Americans for Financial Reform Education Fund

This Week in Wall Street Reform | Dec 15 - 28

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Waters Chosen By House DemocratsTo Be First Woman And African American To Chair Financial Services Committee | Democrats' Financial Services Press Office
Today, Congresswoman Maxine Waters (D-CA) released the following statement after being approved by the Democratic Caucus to serve as the first woman and the first African American Chair of the House Financial Services Committee:

"I am honored to have been selected by my colleagues to be the first Chairwoman of the House Financial Services Committee in the 116th Congress. Since 1995, I have served as Ranking Member or Chairwoman of every Subcommittee under the Committee's jurisdiction, taking on important issues on behalf of consumers, investors, and vulnerable populations. As Chairwoman, I will continue to prioritize protecting consumers and investors from abusive financial practices, making sure there are strong safeguards in place to prevent another financial crisis, expanding and supporting affordable housing opportunities, tackling the homelessness crisis, encouraging responsible innovation in financial technology, promoting diversity and inclusion in the financial services sector, conducting appropriate oversight and ensuring that hardworking Americans and small businesses have fair access to the financial system and opportunities to thrive

Waters Warns Mulvaney He May Have To Testify On CFPB | Politico Pro

Rep. Maxine Waters (D-Calif.), the incoming chairwoman of the House Financial Services Committee, today warned Mick Mulvaney that he could be called to testify before her committee about his stewardship of the Consumer Financial Protection Bureau.

"I am writing to inform you that while your time running the Consumer Bureau may be over, the time for accountability for your actions is about to begin," Waters wrote in a letter to Mulvaney, the former CFPB acting director who last week was named acting White House chief of staff.

"I am committed to ensuring the agency will resume its important work," Waters wrote, after laying out several issues she took with Mulvaney's year at the helm of the bureau. These included what she called "politicizing the agency," weakening fair-lending enforcement and blocking cases against payday lenders.

‘He Would Have Given Up A Very Valuable Appendage To Get That Job’ | Politico
Chief of staff to President Donald Trump was seen by many as the job that no one wanted, a thankless post with an impossible mission. But when Trump soured on his former chief, John Kelly, Mick Mulvaney didn't see a quagmire — he saw his next gig.

Mulvaney, the president’s budget director, who has also moonlighted as the head of a consumer protection agency conservatives hate, had angled for the job for months. He had a backup plan, too, pitching himself as a potential successor to Treasury Secretary Steven Mnuchin in the event Mnuchin was tapped to be Trump's chief of staff.

“He would have given up a very valuable appendage to get that job,” a Republican close to the White House said of Mulvaney's desire to be Trump's chief of staff.

Upstate Benefactor Or Wall Street’s Pal? The Flip Sides Of Schumer | Times Union
Schumer’s relentlessness is also reflected in his political fundraising efforts. Under his direction, the Democratic Senatorial Campaign Committee — the party’s guiding hand for Senate races nationwide — broke records in the 2006 and 2008 election cycles. Democrats won the Senate back in 2006 and held it through 2014.

According to the Center for Responsive Politics, which slices and dices Federal Election Commission data on its opensecrets.org website, Schumer raised $28 million for his own campaign and his leadership PAC (known as IMPACT) between 2013 and this year. The No. 1 contributing industry was “securities and investment,” accounting for $3.6 million, 12 percent of the total.

But the big money is in the Senate Majority PAC, the super PAC devoted primarily to poking holes in the campaigns of Republican Senate candidates. Though this year’s elections — which presented a map of difficult races for Democrats — resulted in Republican adding two seats in the chamber, the Democratic PAC raised a staggering $112 million, of which 82 percent went into anti-GOP campaigning.

Sen. Jeff Merkley Wants To Stop Congress Members From Insider Trading By Banning Them From Owning Stocks | The Intercept

Congress attempted to prevent legislators from insider trading with the 2012 STOCK Act, which prohibits members and their staffs from exploiting insider information discovered in the course of policy deliberations. But unlike corporate "insiders," members of Congress are not required to establish arms-length trading plans — nor has the House fully cooperated with efforts by the Securities and Exchange Commission to investigate potential wrongdoing.

When compared to corporate insiders, members of Congress are exposed to a much broader array of insider information which implicates a wide range of companies. Given that members of Congress hold a unique position of public trust, Sens. Jeff Merkley, D-Ore., and Sherrod Brown, D-Ohio, both potential Democratic presidential candidates, want to put a stop to all the trading. Last week, they introduced legislation that would permanently ban members of Congress and senior staff from trading individual stocks.

"We should not be in the position of thinking about legislation in the context of personal investment," Merkley told The Intercept in an interview. "As long as you own stocks, it's hard to rule out of your mind. And the public sees it as a conflict of interest."

Beto O'Rourke Frequently Voted For Republican Legislation, Analysis Reveals | The Guardian

O'Rourke has a somewhat mixed record on financial issues, according to the watchdog group **Americans for Financial Reform (AFR)**. At times he has voted with Democrats to protect existing regulations. Still, he has also frequently aided the GOP in some of its efforts to deregulate Wall Street.

For instance, in 2014 and 2018 O'Rourke cast votes for GOP bills that included provisions weakening the so-called Volcker Rule, which aims to prevent financial firms from using depositors' savings for their own speculative trading.

1MDB Case In Malaysia Deepens Goldman's Crisis | New York Times

Since becoming a symbol of Wall Street greed during the financial crisis, Goldman Sachs has tried to recast its image as an investment bank that cares as much about ethics as it does its bottom line.

