AFR Americans for Financial Reform Education Fund

This Week in Wall Street Reform | Jan 5 - 11

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TABLE OF CONTENTS

THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Ocasio-Cortez May Take On Wall Street, Fellow Democrats On Finance Panel | Politico Pro

Rep. Alexandria Ocasio-Cortez is poised to win a seat on the powerful House Financial Services Committee, in what would be a victory for progressives fighting to curb Wall Street's clout in Washington and inside the Democratic Party itself.

The assignment, which lawmakers say they expect her to receive, would pit the 29-year-old New Yorker not only against banks that make up a major local industry but also potentially against business-friendly Democrats who have backed financial deregulation.

Some moderate Democrats have privately raised concerns that they'll be targeted by the former bartender-turned-progressive icon, whose willingness to challenge her party's establishment propelled her to Congress and the national spotlight.

"When industry lobbyists or their shills in Congress throw shade at a new member, it probably reflects a genuine fear that the newcomers will become a force for fixing a broken system," said **Porter McConnell, campaign director of the Take On Wall Street coalition.**

Progressives Fought For Key Committee Spots, But Centrist New Dems Came Out On Top | The Intercept

Rep. Alexandria Ocasio-Cortez failed in her long-shot bid for a seat on the powerful Ways and Means Committee, according to an announcement from House Speaker Nancy Pelosi Wednesday evening. Pelosi named a member of the New Democrat Coalition, the centrist wing of the party, to the seat instead, part of a sweeping set of wins by the Wall Street-friendly caucus.

However, Ocasio-Cortez is in line to get a solid consolation prize — a seat on the House Financial Services Committee, with jurisdiction over Wall Street. Sources close to the process said that it is also likely that Progressive Caucus member Katie Porter, D-Calif., a financial services expert, will get tapped for the committee, and that Rashida Tlaib, D-Mich., and Ayanna Pressley, D-Mass., are in the running. This would put a strong bloc of progressives on an important committee headed by Rep. Maxine Waters of California.

Introduction of Business Rules Slows Sharply Under Trump | Financial Times
US president Donald Trump has overseen a sharp slowdown in the pace of new business regulations in his first two years in office, according to an analysis by the Financial Times using government figures.

The data show that Mr Trump's administration has passed less than half the number of economically significant rules that Barack Obama did in his first two years as president, and 25 per cent less than George W Bush did over the same period.

His administration has also made some progress in taking rules off the books — one of the president's main campaign pledges — with some studies suggesting it has surpassed Mr Trump's target of eliminating two existing rules for every new one that comes in.

House Diversity Panel A Double-Edged Sword For Banks | American Banker
A new House subcommittee planned by Democrats to focus on diversity in banking and financial inclusion is getting high marks not just from public interest groups but also industry groups that say it could foster regulatory reforms needed to reach more customers.
The exact details of the new panel, which was proposed by House Financial Services Committee Chair Maxine Waters, D-Calif., are still somewhat unclear, but observers expect the subcommittee will address diversity issues among bank and regulator leadership, fair lending and reducing other forms of discrimination, and expanding financial services access to communities.

A key focus is expected to be the dearth of women and minority representation on bank boards. But industry representatives hope also to draw attention to regulatory barriers that they say impedes financial institutions from catering to customers in lower-income and rural areas.

Maxine Waters Won't Please Everyone, Even Some Fellow Democrats | Bloomberg Quint (Elizabeth Dexheimer)
The issues for which she's seeking Republican support include a reform of flood insurance, the export-import bank, tackling homelessness and what she called "working with the Senate" on deciding what to do about government-backed mortgage buyers Fannie Mae and Freddie Mac.

More exciting for progressives is Waters's vow to restore the power of the Consumer Financial Protection Bureau. And while she said that investigating Trump's lender, Deutsche Bank AG, is "not the centerpiece of my committee," she does plan to look into loans made to the president and his family.

