appropriately and ethically."

DERIVATIVES, COMMODITIES & THE CFTC

EXECUTIVE COMPENSATION

Nissan Chairman, Carlos Ghosn, Is Arrested For Financial Misconduct | New York Times

The Nissan chairman, Carlos Ghosn, was arrested on Monday after an internal company investigation found that he had underreported his compensation to the Japanese financial authorities for several years.

Nissan said it was cooperating with Japanese prosecutors. It also said that it had opened its inquiry after a whistle-blower alleged that Mr. Ghosn had been misrepresenting his salary as well as using company assets for personal use. Both he and a director, Greg Kelly, who was also accused of misconduct, were taken in by authorities, the company said.

It is a remarkable tumble for Mr. Ghosn, who arrived at Nissan in 1999 after Renault, the French carmaker, bought a large stake in the Japanese company. It may prove to be an ignominious final chapter in the career of one of the most powerful and highly regarded executives in the automotive industry.

Bankrupt Sears Wants To Give Executives Up To $25 Million In Bonuses | CNN

Sears is seeking court approval to pay executives as much as $25 million in annual bonuses while the company struggles to restructure in bankruptcy.

Three top executives could get nearly $1 million each if the company goes out of business. If Sears remains in business, they could get nearly $500,000 each for hitting the top performance targets.

Sears filed two different types of bonus plans in bankruptcy court Thursday. The first is for the top 18 "key" executives, who would collectively get as much as $2.1 million per quarter up to a maximum of $8.5 million. The bonuses would only be paid in full if Sears reaches its cash-flow targets. Sears Holdings, which includes both Sears and Kmart, has been burning through cash at a rate of about $125 million a month.

INVESTOR PROTECTION, THE SEC, AND RETIREMENT SAVINGS

Stock Market Swings Spook Many Older Workers, Retirees | CBS

"There's a lot of fear that if you have another event like 2008 and you retire the year before or the year after, you're screwed. I'm not taking that risk," said Mark Patterson, a recently retired patent attorney from Nashville, Tennessee. "There's a huge fear of folks my age that they're going to run out of money and they're going to need to rely on the government for help."

By the time the market bottomed out during the financial crisis in 2009, an estimated $2.7 trillion had been wiped out of Americans' retirement accounts, according to the Urban Institute. Older Americans in particular have had a tough time recovering their losses. The Pew Research Center estimates the net worth of the median baby boomer household in 2016 was still nearly 18 percent shy of where it sat in 2007.

In the two years since Donald Trump's election, 62 percent of Americans -- and 76 percent of those 65 and over -- don't believe their financial situation has improved despite the run-up in the stock markets, according to a recent Bankrate survey. Nearly one in five respondents said their finances have actually gotten worse.

A Pension System That Needs Fixing | Forbes (Jack Guttentag)
Employers offering defined contribution plans may or may not contribute to the plans. In many cases they offer to match the employee's contribution up to some maximum amount. Employer contributions may be subject to a vesting period.

While states, municipalities and public agencies have continued with defined benefit plans, private business firms have largely shifted to defined contribution plans. This enables them to avoid the large balance sheet liability generated by the commitment to provide defined benefits over an indefinite future period. From a retiree perspective, however, defined contribution plans have some major weaknesses.

MORTGAGES AND HOUSING

Joint Letter To The OCC Opposing Any Changes That Would Weaken The Community Reinvestment Act

The Devaluation of Assets In Black Neighborhoods: The Case Of Residential Property | Brookings Institution
Homeownership lies at the heart of the American Dream, representing success, opportunity, and wealth. However, for many of its citizens, America deferred that dream. For much of the 20th century, the devaluing of black lives led to segregation and racist federal housing policy through redlining that shut out chances for black people to purchase homes and build wealth, making it more difficult to start and invest in businesses and afford college tuition. Still, homeownership remains a beacon of hope for all people to gain access to the middle class. Though homeownership rates vary considerably between whites and people of color, it's typically the largest asset among all people who hold it.

If we can detect how much racism depletes wealth from black homeowners, we can begin to address bigotry principally by giving black homeowners and policymakers a target price for redress. Laws have changed, but the value of assets—buildings, schools, leadership, and land itself—are inextricably linked to the perceptions of black people. And those negative perceptions persist.