Now, that makeover is being undone by the bank's work for an obscure investment fund in Malaysia, which has entangled it in civil and criminal investigations around the world. Goldman recently received subpoenas from New York regulators, held talks with federal prosecutors and is likely to incur billions of dollars in penalties. It is one of the most serious crises in the bank's 149-year history.

The international legal assault on Goldman intensified on Monday, with prosecutors in Malaysia filing criminal charges against the bank, accusing it of defrauding investors by raising more than $6 billion for the fund, which was supposed to benefit the Malaysian public but ended up enriching Goldman and others.

U.S. Banks Quietly Pull Back From Riskiest Loans Amid Recession Fears | Reuters

As U.S. bank stocks tanked this month over fears of an impending recession, industry executives downplayed concerns to colleagues, analysts and journalists, arguing that the economy is in great shape.

But looking behind headline numbers showing healthy loan books, problems appear to be cropping up in areas such as home-equity lines of credit, commercial real estate and credit cards, according to federal data reviewed by Reuters. Lenders are also starting to cut relationships with customers who seem too risky.

All of that suggests U.S. lenders will feel the pain of a recession soon, even if losses are not cropping up quite yet.

Wells Fargo Shifts Many Jobs Overseas Following Layoffs In The US, Documents Show | Charlotte Observer
Wells Fargo has laid off hundreds of U.S. employees during the past year as it pushed many of their jobs overseas, according to an Observer analysis of federal documents.

Porter McConnell, with the Washington, D.C., group Americans for Financial Reform, said Wells Fargo's transferring of jobs overseas is not surprising.

"One way the tax cut lined the pockets of executive and shareholders was by reducing tax rates on income from overseas, which creates a powerful incentive to shift jobs and cash out of the United States," she said.

Wall Street Is Making The Most Money Ever. So Why The Long Face? | Bloomberg
No matter what happens as December drags to a close, JPMorgan Chase & Co., Goldman Sachs Group Inc. and the other four U.S. heavyweights made so much money in the first three quarters that they've already topped last year's total haul. Boosted by Donald Trump's tax cuts, they're heading toward their first $100 billion year ever, smashing the $93 billion record from 2016. But jubilation is hard to find.

Holiday spirits across Wall Street are being spoiled by anxiety that markets are getting uglier, frustration over the industry's own miserable stock prices and fears that a recession will finally hit. Another explanation for the tempered mood: Bankers are savvy enough not to flaunt record-setting profits a mere decade after taxpayers bailed them out during the financial crisis.

"Some it of it is real, some of it is strategic," Karp, who started the advisory firm Cornerstone Capital Group after spending decades at global banks, said about Wall Street's self-deprecation. There's genuine nervousness and fear, she said, but there's also a widespread reluctance to "show how amazingly well you're doing when people are starving and dying."

Economy Is Strong. Leadership Is Shaky. Which Will Win Out In 2019? | New York Times (Neil Irwin)
Sometime in the last couple of months, predictions of a major economic downturn or recession in 2019 went from being a crank view to the conventional wisdom.

It is true that the global economy is sputtering, and that the stock market is in its worst pullback in a decade, with the Standard & Poor's 500 index down more than 19 percent since Sept. 20 as of Monday’s close. But this sense of gloom and pessimism has gotten ahead of the facts on the ground, especially concerning the United States economy.

The real risk is not that insurmountable challenges knock the economy off course. It is that poor leadership converts moderate economic shocks into a crisis.

The combination of erratic behavior from the president and a thinly staffed government in the United States; the potential crises facing other major economies; and the lack of trust amid allies and major trade partners could make routine economic challenges turn into something worse.

CONSUMER FINANCE AND THE CFPB

Statement: Advocates Urge Consumer Bureau To Protect Consumers From Abusive Debt Collectors | Americans for Financial Reform and National Consumer Law Center

Advocates Want CFPB’s Kraninger To Set Limits On Debt Collectors | American Banker
Two consumer advocacy groups will urge the new head of the Consumer Financial Protection Bureau to impose strict limits on debt collectors.

In a letter they plan to send Thursday, the **Americans for Financial Reform** and the National Consumer Law Center will ask CFPB Director Kathy Kraninger to restrict debt collectors to having "one live conversation per week" with a borrower and up to three attempts per week to reach a consumer by phone.

“We particularly ask the Consumer Bureau to focus on preventing harassment, increasing consumer privacy, stopping the collection of time-barred debt, and improving the clarity and accuracy of debt collection notices,” they said in the letter, a draft of which was obtained by American Banker. The letter is signed by other civil rights, labor and legal services groups.

Read: Consumer Financial Protection Bureau Needs A Systematic Process To Prioritize Consumer Risks | Government Accountability Office

Wells Fargo Agrees To Pay $575 Million To Resolve State Investigations | New York Times
Wells Fargo has agreed to pay $575 million to resolve investigations by all 50 states and Washington, D.C., into a range of practices, the latest chapter in the bank’s long-running legal problems.

The deal ends investigations that began after federal regulators revealed in September 2016 that Wells Fargo employees had for years opened millions of unauthorized bank accounts in customers’ names. The employees said they had done so because they feared losing their jobs if they could not meet the bank’s aggressive sales goals.

The agreement comes after New York reached a separate, $65 million settlement with Wells Fargo in October over the sham accounts, and after the bank paid $1 billion in April to settle federal charges related to its handling of mortgages and auto loans.