It's a fine line to walk, and it illustrates the challenges Democratic leaders face in the coming months in trying to appease competing factions of the party. Waters must balance her own legislative priorities with the demands from her supporters to stick it to Trump and Wall Street.

"There's two sides of Maxine,'' said Representative Blaine Luetkemeyer, a Republican committee member from Missouri. "We'll see which one shows up."

Nellie Liang Withdraws Her Nomination For Central Bank's Board | CNBC
Former Federal Reserve economist Nellie Liang said on Monday she had withdrawn her nomination for a seat on the Fed's Board of Governors, citing concern over a lengthy Senate confirmation process.

"I have decided to withdraw my name from consideration to be a member of the Board of Governors of the Federal Reserve because the likelihood of a prolonged process could have left me in professional limbo for too long," Liang said in a statement.

President Donald Trump, who has criticized the central bank for raising interest rates, nominated Liang in September.

CONSUMER FINANCE AND THE CFPB

Waters And Kraninger Head For Early Showdown | Credit Union Times
It didn't take long for the battle to begin over how the CFPB should approach its role in consumer financial protection.

This week, new CFPB Director Kathy Kraninger seemed to emphasize weighing the costs and benefits of the agency's actions. Critics in the past have said that cost-benefit analysis doesn't work.

And Thursday night, new House Financial Services Chair Maxine Waters (D-Calif.) said in an interview on MSNBC that the committee will spend time trying to undo the damage she said former Acting Director Mick Mulvaney did to the agency.

One Potential Winner From The Government Shutdown — Payday Lenders | MarketWatch
While the partial government shutdown is largely bad news for U.S. companies, payday lenders look set for a boost.

"We're now getting to the point where federal employees are going to need some kind of short-term loan in some cases," said federal budget expert Stan Collender.

In cases where these employees can't turn to family or friends, companies that provide payday loans "are going to benefit a little bit, because there's going to be a request for funds," said Collender, known for his Budget Guy blog.

OCC Asks Court To Dismiss Fintech Charter Challenge | Politico Pro
The Office of the Comptroller of the Currency has asked a federal court to dismiss a state regulators' lawsuit seeking to bar the agency from giving banking charters to financial technology businesses.

In a motion filed on Monday in U.S. District Court for the District of Columbia, the OCC said the lawsuit filed in October by the Conference of State Bank Supervisors should be dismissed because the challenge lacks standing.

"The (CSBS) complaint should be dismissed on all counts for lack of jurisdiction, or, in the alternative, for failure to state a claim upon which relief can be granted," the OCC said.

The Democratic Primary Doesn't Have To Be A Nightmare | New York Times (Michelle Goldberg)
It turned out I'd been signed up for a dubious program that purported to protect users' credit in certain emergency situations. My bank had been accused of fraudulent practices in connection with it and fined $700 million by the Consumer Financial Protection Bureau, the government agency that was Senator Elizabeth Warren's brainchild. I tried, maddeningly, to seek redress from the bank — cycling through phone trees, screaming at automated operators. No one could tell me how I'd been enrolled in the program, or for how long.

Eventually, I turned to the C.F.P.B. itself, filling out a simple form on its website. A few weeks later, I was notified that the bank had been deducting money from my account for years, and I was being refunded more than $11,000. Having financed my own maternity leave, I badly needed the money.

Republicans, who under President Trump have been gutting the C.F.P.B., have long decried the agency as an overweening bureaucracy. To me it was an astonishingly user-friendly tool that cut through opaque corporate bureaucracy on my behalf. My experience with it shaped my perception of Warren as a brilliant policy innovator.

LendUp Spins Off Credit Card Business, Names New CEO | American Banker
The credit card business, including its intellectual property, technology and team in addition to the card portfolio, will be known as Mission Lane, the San Francisco firm announced Thursday. The company said that an undisclosed investment led by LL Funds LLC and Invus Opportunities had allowed it to scale up its credit card business.