Mayor Niremberg Leads Seventy U.S. Mayors In Support Of The Community Reinvestment Act | City of San Antonio
Mayor Ron Nirenberg rallied national support for preserving the Community Reinvestment Act (CRA) with a letter signed by 70 of his fellow mayors.

The attached letter was submitted to the Office of the Comptroller of the Currency during the public comment period for new regulatory rules. The coalition of mayors expressed their concern about changes that could undermine the effectiveness of the CRA and exacerbate economic inequality.

"As mayors, our work to promote economic opportunity is judged by real results, and the Community Reinvestment Act is an essential tool in the fight for equity and prosperity in every community," stated Mayor Nirenberg.

Weren't Algorithms Supposed To Make Digital Mortgages Colorblind? | American Banker
As more online lenders and banks automate their lending — using mathematical models to make loan decisions rather than officers — the question of whether those algorithms can be unbiased or potentially introduce new and unintended forms of discrimination is a critical one.

This Berkeley study offers a new answer: So far, lending algorithms in digital mortgages are biased in exactly the same way humans are, possibly because developers build the logic human lenders use into their software.

The report, Consumer-Lending Discrimination in the Era of FinTech, found that lending officers and software-based underwriting engines both charge Latino and African-American loan applicants interest rates that are six to nine basis points higher than white applicants who have the same FICO score and loan-to-value ratio. The higher interest rate was the same, whether it was a loan officer, a bank's online lending arm or a fintech mortgage lender like Quicken or SoFi.

Minority homebuyers face widespread statistical lending discrimination, study finds | University of California, Berkeley

A new University of California, Berkeley study has found that both online and face-to-face lenders charge higher interest rates to African American and Latino borrowers, earning 11 to 17 percent higher profits on such loans. All told, those homebuyers pay up to half a billion dollars more in interest every year than white borrowers with comparable credit scores do, researchers found.
The findings raise legal questions about the rise of statistical discrimination in the fintech era, and point to potentially widespread violations of U.S. fair lending laws, the researchers say. While lending discrimination has historically been caused by human prejudice, pricing disparities are increasingly the result of algorithms that use machine learning to target applicants who might shop around less for higher-priced loans.

“The mode of lending discrimination has shifted from human bias to algorithmic bias,” said study co-author Adair Morse, a finance professor at UC Berkeley’s Haas School of Business. “Even if the people writing the algorithms intend to create a fair system, their programming is having a disparate impact on minority borrowers—in other words, discriminating under the law.”

State Foreclosure Law: A Neglected Element of the Housing Finance Debate | Wharton School of Finance

In the first 21 months of the Trump administration, activity levels across the federal government—from CFPB consumer-protection enforcement actions, to SEC fines against banks, to Justice Department lending-discrimination lawsuits—are markedly lower than during the final 21 months of the Obama administration. Proponents of a robust mortgage-finance regulatory framework are playing defense: focusing on maintaining ex ante federal regulations concerning the availability of credit to borrowers and the appropriateness of the mortgage products offered by lenders.

These proponents would be well served by also devoting attention to the states. In this Issue Brief, I show how the legal framework governing ex post borrower protections—specifically, state foreclosure procedures—can help address this challenging policy problem. State legislators would do well to understand how various foreclosure regimes across all 50 states affect mortgage lending so that they can tailor their state’s foreclosure regime to their state’s specific needs. Given the deregulatory trend at the federal level, advocates of strong regulation of lending practices ought to look to the states—including to state foreclosure law as a form of ex post mortgage-finance regulation.

Why The Housing Market Is Slumping Despite A Booming Economy | New York Times (Neil Irwin)

There’s no doubt that demographics are favorable for housing demand. The peak birth year for millennials was 1990; it’s a group that is turning 28 this year and thus entering prime years for home buying. As it happens, 28 is exactly the median response in a Bankrate survey that asked adults for the ideal age to buy a home.

But that doesn’t matter if prices are out of reach relative to incomes. Moreover, lending standards have remained more rigorous than they were during the last housing boom, so it has been harder for people to stretch to buy a home. The inability of people to buy homes they can’t really afford is great news in terms of avoiding another crisis, but not so great for the near-term outlook for housing.