Tester Defends Consumer Protection Law | Billings Gazette (Susan Fenner)
Our senators voted recently on whether active duty service members and their spouses deserve to have laws enforced that defend them from illegally high-cost loans.

They voted on whether senior citizens deserve a protector who will clamp down on scams.

They voted on whether students deserve protection from abuses by debt collectors.

Bank Analyst Rips Robinhood's New Savings Account Plan, Says Regulators May Get Involved | CNBC
Robinhood on Thursday unveiled no-fee checking and savings accounts with no minimums, ATM fees, penalty charges or foreign transaction fees. It also is offering a 3 percent interest rate, which is well above the industry average 0.08 percent yield on U.S. checking accounts and the 0.1 percent average on savings accounts, according to the latest data from Bankrate.com.

Robinhood's brokerage accounts are covered by SIPC insurance, which protects up to $250,000 of cash in the case of a broker's failure. But there is a big distinction from bank accounts, which are covered by FDIC insurance.

"The fine print of the website says the offering is NOT a bank account, so the regulatory oversight of this offering is likely more thin," UBS said, noting bank regulators would likely want to know more about anti-money laundering safeguards in place and capital levels. "There's a risk that bank regulators could take issue with an entity with 3 million accounts presenting itself as offering banking products but avoiding the regulatory scrutiny that would go along with it."

'BCFP' No More: Kraninger Scraps Plan To Rebrand CFPB | American Banker
Consumer Financial Protection Bureau Director Kathy Kraninger has halted efforts to change the name of the agency to the Bureau of Consumer Financial Protection, according to a memo she wrote employees on Wednesday.

In the memo, Kraninger said the issue was an "early priority" because implementing a name change would have impacted required reports and legal filings. An internal agency memo had said the cost to the financial services industry could be roughly $300 million if the name change went forward.

"I have officially halted all ongoing efforts to make changes to existing products and materials related to the name correction initiative," Kraninger wrote in the memo.

Wonga Collapse Clears Decks For US Payday Loan Firms In UK Market | The Guardian
US-owned lenders have emerged as some of the biggest players in the UK payday loans market after the collapse of the former industry mainstay Wonga.

QuickQuid, WageDayAdvance and Sunny – owned by American-listed firms Enova, Curo and Elevate Credit, respectively – have made strides despite a clampdown on high-cost credit by Britain's financial regulator and a recent surge in customer complaints.

Wonga was brought to its knees in August by a spike in complaints over excessive charges on historic loans that in some cases came with interest rates topping 5,000%.

Consumers Slam Challenge To Cert. In Tribe-Linked Loan Suit | Law360
Consumers accusing an online lender tied to a Michigan tribe of issuing loans with unreasonably high interest rates urged a Virginia federal court Friday to reject a request by one of the defendants to lodge another brief challenging class certification, accusing him of trying to improperly tilt the scale.

The Virginia residents are attempting to certify four classes of individuals who took out loans with Big Picture Loans LLC, only to allegedly be charged high interest rates that flouted state law. The suit alleges that Big Picture purported to be owned by the Lac Vieux Desert Band of Lake Superior Chippewa Indians, but the loans were actually funded and controlled by another company, Bellicose Capital LLC.

Though the consumers bring claims against Big Picture, Ascension Technologies LLC — the entity that Bellicose was rebranded as — and Bellicose founder Matt Martorello, the consumers only seek certification for their allegations against Martorello. He promptly challenged the September motion and subsequently asked the court Thursday to let him file a sur-reply bolstering his arguments.

DERIVATIVES, COMMODITIES & THE CFTC

INVESTOR PROTECTION, THE SEC, AND RETIREMENT SAVINGS

Seniors Are Still Struggling To Recover After The Financial Crisis | Marketplace
The economic collapse was a shock to nearly everyone. Millions of people lost their jobs and their homes. It would take years for many of them to recover, if they recovered at all. But for those closest to retirement, or who were pushed out of the workforce early, “It meant that you never had the time to make that up,” said Teresa Ghilarducci, an economist at the New School for Social Research. She said the reality for nearly half a generation of newly minted seniors — and those on their way, “is that you are downwardly mobile.”

Or worse. The number of seniors filing for bankruptcy has nearly doubled since 2007 to a record high of 12 percent, part of it driven by the financial crisis; another part by mounting debt for things like medical care, mortgage loans and credit card bills.

While bankruptcy can be a fresh debt-free start, “the pickle is for older people that's highly unlikely,” said Deborah Thorne with the Consumer Bankruptcy Project. She said that on top of the financial crisis, seniors were also confronting another fundamental shift in the economy as managed pensions gave way to 401(k)s, where individuals manage their own retirement savings.

Yes, Some Companies Actually Want To Be Regulated | Axios
Here's a sampling of industries — both fledgling and established — that want the government to slap some regulations on them, in some cases to provide some certainty, and in others to get rid of headaches.

Financial advisers: Brokerage firms want more clarity about an Obama-era fiduciary rule that was overturned this year. The rule required financial advisers to work in their client's best interest — and not push products with higher fees, even if they produce less-than-stellar returns.

- But firms have already shifted investment products and altered structures of broker fees in preparation for the regulation's full implementation. The question is what's coming back and when. The SEC has since taken up the issue, proposed "Regulation Best Interest" and put it high on its 2019 agenda, Axios' Courtenay Brown reports.