LendUp said that it will continue to focus on personal loans, gamified education and savings. The company said it expects no immediate impact to customers as a result of the change. LendUp pitches itself as an alternative to payday lenders and promises a mobile-friendly experience and speedy borrower decisions.

The company also announced two executive changes on Thursday, naming Anu Shultes the new CEO of LendUp and Vijesh Iyer as interim CEO of Mission Lane.

Gig Workers Are Falling Into The Payday Loan Trap | Medium.com (Matthew Zeitlin)
Earnin offers the workers of tomorrow—the Uber drivers, the DoorDash deliverers, the Wag walkers—a portion of their hourly or contractor earnings almost immediately. Like any payday loan service, the idea is to cash out for hours worked before your check clears, and Earnin pays itself back when you receive your direct deposit. Assuming all goes according to plan, anyway. It doesn't always, revealing kinks in the service and the difficulties faced by people who use it.

TheBlessedDriver, a YouTuber who vlogs about the gig economy, explained in a recent video that because Grubhub has eliminated its daily pay options, she uses Earnin to get paid every day, up to $500 a week. Similar to services like DoorDash, Grubhub hires gig workers to deliver food that customers order online from a variety of restaurants. Grubhub pays its delivery drivers on Thursdays; DoorDash charges $1.99 to get paid same-day. This is why a service like Earnin holds such appeal: If you're working on demand, why not get paid on demand?

But, TheBlessedDriver cautions, after you get money from Earnin, you could end up with an overdraft charge if there's a gap between when you're supposed to get your money and when Earnin debits your account. It happens all the time.

DERIVATIVES, COMMODITIES & THE CFTC

"Bring Out Your Dead!" | National Law Review
On November 30, 2018, a federal court rejected the Commodity Futures Trading Commission's ("CFTC") allegations of market manipulation in CFTC v. Wilson ("DRW") and found in favor of the defendants, Donald R. Wilson ("Wilson") and his company, DRW Investments, LLC (together "DRW"). According to Judge Richard Sullivan (appointed to the 2nd Circuit Court of Appeals during the pendency of the matter and writing the decision while sitting by designation in the United States District Court for the Southern District of New York), "the CFTC … failed to prove that Defendants intended to cause artificial prices" and "its case founders on its abject failure to produce evidence – or even a coherent theory – supporting the existence of an artificial price." In a three-sentence statement on the decision, the Chairman of the CFTC was quick to note that the case applied the CFTC's authority as it stood prior to passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

Extended Shutdown of SEC Could Delay IPOs, Ripple Through Market, Experts Warn | Washington Post
The shuttering of the Securities and Exchange Commission during a prolonged government shutdown could ripple throughout the markets, including slowing some highly anticipated stock offerings by companies such as Uber and Lyft, securities experts say.

Watch: Waters: Trump Shutdown Is Jeopardizing Integrity Of Our Financial Markets | Financial Services Committee Democrats

Wall Street Firms Plan New Exchange To Challenge NYSE, Nasdaq | Wall Street Journal

A group of financial heavyweights including Morgan Stanley , Fidelity Investments and Citadel Securities LLC plans to launch a new low-cost stock exchange to challenge the New York Stock Exchange and Nasdaq Inc., NDAQ -2.73% the companies said.

The creation of the new venue, called Members Exchange or MEMX, comes after years of frustration among Wall Street brokers and traders with the fees charged by U.S. stock exchanges.

MEMX will be controlled by the nine banks, brokerages and high-frequency trading firms funding it, according to a news release viewed by The Wall Street Journal. Such an arrangement harks back to the era when exchanges were owned by their members, typically stockbrokers.