“Buyers can only stomach so many price increases until it gets unsustainable,” said Daryl Fairweather, the chief economist at the online brokerage Redfin. “Prices reached a breaking point where buyers were fed up and started to consider other options,” she said, including renting and moving away from the expensive coastal markets where prices are most out of whack with incomes.

The U.S. Housing Boom Is Coming To An End, Starting In Dallas | Wall Street Journal

A half-hour drive straight north from downtown Dallas sits one of the fastest-growing counties in the country. Cotton fields have been replaced with Toyota’s new North American headquarters, a Dallas Cowboys training facility and a sand-colored shopping strip with a Tesla dealership and a three-story food hall.

Yet even with the booming growth, Dallas's once vibrant housing market is sputtering. In the high-end subdivisions in the suburb of Frisco, builders are cutting prices on new homes by up to $150,000. On one street alone, $4 million of new homes sat empty on a visit earlier this month. Some home builders are so desperate to attract interest they are offering agents the chance to win Louis Vuitton handbags or Super Bowl tickets with round-trip airfare, if their clients buy a home. Yet fresh-baked cookies sit uneaten at sparsely attended open houses.

The U.S. economy just had one of its best six-month stretches in a decade, as the unemployment rate hovers around its lowest level in half a century. Still, along with a recent swoon in the stock market, the housing market—which makes up a sixth of the U.S. economy—has been a troubling weak spot.

PRIVATE FUNDS

Bain, KKR Establish Severance Fund For Toys 'R' Us Workers | Wall Street Journal
The severance fund, which was earlier reported by The Wall Street Journal, is an unusual move by the private-equity firms. The fund isn't required under bankruptcy law and has no ties to the chapter 11 process itself.

Soon after Toys "R" Us announced it was shuttering its U.S. business in March, employees banded together to fight for severance payments and initially took aim at the company's private-equity backers.

KKR, Bain and real-estate investment trust Vornado Realty Trust VNO -0.46% acquired Toys "R" Us in a 2005 leveraged buyout for $6.6 billion, which included $5.3 billion in debt. When the retailer sought bankruptcy protection more than a year ago, much of its debt load stemmed from the buyout.

The unemployed Toys "R" Us workers trekked to Washington, D.C., protested in New York and lobbied in front of the firms' investors. Nineteen members of Congress sent a letter to the firms, questioning their role in the retailer's troubles. In September, the firms and the ex-Toys "R" Us employees agreed to the terms of a deal.

'Suddenly, I Have Purpose Again:' Former Toys R Us Employees Are Spending Their Holiday Fighting For Their Severance Pay | Money Magazine
Employee protests have proven effective. They've captured the attention of senators and other lawmakers in a number of meetings: In June, 19 lawmakers sent a letter to the private equity firms that owned Toys 'R' Us, questioning their decision to file for bankruptcy. In early October, Bain Capital and Kohlberg Kravis Roberts, two of the three firms that bought Toys 'R' Us in 2005, created a $20 million fund for severance pay, which was officially unveiled this week. And, later that month, Sen. Elizabeth Warren sent a letter to Vornado Realty Trust, the third firm that has not contributed to the severance pay fund, demanding it compensates these workers.

How Laid Off Toys R Us Workers Came Together To Fight Wall Street | Huffington Post
In June, a group of workers met in New York to protest outside the offices of KKR, Bain and Vornado, and deliver petitions to the firms demanding severance. All told, 75 workers from 14 states made the trip... The workers hatched a plan to hold a silent protest in their stores before they closed so that customers would realize they were being let go without a parachute.

Overdoses, Bed Sores, Broken Bones: What Happened When a Private-Equity Firm Sought To Care For Society's Most Vulnerable | Washington Post
"You wonder how these people could have run a place that treated people so poorly," said Bojo, who, like others interviewed, attributed the problems to lack of staff. "We would ask the director of the place, 'Would you treat your mother this way?' That stopped him for a minute, but we didn't get an answer."

"One time we came in to visit him and he was sitting there in a wheelchair naked, with just a blanket on him — no pants, no underpants," said Michelle Maldonado, whose father, a former factory worker, was at the Pottsville home for several months in 2017. "He got bedsores, infections, and he had a couple of falls. It was like they would never check on him."

"Carlyle was a very interesting group to deal with," said Andrew Porch, a consultant on quality statistics to whom HCR ManorCare referred questions about health-code violations. "They're all bankers and investment people. We had some very tough conversations where they did not know a thing about this business at all."