EXECUTIVE COMPENSATION

Sears Bankruptcy Court OK's $25 Million In Bonuses For Top Execs | CBS News
Working for a bankrupt retailer still has it perks -- at least if you're among hundreds of high-level employees at Sears Holdings.

The company behind the Sears and Kmart chains on Friday obtained a U.S. bankruptcy court's permission to pay as much as $25.3 million in bonuses to top executives and other high-ranking employees at Sears, which filed for Chapter 11 bankruptcy protection in October.

The retailer successfully made the case that it needs to give employees a financial reason to stick around, even as it reported losses of almost $1.9 billion in the first three quarters this year.

MORTGAGES AND HOUSING

FHA Commissioner Brian Montgomery To Serve As HUD Acting Deputy Secretary | Housing Wire
According to a HUD spokesperson, FHA Commissioner Brian Montgomery will serve as the agency's acting deputy secretary.

Secretary Ben Carson accepted Patenaude's resignation earlier today. Carson often vocally praised Patenaude for her service as the deputy secretary.

"On behalf of a grateful agency, and the families and communities we serve, I want to thank her for her tremendous contributions to advancing HUD's mission," said Secretary Carson in an email to HousingWire. "She led HUD's largest disaster recovery response after unprecedented storms and fires damaged communities across the country. She is a true public servant, and I wish her well as she returns to private life in New Hampshire."

Trump To Name Currency Comptroller Otting As Acting Director Of The FHFA | Reuters
U.S. President Donald Trump will name Joseph Otting, head of the Office of the Comptroller of the Currency, as acting director of the Federal Housing Finance Agency, the White House said on Thursday.

Otting will continue to carry out his duties as the Comptroller of the Currency, a statement from the White House said.

The current FHFA director Melvin Watt, who will depart at the end of his term in early January, was under investigation for alleged sexual harassment of a subordinate in July.

HUD Deputy Secretary Pam Peterson Resigns | Housing Wire
This morning the Deputy Secretary of the Department of Housing and Urban Development, Pam Patenaude announced to Secretary Ben Carson her plans to step down in the New Year.

“It has been my honor to serve President Trump and Secretary Carson and I am deeply grateful to both for this opportunity,” her resignation letter states. “Thank you to my HUD family and fellow “housers” for helping Americans access decent, safe and affordable housing.”

Patenaude’s future is unclear. The letter simply adds she is grateful for an extensive, 35-year career in housing and that she looks forward to returning with her husband, Chuck, to their home in New Hampshire.

CFPB Modifies HMDA Data Disclosure, Issues 2019 Guidance | Housing Wire
The Consumer Financial Protection Bureau announced it has issued new guidance on Regulation C of the Home Mortgage Disclosure Act in an effort to protect consumers’ privacy.

The recently announced policy guidance affects loan-level data that is publicly disclosed beginning in 2019, according to the bureau's final rule (read here). The CFPB stated in its ruling that it intends to make these modifications to the data that financial institutions collected in 2018 when it is disclosed in 2019.

The CFPB's announcement on Regulation C outlines its final policy guidance that includes data modifications to protect consumers’ privacy, including excluding certain data from publicly disclosed HMDA data, such as the property address and applicant’s credit score.

Homebuilder Sentiment Drops To Lowest Point In More Than 3 Years | CNBC
Homebuilder sentiment dropped in December to its lowest point in more than three years while potential buyers hesitate to purchase new homes even as mortgage rates have pulled back in the past month.

According to the National Association of Home Builders/Wells Fargo Housing Market Index, homebuilder sentiment declined four points in December to 56. That is the lowest reading since May 2015 and well below December 2017's level of 74. This comes after an eight-point drop in November. Anything above 50, however, is considered positive sentiment.

"We are hearing from builders that consumer demand exists, but that customers are hesitating to make a purchase because of rising home costs," said NAHB Chairman Randy

Noel, a homebuilder from LaPlace, Louisiana. "However, recent declines in mortgage interest rates should help move the market forward in early 2019."

Divided Decade: How The Financial Crisis Changed Housing | Marketplace
Nearly 10 million homeowners lost their homes to foreclosure sales in the U.S. between 2006 and 2014. The effects of the subprime mortgage crisis are not only still being felt today, they have indelibly changed the way Americans view homeownership and the way we live.

Ambushed At Home | Reuters
Since 2002, Corvias has acquired control of more than 26,000 houses and apartments across 13 military bases. Picerne's company runs this lucrative enterprise in partnership with the Army and Air Force through a program that enlists private-sector operators to build new dwellings, upgrade others, and manage the properties for 50 years.

The Corvias homes are among 206,000 now under private management in the 22-year-old U.S. Military Housing Privatization Initiative, the largest-ever corporate takeover of federal housing. The military says the effort has enhanced the lives of service members and their families.

Some of Corvias' tenants strongly disagree. They accuse Picerne's company of renting them poorly maintained homes riddled with health hazards that can trigger illness or childhood developmental delays.

Reporters visited three of the largest bases where Corvias operates and interviewed 30 current or recent residents who documented their battles with the landlord. At Fort Bragg, the largest military base in the United States, a tenant petition to "hold Corvias accountable" for neglecting homes has gained more than 2,000 signatures.

PRIVATE FUNDS

The Rise of Private Equity Has Left Us With A Lot Of Worthless, Dangerous Debt | Quartz
The practice of taking pools of capital (derived from pension funds and very rich people) and deploying it in funds to acquire ownership of companies—often by taking public companies private and running them better in the hopes of selling them off for a significant profit—is going from strength to strength. Private-asset managers raised a record of nearly $750 billion globally last year, according to McKinsey and Co.