EXECUTIVE COMPENSATION

Flawed Economics Means Your CEO Is Overpaid | Forbes (Alexander Pepper)

The reasons why executive pay has increased exponentially in the last 30 years is complex, but the fundamental issue lies in a continued reliance to set pay on outdated economic models that assume executives are self-interested, fully rational and solely financially motivated. By grounding performance and compensation in agency theory, organisations prioritize pay over other motivators such as personal fulfillment and satisfaction, with the greatest emphasis on large pay-off or bonus schemes.

But agency theory fails to account for the real psychology of incentives. Research conducted over the past 35 years has found little evidence of a significant link between executive pay and performance. My own research found four key points that sit at odds with much of the accepted wisdom underlying the traditional approach to incentivising senior executives in Western and emerging economies.

Firstly, executives are more risk-averse than economic theory suggests, preferring clearer pay structures that they can understand and control, over potentially unambiguous but larger pay-offs. Secondly, intrinsic motivation is highly important. The executives I surveyed would sacrifice almost 30% of their income to work in more personally satisfying roles. Thirdly, executives typically discount the value of long-term reward schemes and deferred bonuses by more than 30% per annum, leading organisations to provide increasingly larger compensation packages to satisfy them. And finally, fairness matters. Executives pay attention to and care about, their level of reward in relation to their peers.

MORTGAGES AND HOUSING

[Another Agency Head Leaves The Trump Administration — And This One Hasn't Even Been Confirmed Yet](#) | CNN

Also appeared in [KBZK Bozeman News](#) and [Erie News Now](#)

In leaving with only a few months on the job, Bright joins a merry-go-round of administration officials, with the White House scrambling to fill critical positions at the Departments of Justice and Defense.

Financial reform advocates said that the quick turnaround is evidence that the financial industry will have a leg up as Congress considers what to do with the government-sponsored enterprises -- Fannie Mae, Ginnie Mae and Freddie Mac -- that have dominated the market for mortgage-backed securities since the financial crisis.

"These guys were the people behind the private securitization market that crashed in the crisis, and now they're trying to revive it," says **Marcus Stanley, policy director of Americans for Financial Reform**, a consumer advocacy non-profit. "Michael Bright is the perfect hire for them."

[Waters Statement On The Trump Shutdown's Impact On Housing In This Country](#) | House Committee On Financial Services' Press Office

Today marks the 20th day of the second longest government shutdown in U.S. history. It is shameful that President Trump and Congressional Republicans are so desperate to secure taxpayer funding for a senseless border wall that they're willing to leave American families with uncertainty and instability, as an estimated 400,000 federal employees are still furloughed and another 420,000 are working without pay.

Additionally, 95% of Department of Housing and Urban Development (HUD) employees have been furloughed.

Millions of families that rely on HUD's rental assistance programs are dangerously close to losing their homes due to projected lapses in funding. What's more, it has been recently reported that HUD, under Secretary Carson's leadership, has failed to follow its own contingency plan, allowing 1,150 project-based rental assistance contracts to expire with hundreds more hanging in the balance if this shutdown isn't resolved.

[FHA Asks Mortgage Industry To Help Unpaid Federal Workers With Mortgages](#) | HousingWire

The federal government is asking the mortgage industry to help unpaid federal workers and contractors with their mortgage payments because they may not be able to make those payments due to the [government shutdown](#).

The Federal Housing Administration announced late Tuesday that it is calling on all approved mortgagees and lenders to be "sensitive to the financial hardships experienced by borrowers as a result of the shutdown," including borrowers who are subject to furlough, layoff, or a reduction in income due to the shutdown.

Newly released data from Zillow [shows](#) that federal employees who own homes make about $249 million in mortgage payments each month. The Zillow report did not disclose how many of those have mortgages that are insured by the FHA, but the number is certainly greater than zero.

Consumer Financial Protection Bureau Publishes Assessments Of Ability-To-Repay And Mortgage Servicing Rules | CFPB Press Office -0 housing, not consumer finance
The Consumer Financial Protection Bureau (Bureau) today published a report under section 1022(d) of the Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) assessing the effectiveness of the Bureau's Ability to Repay and Qualified Mortgage Rule and a separate report assessing the effectiveness of the Bureau's mortgage servicing rule issued under the Real Estate Settlement Procedures Act (RESPA).