Buying Stakes In Private-Equity Firms, Not Just Their Funds, Pays Big | Wall Street Journal
An increasingly powerful type of investor is betting there's an even more profitable way in: by buying stakes in the private-equity firms themselves. That means getting a direct cut of the hefty fees buyout firms charge and the profits from their deals.

The biggest player in the burgeoning trade is Dyal Capital Partners, founded in 2011 by Lehman Brothers veteran Michael Rees. Dyal's third fund, a $5.3 billion vehicle it finished raising in 2016, has posted annualized returns of 26% net of fees, according to people familiar with the matter. By contrast, buyout funds of a similar size and vintage have notched returns of 17.6%, according to Cobalt GP data.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

AP Exclusive: Audit Points To Deceptive Practices At Navient | Associated Press
One of the nation's largest student loan servicing companies may have driven tens of thousands of borrowers struggling with their debts into higher-cost repayment plans. That's the finding of a Department of Education audit of practices at Navient Corp., the nation's third-largest student loan servicing company.

The conclusions of the 2017 audit, which until now have been kept from the public and were obtained by The Associated Press, appear to support federal and state lawsuits that accuse Navient of boosting its profits by steering some borrowers into the high-cost plans without discussing options that would have been less costly in the long run.

The education department has not shared the audit's findings with the plaintiffs in the lawsuits. In fact, even while knowing of its conclusions, the department repeatedly argued that state and other federal authorities do not have jurisdiction over Navient's business practices.

U.S. Treasury To Scrutinize All-Cash Home Sales In Boston | Boston Globe
Secret buyers of luxury real estate in Greater Boston will soon get extra scrutiny.

The US Treasury Department has added Suffolk and Middlesex Counties to a program that requires people who buy homes with cash through shell companies to share their name with the government. It's a bid to combat money laundering in high-end real estate, which critics say is becoming increasingly popular with buyers who can hide their identity behind a limited liability company or other shell entity.

Such shell-company deals are legal, and there are no state or federal laws requiring public disclosure of an owner's name. The rules, however, would require title companies to disclose to the government the identity of people who make all-cash purchases through a shell company. That enables prosecutors of financial crimes to screen for people they're investigating for potential criminal activity.

A Student Loan Help Center, Created By Critics Of Trump's Enforcement Efforts | New York Times
Three months ago, one of the government's top student loan watchdogs, Seth Frotman, stepped down from his job at the Consumer Financial Protection Bureau with a scathing resignation letter that criticized the Trump administration for undermining the agency's enforcement efforts.

Then he took some people with him.

Mr. Frotman and other former bureau employees plan to continue the work they did for the government at a new Washington-based nonprofit announced on Wednesday, the Student Borrower Protection Center. The new venture will focus on aiding borrowers by working with state and local officials, rather than the federal officials who Mr. Frotman said have sought to favor lenders and servicers.

Here Are Four Ways To Handle Debt Forgiveness That Even Mushy Centrists Might Like | Slate (Jordan Weissman)
Canceling all of America's student debt in one big jubilee is a popular idea on the left. It is also, as David Leonhardt points out in a New York Times column this week, a pretty regressive idea. That's because just under half of the country's outstanding student loan balance is held by the highest-earning 25 percent of households in which the adults are age 25 or older. About a quarter belongs to the top 10 percent of households, whose incomes top $144,720. This partly reflects the fact that the heaviest borrowers tend to be graduate

and professional degree students who are en route to a well-paid career. According to the most recent Department of Education data, grad schoolers currently take out about 39 percent of all student loan dollars, even though those borrowers make up just 16 percent of recipients. If you forgave all student loans indiscriminately, you'd end up handing a windfall a lot of corporate lawyers, MBAs, Google engineers, and surgeons with six-figure balances they could otherwise pay back without sweating their bank accounts.

Betsy DeVos Is Working Hard To Make Student Loan Forgiveness An Impossibility | GQ (Luke Darby)
DeVos has essentially empowered these gatekeepers to be more exacting and punishing than anyone could reasonably expect them to be. Many applicants were rejected because of technical minutiae. In many other cases, borrowers actually could have qualified for PSLF but the servicers never told them it was an option. They operate with almost no effective oversight from the Education Department, and even conservative states have tried to step in to impose regulations and accountability. And how did Betsy DeVos, small government activist, respond to that? By saying that since the servicers work for the federal government, they don't have to listen to a damn thing the states say. It turns out that she's a fan of big government when she can use it to wring even more money out of broke public servants.