That included a jump in so-called megafunds, which contain more than $5 billion. Those now account for 15% of all US private fundraising, another record, according to the consultants.

And what has that left us with it? A lot of terrible, low-quality debt.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

[Education Dept Cancels Plan For New Student Loan System And Will Try Again](#) | New York Times
Just seven months before the scheduled release of a new technology system intended to simplify the repayment process for more than 35 million federal student loan borrowers, the Education Department is scrapping its plan and starting over.

The government is the primary lender for students who borrow for college, but it relies on eight outside contractors to service its $1.3 trillion portfolio. Those companies send out monthly bills, collect payments and guide former students through a repayment process that can take decades.

All of the servicers' contracts expire next year. The Education Department planned to use that opportunity for an overhaul that would replace its fragmented system with a more streamlined one.

The education secretary, Betsy DeVos, described the agency's vision last year and called for proposals from vendors. In September, the department named the companies that would advance to the next round of bidding.

Obscene Interest Rates Continue To Bury Students In Loan Debt | New York Post (Jonathon Trugman)
Fed Chair Jerome Powell has major influence over the cost of student loans, since they are based on the 10-year Treasury note, plus an add-on of 2.05 percent.

The rate hike expected Wednesday would make new student loans even more obscene, at 4.6 percent.

In 2011-13, when interest rates were effectively zero and the 10-year Treasury note was approximately 1.5 percent, student loans were charging 3.5 percent — and they will stay at that rate for life for the majority of borrowers.

SYSTEMIC RISK

U.S. Bank Regulators Warn Of 'Living Will' Shortcomings At Four Foreign-Owned Banks | Wall Street Journal
U.S. bank regulators on Thursday faulted Barclays BCS -0.67% PLC, Credit Suisse Group AG CS -1.77% , Deutsche Bank AG DB -3.70% and UBS Group AG for shortcomings with their "living will" plans for winding themselves down in a crisis.

The Federal Reserve and the Federal Deposit Insurance Corp. said each of the foreign-owned firms had shortcomings with how their U.S. units communicate and coordinate with their overseas parents during a bankruptcy or other stress event. Credit Suisse also was cited for shortcomings related to estimating the liquidity needs of its U.S. firm.

The censures, which amount to a slap on the wrist, are less severe than the finding of a "deficiency," which could lead to more stringent capital and liquidity requirements on the firms. The banks must address the shortcomings when they next submit living wills in 2020.

The plans are meant to show how a firm would wind itself down in a crisis without turning to U.S. taxpayers for a bailout.

How Steve Mnuchin's Path Of Destruction Leads From Wall Street To Trump's Treasury | Alternet (Rebecca Burns and David Dayen)
Mnuchin's special blend of incompetence and ill intent leaves the field wide open for rampant Wall Street deregulation. In an April report, the agency boasted that it had already reduced its regulatory agenda by nearly 100 regulations. As with most reports that Mnuchin has had a hand in, the math here is a little unclear. But there are several areas where Treasury or related bodies have already pulled off some dramatic slash-and-burn.

Take the Financial Stability Oversight Council (FSOC), a 10-member body created by Dodd-Frank to identify and constrain risk in the financial system. Although Treasury only has one vote, the secretary chairs FSOC and tends to have outsized sway. In that capacity, Treasury has pushed successfully to change the designation criteria for "systemically important financial institutions" that are subject to enhanced supervision. The process began with a vote to de-designate AIG, freeing the insurance giant from stricter prudential standards a decade after the Fed rescued it from bankruptcy.

"The original test for designation was, 'if a bank got in trouble, would it create a threat to the financial system?'" says **Marcus Stanley, policy director for Americans for Financial Reform**. "They've changed that to, 'do we think it is likely to get in trouble?' even though the whole point was to regulate banks before they're about to fail."

Mnuchin Blames Volcker Rule, High-Speed Trading For Volatility | Bloomberg
"In my opinion, market structure has led to a lot more volatility," Mnuchin said. "Part of this is a combination of the market presence of high-frequency traders combined with the Volcker Rule."

Yet, the ascent of high-frequency traders was more than a decade ago, and the Volcker Rule has been in place since 2013. And while daily swings have been violent in 2018, last year was the calmest since at least 1990, according to the CBOE Volatility Index, and each of the last six years was below the historical average.

Wonder How The Trump Administration Would Handle A Financial Crisis? Well, Now We Know. | Washington Post (Catherine Rampell)
On Sunday, Treasury Secretary Steven Mnuchin released a seemingly panicked statement urging the public not to panic. From his Mexican golf vacation, Mnuchin had called heads of our biggest banks and then told the world that these banks had enough liquidity to continue lending. He also announced an emergency Christmas Eve convening of the "Plunge Protection Team," which includes heads of the Fed, Securities and Exchange Commission and the Commodity Futures Trading Commission.

I cannot sufficiently stress how amateurish it was for Mnuchin to make this announcement.

If markets were worried about anything, it was Trump's scheme to fire Powell, not bank liquidity — until Mnuchin suggested they should be worried about bank liquidity. The whole episode was like going to your doctor for a heart attack and being told not to worry because he knows how to treat brain cancer.

FASB Announces CECL Roundup In January | Politico Pro
Financial Accounting Standards Board Chairman Russ Golden today announced that his organization will hold a public roundtable in January on "implementation issues" related to the current expected credit loss accounting standard.

The standard, which takes effect starting in 2020, would require banks to immediately record expected losses when they make loans. Banks have argued that the rule would dissuade them from making loans during an economic downturn.

"Since issuing the credit losses standard in 2016, FASB members and staff have been working with stakeholders to facilitate a smooth transition by addressing questions and obtaining feedback on the guidance," Golden said in a statement. "The roundtable will provide stakeholders yet another opportunity to discuss cost-effective issues they believe the Board should address."

Crapo: 2012 Stress Test Guidance Needs To Be Submitted To Congress | Politico Pro
Senate Banking Chairman Mike Crapo (R-Idaho) today said an agency guidance document on large bank stress testing can't be enforced because it was never submitted to Congress as a rule under the Congressional Review Act.

"It is difficult to see how the 2012 Guidance is not a 'rule' under [CRA]," Crapo said in a letter to Federal Reserve Chairman Jerome Powell, FDIC Chairman Jelena McWilliams and Comptroller of the Currency Joseph Otting. The guidance document applies to banks with more than $10 billion in assets.

More specifically, Crapo asked for assurances that mid-sized banks are not being asked to run stress tests under that guidance, given that the new bank deregulation law explicitly exempts those institutions from any such testing.

Read: OCC Stress Amendments To The Stress Testing Rules For National Banks And Federal Savings Associations

Small Banks Brace For Deposit Wars As Interest Rates Rise | Wall Street Journal
Three years after the Federal Reserve began raising rates from near zero, bank customers are starting to demand more interest on their deposits, particularly at small and regional U.S. banks. Many of these same banks ramped up lending after the financial crisis by adding long-term, low-rate loans. Now, as they pay out more to depositors, the rates they are earning on loans are barely moving.

Pinched banks can be found across the country. They include 34-branch Banc of California Inc., BANC +0.72% where interest costs rose 68% over the last year as it paid up to attract depositors; Southern National Bancorp of Virginia Inc., SONA +0.25% which is now paying

2.25% interest on certain checking accounts while national lenders continue to pay effectively 0%; and New York Community Bancorp Inc., NYCB -0.26% whose deposit costs are rising faster than the yields on its loans.

Overall, profit margins from lending are still rising at banks of all sizes. But at many small banks, the metric has started to go in the opposite direction. Net interest margin, which is a key profit metric, fell at nearly half of a sample of small U.S. banks in the third quarter from a year earlier, according to an analysis from investment bank FIG Partners LLC.

A New Way To Stop The Next Financial Crisis | Wall Street Journal
A more realistic way to model financial risk is emerging. It could help big banks and regulators spot potholes, even if it can't stop people falling into them.

The previous method for modeling the financial world was shown to have huge blind-spots during the 2008 crisis. People didn't behave in the rational ways economists had assumedand supposedly freak events appeared with alarming frequency. Investors and regulators have been hunting for alternatives ever since.

The latest candidate is "agent-based" modeling. U.K.-based startup Simudyne has joined with U.S. federally-funded research company Mitre Corp to turn an agent-based model of asset fire-sales and investor flight from banks and funds into a commercial product. They are using the building blocks of a model of the U.S. financial system that Mitre built for the U.S. Treasury.

The World Will Pay For Not Dealing With Debt | Bloomberg Quint (Satyajit Das)
Today, the world doesn't have many options left. In theory, borrowers could divert income to pay off debt. That's easier said than done, given that very little of the debt assumed over the last decade was put to productive uses. As wages stagnated, households borrowed to finance consumption. Companies borrowed to finance share buybacks and acquisitions. Governments borrowed to finance current expenditure, rather than infrastructure and other strategic investments.

A sharp deleveraging now would risk a recession, making repayment even more difficult. Shrinking the pile of public debt, for example, would require governments to raise taxes and cut spending, which would put a damper on economic activity.

The Mysterious Government Organization That Pops Up In Moments Of Financial Crisis | Quartz
US Treasury secretary Steve Mnuchin announced this weekend that he would be convening the President's Working Group on Financial Markets for a call today (Dec. 24) to discuss the volatility that has plagued markets in recent weeks.

The official line on the working group is almost staggeringly unsexy: it's a Reagan-era initiative connecting Wall Street and Washington to work on issues affecting the market.

For three decades, however, this group of senior federal and NYSE officials has been plagued by confusion, conspiracy theories, and general misinformation. They're often referred to by a far more glamorous name, coined by the Washington Post in 1997: The Plunge Protection Team.

The 'Smart Money' Sees Another Financial Crisis Within 5 Years: Natixis Survey | MarketWatch
A majority of institutional investors predict the global financial system will suffer another crisis within five years, according to a survey of 500 institutional investors across 28 countries, conducted by Natixis Investment Managers.

Some 64% of money managers surveyed say the next crisis will hit within one to five years, while just 9% do not foresee another global financial crisis 10 or more years out.

More than 6 in 10 respondents think that government debt will be a "contributing factor" to the next crisis, while nearly half of respondents think one or more asset bubbles will be a key catalyst.

TAXES

Wall Street Thrives And Working People Struggle As GOP Tax Bill Turns One | Inequality.org (Max Moran)
The Tax Cuts and Jobs Act of 2017 — the only major piece of legislation passed by the Trump administration — turns one year old this week. The law's advocates promised it would create an economic bonanza for working people. Instead, its biggest corporate backers have laid off employees and offshored jobs while the promised investment boom is nowhere to be found. And for all of the talk about rising GDP and a tight labor market, millions are still barely making ends meet.