Education Secretary DeVos Steering Students To Substandard Programs | New Jersey Today
Secretary of Education Betsy DeVos is once again failing students by allowing for-profit colleges to run amok. This time she's attacking the gainful employment rule, a measure designed to ensure that the education colleges offer their students actually prepares them for "gainful employment," that is, a well-paying job.

Here's the scoop: Currently colleges are required to show that their graduates can earn enough money to pay back their student loans, and they must publish warnings if they are not meeting those requirements.

DeVos, part of the family behind Amway and secret for-profit armies, wants to roll back that requirement and she has stalled the release of data that could steer new students away from colleges and programs that have proved less successful in turning graduates into income earners.

SYSTEMIC RISK

Real Estate Lending Change Boosts Banks More Than Economy | Wall Street Journal
Advocates of stricter financial regulation fear relaxing the standards could encourage banks to return to riskier lending practices of the financial-crisis era. The HVCRE rules are "a very basic risk control on an area of commercial lending that everybody agrees was deeply involved with the crisis," said **Marcus Stanley, policy director of Americans for Financial Reform**, a nonprofit group.

Corporate Debt Credit Standards 'Deteriorating,' Fed Warns | American Banker

While most financial institutions and markets are strong and show little sign of systemic risk, the amount of debt owed by businesses and the valuations of corporations are elevated and could be a source of concern, the Federal Reserve said Wednesday.

Read AFR's statement: [Fed Report Proves Need To Strengthen Financial Safeguards]

[Fed's Quarles To Chair Financial Stability Board] | Reuters
Federal Reserve Governor Randal Quarles has been appointed chair of the Financial Stability Board, the international regulatory body said on Monday.

He replaces Bank of England Governor Mark Carney, who steps down in December as chair of the FSB, a body that has been coordinating new banking rules for the Group of 20 (G20) since the global financial crisis a decade ago.

The FSB said that Klaas Knot, president of the Dutch central bank, was appointed vice chair and will succeed Quarles within three years for a period of three years.

[Small Banks To Get Relief From Post-Crisis Financial Rules] | Wall Street Journal
The Federal Deposit Insurance Corp. proposed easing rules for small banks as part of a broader Trump administration effort to loosen restrictions put in place after the financial crisis.

Under a plan approved unanimously Tuesday by the FDIC, banks with less than $10 billion in assets could be subject to a single leverage ratio for their capital holdings, replacing a more complex set of requirements that applies to larger banks.

"Our largest, most systemically important banks would continue to be subject to the most rigorous standards, and their smaller, less systemically important peers would be subject to standards tailored to their risk profile," FDIC Chairman Jelena McWilliams said.

[U.S. Banking Regulator To Consider Easing 'Living Will' Requirements] | Reuters
A leading U.S. bank regulator said on Wednesday the government is considering easing requirements around the "living wills" large banks must submit detailing how they could be safely dissolved in a crisis.

The Federal Deposit Insurance Corporation (FDIC) and Federal Reserve will propose changes in the coming months to rules dictating those plans, according to FDIC Chairwoman Jelena McWilliams.

The proposals will focus on simplifying and easing requirements around the plans, as banks have complained the lengthy documents can be onerous to produce.

"Resolution plans have been a valuable tool," McWilliams said at a banking conference. "At the same time, the process has imposed meaningful cost and burden on the firms and, frankly, the agencies."

[RBS's Removal From The List Of Global Systemically Important Banks Is Good News For Investors] | Forbes

Late last week, the Financial Stability Board updated its list of global systemically important banks (G-SIBs)based on data for full-year 2017, and The Royal Bank of Scotland Group is no longer on this list. According to the FSB's latest assessment of the world's largest banks, RBS and Nordic banking giant Nordea are no longer big enough to qualify for the G-SIB tag – news that will materially reduce the level of regulatory scrutiny for these banks. As French banking group BPCE returned to the list in 2018 after being left out in 2017, the total number of G-SIBs for the year fell to 29 from 30 last year. Besides these changes, two global banks are now in a different risk category compared to last year, as the FSB now classifies Bank of America and China Construction Bank under a risk category one notch lower. As the mandated minimum capital ratio that a G-SIB needs to maintain is determined by the risk category – or more formally the 'additional loss absorbency-level bucket' – in which the FSB places the bank, this would mean a decline in capital requirement levels for these two banks.