But that's not all. As critics warned when the bill was being drafted, the legislation gave disproportionate benefits to one massive, reviled industry: Wall Street. The nation's six biggest banks enjoyed estimated $14 billion in tax cuts this year — enough to give every teacher in America a $4,000 raise. The banking industry also saw a record $62 billion in profit in the third quarter of 2018, thanks in large part to the tax cuts.

If any industry benefited from the law, it was banking. So, has Wall Street behaved as promised, and invested in American prosperity? Of course not. Wall Street has reinvested in Wall Street.

Mnuchin Backs Off Trump's Promise Of 10% Middle-Class Tax Cut | Bloomberg
The Trump administration is setting aside a middle-class tax cut and planning to focus its tax efforts next year on fixing mistakes in the 2017 overhaul, according to Treasury Secretary Steven Mnuchin.

Mnuchin said he's hoping to work with Congress on "some minor technical corrections" to the law, such as a drafting error that denies retailers and restaurants a tax break when they make renovations. He downplayed the prospect of the middle-class tax cut that Trump campaigned on in the days leading up to the midterm elections.

Companies That Paid Tax Cut Bonuses Last Year Are Quiet So Far This Year | Huffington Post
Corporations rewarded their shareholders with a record-setting $1 trillion in stock repurchases this year thanks partly to the Republican tax law.

But, unlike last year, when scores of major U.S. companies announced bonuses and raises for their workers following passage of the bill, few firms have announced similar plans heading into 2019.

The bonuses that companies announced were a major selling point for Republicans after they passed the Tax Cuts and Jobs Act in December 2017. House Majority Whip Steve Scalise kept a running tally of corporate press releases and news stories about bonuses that cumulatively reached something like 4 million workers.

Dems Are Going To Attack The GOP Tax Law From Several Angles Including SALT Caps And Breaks For Corporations | CNBC
Democrats are planning to turn up the heat on the Republican tax law as they expand their power on Capitol Hill.

After flipping 40 House seats in November's midterm elections, Democrats will become the majority in the chamber next month — and they have key parts of the signature legislative achievement of President Donald Trump's administration in their cross-hairs

America Is Borrowing Like Crazy. Don't Worry. | The Week (Ryan Cooper)
The Trump tax cuts are doing exactly what anyone with two synapses to rub together could have predicted: blowing up the national debt. To cover expenses in November, the United States government had to borrow $205 billion — up from $139 billion a year previously.

The centrist media is almost certainly going to start howling bloody murder about this as soon as Democrats take control of the House of Representatives next year. The implication will be that we need immediate austerity — particularly in the form of cuts to Medicare, Medicaid, and Social Security, to get the debt "under control."

This is an absolute crock. Borrowing money is not a priori a bad thing, it is a necessary tool of economic management — and one in which the error of borrowing too little is just as dangerous as borrowing too much.

OTHER TOPICS

The Cost Of Economics' Lack Of Racial Diversity | Quartz
Bostic isn't the first black person to be a member of the powerful FOMC, which sets US interest rates thereby influencing everything from government borrowing costs to mortgages rates. The first was Andrew Brimmer, a sharecropper's son from Louisiana, who was educated in racially segregated schools. In 1966, Brimmer was appointed by president Lyndon Johnson to an eight-year term on the Fed's board of governors.

In the intervening 43 years, just two other black people have served on the FOMC, both men—Emmett J. Rice and Roger W. Ferguson Jr. Two other men of color, Narayana Kocherlakota and Neel Kashkari, both of Indian descent, have served as heads of the Minneapolis Fed. That makes six non-whites out of a total of 235 people who have served on the Fed's Board of Governors or been president of a regional Fed since it first met in 1914. It's worth adding that just 16 women have ever been on the rate-setting committee, which is made up of the members of the board and a rotating schedule of regional Fed presidents.

This lack of diversity at the very highest echelons of economic policymaking reflects a similar lack of diversity across the economics profession as a whole. It's one that leads to a lack of attention to issues that specifically affect minorities in everything from economic research to the macroeconomic models used to understand the world to public policy decisions. But it also deprives economics, in general, of its best chance to serve the public most effectively. A narrow pipeline of economists has created a profession vulnerable to groupthink. Lacking the widest possible range of perspectives, life experiences, and expertise, the profession stands to miss crucial information, and make poor decisions. This is a charge that was laid on the Federal Reserve after the 2008 financial crisis.

How different would US economic policy be if people from ethnic minorities more consistently took part in policymaking? How different would policies be if the macroeconomic models they were founded on more fully reflected people's lived experiences? A black man living in the US doesn't need a research study to tell him his chances of good employment and decent credit are worse than for his white peers. But maybe a policymaker does.

Public Bank Sought In California By Citizen Activists, Cannabis Growers | New Democrat

Like many debates, the concept boils down to money and who controls it. Specifically, can a publicly owned bank play a role within a community or a sector where traditional financial institutions are not filling the void?

In the United States, the idea has been around for centuries and tried at the federal and state level. Yet until recently, the only public bank operating in modern times has been the Bank of North Dakota — where it is politically sacrosanct. The bank, which celebrates its centennial next year, was formed to help North Dakota wheat farmers who were charged exorbitant interest rates at the time from banks in Minneapolis and Chicago.

All state funds through taxes and fees are deposited into the bank, but it is not insured by the Federal Deposit Insurance Corp. The bank partners with local banks to support agriculture, commerce and industry within the state and doesn't view itself as a competitor. It largely doesn't venture into the retail sector and does not offer ATM cards, debit cards, credit cards or online payment for bills.

Podcast: Rep. Katie Porter On How Capitalism Is Failing | Ezra Klein Show

The Postal Worker's Christmas | New York Times (Sarah Anderson)

The “losses” the Trump task force points to are a result of a congressional mandate to pay about $5.5 billion per year to fund future retiree health benefits 75 years in advance — a burden no other agency or company faces or could afford. Without this burden, as the task force itself makes clear, the Postal Service would have been in the black for the past six years.

While refusing to end this onerous mandate, the task force opposes the post office’s efforts to raise new revenue. The Postal Service has proposed expanding into check-cashing, bill payment and other financial services that could raise new revenue. These would be low-cost, reliable options for consumers without access to traditional banks, and they are services that post offices in other countries have provided for many years. But the task force opposes this move, arguing that the Postal Service can’t compete effectively with banks for this business.

This year, as my family gathers for our traditional Christmas Eve meal, we will remember our ancestors’ hard work — and hope that our country’s Postal Service will continue to thrive for many more generations.

Nobody Gains From Financial Crises — Except Far-Right Extremists | The Hill (Emil Verner)
We found that areas with the most exposure to foreign currency debt experienced a much sharper rise in support for the far-right party. Distress from foreign currency debt explained about 20 percent of the success of the far-right political group. That’s a sizeable fraction of that group’s success.

Why do households in financial distress turn to extremist parties? Our research suggests that a compelling explanation is what we call “creditor-debtor conflict.” Debt contracts put the entire burden of adjustment to the crisis on debtors, forcing them to cut back on spending and look for other sources of income to meet rising loan payments.

Populist parties might therefore choose to represent the debtors’ interests and advocate debtor-friendly policies to win the support of distressed borrowers, especially since the burden of high debt obligations is often perceived as unfair.

Square Revives Request To Start A Bank | Wall Street Journal
The San Francisco-based financial-technology company said it plans to refile paperwork with state and federal regulators to open a wholly owned bank in Utah as early as Wednesday.

Square Financial Services Inc., as the new unit will be called, would primarily offer loans, deposit accounts and prepaid cards to small businesses.

Square previously asked for permission to start a bank in Sept. 2017 but later withdrew its application for procedural reasons.

Best known for its white credit-card readers, Square has expanded into an alternative provider of a range of banking services, from digital money transfers to retail installment loans.

Former Wilmington Trust Bank President Sentenced To 6 Years In Federal Prison For Fraud | Delaware News Journal
Wilmington Trust's former president and former chief financial officer each will go to prison for six years, pending appeals, for their roles in hiding from investors hundreds of millions of dollars worth of toxic loans at what was once Delaware's largest independent bank.

U.S. District Judge Richard G. Andrews delivered the sentences to Robert Harra Jr. and David Gibson in a Wilmington courtroom on Monday.

Seven months ago, a Delaware jury found the former executives, and two others, guilty of more than a dozen criminal counts of bank fraud, conspiracy and making false statements – crimes committed during the two years before the demise of the du Pont family-founded bank.

The rare prosecution of crimes committed by top executives at big banks during the height of the Great Recession followed more than six years of investigation.

The Reinvention Of Economics After The Crash | Quartz
Over the past few decades, the field had become more self-assured, harnessed more mathematics, and moved further away from social sciences such as psychology in the direction of hard sciences such as physics. Macroeconomists, who are concerned with understanding the economy in its broadest sense, were in a self-congratulatory mood. That is, until 2008. The financial crisis ruptured the profession and exposed deep flaws in its models for understanding the world.

The 10 years since the global financial crisis have been plagued with increasing anxiety about inequality and economic security. The brutal and far-reaching economic collapse, deep recession, and slow recovery have puzzled economists. Macroeconomists have been fending off criticism for not foreseeing a financial crisis of such epic scale.

During the 20th century, the West suffered from two major economic crises. Each of these brought about a major revolution in economic thinking. After the 2008 financial crisis, no such shift has taken place. Economists are still using many of the same tools built to address the same questions as before. When is the revolution?

A History Of U.S. Recessions | Marketplace
The National Bureau of Economic Research defines a recession as a “significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.”

A recession does not always include, as some technical definitions state, the occurrence of negative GDP growth for two consecutive quarters.

Since 1854, there have been 33 recessions, according to data from the NBER. Each has lasted, on average, for about 17.5 months.

Divided Decade: How The Financial Crisis Changed You | Marketplace

Ten years ago, the economy broke, and today America is a much different place. For the past year, Marketplace has been collecting stories about how the financial crisis changed you. Below is the first installment in a two-part series detailing your stories.

A Decade After The Financial Crisis: Progress, But Not Enough | Forbes (Jay Shah)
This year marked the anniversary of the start of the global financial crisis. Though a decade has passed, the $9.8 trillion in wealth Americans lost in retirement savings and home value during the recession is still fresh in the minds, wallets and portfolios of many. As the new year approaches, there's no better time than to reflect on lessons from a decade ago and resolve to do better.

Since 2008, regulators, advocates and some wealth managers have taken steps to improve the market for financial advice by making it more transparent and customer friendly. But the small steps forward only highlight how much further we must go. For every positive change -- from fee compression to the increasing number of easy-to-use financial apps -- there is far too much that has stayed the same, leaving investors vulnerable.