Watch this BBC Documentary about RBS: The Bank That Almost Broke Britain

Bank risk, bank bailouts and sovereign capacity during a financial crisis: a cross-country analysis | Risk Magazine

We investigate whether the bailout expectations of the competitors of a given bank affect its level of risk, in normal times and during financial crises.

The sample has 13 thousand banks in OECD countries from 2005 to 2015.

An increase in the rescue expectations of a bank increases the risk of its less competitors in normal times, but less so during a financial crisis. Market disciplining forces become stronger during financial crises.

Results are stronger in countries with low sovereign default risk. Countries with fragile fiscal conditions are in a weaker position to save the largest banks.

Banks Are More Profitable Than Ever, But Risks Abound | Forbes (Mayra Rodriguez Valladares)

My concern is that banks' capital could decrease more and for a more prolonged period of time if the Federal Reserve does finalize its proposed rules, released on October 31, which essentially relax important stress testing and liquidity requirements for banks under $700 billion of consolidated assets or less than $75 billion of cross-jurisdictional activity. Both Moody's and SP Global both announced that they consider this proposal "a credit-negative" for investors in bank bonds.

Don't Dismantle The Post-Crisis Early Warning System | Brookings Institution (Greg Feldberg)

The Office of Financial Research (OFR), the federal agency Congress set up after the 2007-09 financial crisis to warn about risks and collect data to fill blind spots in the U.S. financial system, is a target of the Trump Administration's deregulatory agenda. Its staff is being cut by more than one-third and the Administration is revising the office's mission to limit its independence.

We should be worried about these developments. Identifying financial stability risks and data gaps means saying things that are unpopular. That mission requires more independence, not less.

Increasing Similarity In Banking Raises Concern For Systemic Risk, U.S. Fed Official Warns | Reuters
A growing homogeneity in business models and strategies among U.S. large banks may worsen overall risk in the financial system, warned Kevin Stiroh, the head of supervision at New York Federal Reserve.

"If firms expand, diversify and become more similar, each might become safer individually. The industry, however, might not be any safer or more resilient. If all firms are effectively the same, they could become 'systemic as a herd' and susceptible to the same shocks in a way that leaves the aggregate provision of financial services more volatile," Stiroh said last week at the Financial Times U.S. Banking Forum(here).

Financial Crises: The Enemy is Amnesia | Forbes (Mayra Rodriguez-Valladares)

TAXES

Joint Letter To Congress Opposing The "Taxpayer Protection And Responsible Resolution Act"

Bank Profits Soar In Wake Of Tax Cuts, Regulatory Rollbacks | Politico Pro
Bank profits continue to hit new highs, reaching a record $62 billion in the third quarter, as lenders reap the benefits of lower taxes and looser regulations.

Third quarter bank profits were up 29.3 percent from the same period last year, according to new data from the Federal Deposit Insurance Corp., and only 3.5 percent of banks were unprofitable, compared to 4 percent a year ago.

The data was released hours after the FDIC voted to sign on to a Federal Reserve proposal to ease a range of capital and liquidity requirements on large regional banks.

OTHER TOPICS

U.S. Prosecutors Are Said To Be Investigating Japan's Biggest Bank | New York Times
In 2013, the Department of Financial Services fined the bank $250 million for removing information from its records about transactions that involved parties in countries like Iran and Myanmar. A year later, the state fined the bank an additional $315 million for trying to hide information about that misconduct.

That office is led by a former MUFG employee, Joseph M. Otting, who was President Trump's nominee for the position when the bank made its switch. In a speech at a conference in Japan last week, Mr. Otting said his agency provided “more complete, more efficient and, importantly, more thorough regulation” than states could.

A spokesman for the federal agency said the decision to approve the bank’s conversion to a national charter had been made before Mr. Otting became comptroller. “Mr. Otting was not involved in that process,” the spokesman added.

Keynote Address From Janet Yellen On The Tenth Anniversary of the Financial Crisis | Brookings Institution
My assessment is that the reforms put in place significantly boosted the resilience of the U.S. financial system. The risk of runs owing to maturity transformation declined. Efforts to enhance the resolvability of systemic firms promoted market discipline and reduced the problem of too big to fail. And a system was devised to more effectively monitor risks that arise outside the regulatory perimeter. However, the structure created by Dodd-Frank has shortcomings that create ongoing vulnerabilities, such as a limited toolkit to address emerging risks and insufficient regulatory authority for the Financial Stability Oversight Council and its member agencies to address systemic threats. In addition, although Congress in Dodd-Frank created valuable new powers to resolve a failing nonbank financial firm, it simultaneously scaled back the Fed’s emergency liquidity powers, leaving it with a toolkit that could prove inadequate to cope with a situation like the Crash of ‘08.

The ‘Neo-Banks’ Are Finally Having Their Moment | New York Times
Venture capitalists are pouring money into American start-ups that are offering basic banking services — known as neo-banks or challenger banks. In 2018 so far, American neo-banks have gotten four times as much funding as they did last year, and 10 times as much funding as they did in 2015, according to data from CB Insights.

Big players from outside the consumer banking industry, like Square and Goldman Sachs, are also moving in.

“In consumer banking, you have what is one of the largest industries in the United States, in terms of profits, and at the same time one of the least disrupted industries, and the most unpopular with consumers,” said Andrei Cherny, the founder of Aspiration, a neo-bank that has attracted nearly a million customers. “Those three things create a perfect storm for disruption.”

The persistent unpopularity of big banks has been a boon to the newcomers. And they are helped by a new attitude among financial regulators who have grown more comfortable with online banking and young customers who have no hesitation about cashing a check or sending money on a phone.

Deutsche Bank Headquarters Raided Over Money Laundering | BBC
The Frankfurt headquarters of Deutsche Bank have been raided by prosecutors in a money laundering investigation.

Germany's public prosecutor alleged that two staff members have helped clients launder money from criminal activities.

Police cars were seen outside the tower blocks that house the headquarters of Germany's biggest bank.

Other Deutsche offices in the city were searched in an operation involving about 170 police and officials.

German and U.S. Banks Drawn Into Danske Money-Laundering Probe | Financial Times
Deutsche Bank, Bank of America and JPMorgan Chase acted as correspondent banks, providing a link to the US financial system for Danske's tiny Estonian branch, which is at the heart of the biggest money-laundering operation ever uncovered.

The scheme to move massive amounts of money from Russia and other former Soviet states through Estonia, and then through the rest of the global financial system, is now subject to criminal investigations in several jurisdictions, including by the US Department of Justice.

While the correspondent banks are not under investigation by DoJ, Deutsche and BoA have been asked for information since the department opened its probe into the matter, according to people familiar with the situation. The DoJ has also asked questions about JPMorgan's role, although it is yet to contact the Wall Street bank.

FDIC's McWilliams To Hire Outside Counsel Over 'Choke Point' Concerns | American Banker
Federal Deposit Insurance Corp. Chairman Jelena McWilliams said the agency has hired outside legal counsel and is calling for additional training for examiners following concerns from Republican members of Congress that agency staffers are discouraging banks from doing business with certain industries.

In a letter to Rep. Blaine Luetkemeyer, R-Mo., who currently chairs a House subcommittee on financial institutions, McWilliams said she was "troubled" that certain FDIC employees were operating in a manner consistent with an overturned Obama-era Justice Department policy, known as Operation Choke Point."

The policy led to investigations into banks that did business with firms that were disfavored by the administration but were legal, including firearms firms, pawn shops and payday lenders.

Trump's Obama-Style Bank Heist | Wall Street Journal (Editorial Board)
The danger is that if the Obama Administration's broad reading of Firrea prevails, the Justice Department could act as a shadow securities regulator. Prosecutors are enamored with Firrea because it has a low burden of proof and 10-year statute of limitations, as opposed to the five-year stricture on the SEC.

Firrea's limits haven't been fully tested in court, since most banks have preferred to sign billion-dollar settlements to make these cases go away. The Swiss appear to be made of stronger stuff.

Crash Course | The Weekly Standard (Robert F. Bruner)
While there is no shortage of books that have sought to explain the causes and events of the crisis and offer lessons for the future, many of them amount to little more than “crisis porn” meant to stimulate the emotions; they are lurid, pandering, and dripping in schadenfreude or grievance. But the vast literature also includes solid, smart books, artfully written.

A reader wishing to get a handle on the financial crisis, what was done about it, and what the future might hold should start with one or more histories of the episode (to learn what happened), dip into some memoirs (for depth about the dilemmas that decision-makers faced), and then study some critical analyses of causes, consequences, and policy recommendations.

Imagine Donald Trump During A Financial Crisis | Bloomberg (Ferdinando Giugliano)
There's a cloud hovering over the G20 meeting of global leaders, which starts in Buenos Aires on Friday. The world economy is slowing, threatening an end to the long recovery from the financial crisis. The markets share some of these fears. Global equities suffered a heavy selloff this fall as investors started to weigh the risk of recession in the next year or two.

These concerns raise an important question among aficionados of a multilateral world: If the economy entered a new downturn, would national leaders – in the age of US President Donald Trump – be able to orchestrate a global response? The obvious precedent is the G20 summit in London in 2009, when participants put together a $US1 trillion ($1.4 trillion) package of fiscal stimulus that helped avoid a more cataclysmic downturn.

The Next Crash | American Prospect (Robert Reich)
Most Americans are still living in the shadow of the Great Recession that started in December 2007 and officially ended in June 2009. More have jobs, to be sure. But they haven’t seen any rise in their wages, adjusted for inflation.

Many are worse off due to the escalating costs of housing, health care, and education. And the value of whatever assets they own is less than in 2007. Which suggests we’re careening toward the same sort of crash we had then, and possibly as bad as 1929.

Clear away the financial rubble from those two former crashes and you’d see they both followed upon widening imbalances between the capacity of most people to buy, and what they as workers could produce. Each of these imbalances finally tipped the economy over.

America’s Widening Equality Problem, In Charts | Politico
America is a land of opportunity… as long as you live in the right place.

In the years following World War II, a rising economic tide would lift all boats. Americans were richer or poorer but when the economy grew, everyone benefited roughly equivalently. That is no longer the case. Increasingly, the United States is a country divided geographically into have and have-nots. Those who have jobs and high incomes and expensive homes are clustered in some communities, while those who are struggling are concentrated in other communities. Those in the wealthier communities have seen their incomes rise and job prospects soar. Americans in distressed communities have seen jobs evaporate and incomes stagnate.

Here are five charts that illustrate America's growing economic divide:

It Turns Out Millennials Are Just Like The Rest Of Us — Except Poorer | MarketWatch
All that talk of the unique tastes and preferences of millennials for cars, bricks-and-mortar retail chains and housing turns out mostly to be a myth, according to new research from the Federal Reserve.

Digging into the data, researchers found that "there has not been a dramatic taste shift" in the younger generation as compared with their parents.

The main difference between millennials and earlier generations is that they "appear to have paid a price for coming of age during the Great Recession," said study authors Christopher Kurz, Geng Li and Daniel Vine.

Theresa May Shouldn't Bank On A TARP Moment for Brexit | New York Times (Peter Thal Larsen)
Back in 2008, panicked investors helped the United States government force its bank bailout, the Troubled Asset Relief Program, through Congress at a second vote. The British prime minister might hope for a similar response if the British Parliament rejects her deal to leave the European Union. But a replay is unlikely.

The Financial Crisis Rocked Charlotte. Here's What's Changed In The Past Decade. | Charlotte Observer
Ten years ago, Charlotte's future as a banking hub was perilously uncertain as the financial crisis roiling the nation also struck the region, rocking its large financial services industry.

At the height of the downturn, "Banktown" would end up losing the headquarters of Wachovia when it was bought by San Francisco's Wells Fargo — a huge blow to a city that defined itself by banking. In another major development, Bank of America's chief executive stepped down amid fallout from the purchase of Merrill Lynch, stoking fears about whether the bank would remain headquartered in Charlotte under the next CEO.

A decade later, Charlotte has bounced back from the crisis but remains changed by it. Among other things, the city claims fewer bank headquarters than it used to, the CEOs of Charlotte's two biggest banks no longer live here and major real estate projects had to take on a different form.