The Bureau issued the Ability to Repay and Qualified Mortgage Rule in January 2013 to implement provisions of the Dodd-Frank Act that require lenders, before making a residential mortgage loan, to make a reasonable and good faith determination based on verified and documented information that the consumer has a reasonable ability to repay the loan. The rule took effect in January 2014.

The Bureau also issued the RESPA Mortgage Servicing Rule in January 2013 to implement certain provisions of the Dodd-Frank Act imposing new obligations on mortgage servicers who are generally responsible for billing borrowers for amounts due, collecting payments, disbursing funds, and providing customer service. The rule also added new protections which the Bureau deemed appropriate or necessary to carry out the consumer protection purposes of RESPA. This rule also took effect in January 2014.

More First-Time Home Buyers Are Turning To The Bank Of Mom And Dad | Wall Street Journal
Rising home prices are sending first-time buyers to their parents for help with mortgage down payments.

More than 26% of mortgage borrowers who used Federal Housing Administration-insured loans got assistance from a relative to make the down payment in the 12 months through September, up from about 22% in 2011, according to data released late last year as part of the agency's annual report.

The FHA, an arm of the Department of Housing and Urban Development, insures lenders against losses on the sometimes riskier loans they make. Borrowers taking out FHA loans are predominantly buying homes for the first time and often have weaker credit profiles that make it more difficult for them to get a conventional loan. It makes sense these borrowers might need to ask for financial help, but the FHA is keeping an eye on whether the share doing so keeps rising.

Robust Data On Home Lending Essential To Fair And Equitable Treatment Of Borrowers | National Consumer Lending Center (Josh Silver) In order for the Consumer Financial Protection Bureau (CFPB) to protect millions of consumers from unsound lending, the agency must implement the public disclosure of the enhanced Home Mortgage Disclosure Act (HMDA) data in a rigorous manner that provides comprehensive and public information about loan terms and conditions.

NCRC has a mantra about the importance of data. You may hear one of us say at a conference plenary session that “Data drives the movement for economic justice.” The idea behind this mantra is that the public disclosure of data motivates lending institutions to lend in a fair and equitable manner because they know that members of the public can analyze the data to see if they are giving borrowers a fair deal. The stakes are large. Almost 50 million consumers have a mortgage and there is about $10 trillion of mortgage debt outstanding.[1]

HUD Tells Landlords To Dip Into Reserves During Shutdown | Politico Pro
Landlords at properties insured by the Federal Housing Administration should use reserve accounts to prevent the eviction of tenants during the government shutdown, the Department of Housing and Urban Development has told lenders.

HUD also encouraged owners of properties linked to HUD funding for the elderly and project-based rental assistance to submit requests for releases from their reserves to cover monthly payment shortfalls, in a letter Friday, which HUD spokesman Jerry Brown said had been sent to "approximately 60 stakeholders [and] trade groups."

The FHA is not processing applications for insurance or closing on any endorsements made after Dec. 21.

Ginnie Mae’s Bright Abruptly Resigns | Politico
Michael Bright, executive vice president and acting president of Ginnie Mae, abruptly resigned on Wednesday from the giant government-owned corporation.

President Donald Trump last year nominated Bright to become president of Ginnie, which is under HUD and promotes home ownership. Bright is leaving to be the CEO of the trade group Structured Finance Industry Group, sources confirmed.

He becomes the latest top housing official to depart from the government. Pam Patenaude, the highly regarded deputy HUD secretary, announced her resignation last month. And Mel Watt, director of the Federal Housing Finance Agency, left last week after his five-year term expired.

Supreme Court Debates The Meaning Of The Term ‘Debt Collector’ In A Foreclosure Protections Case Dating Back To The Financial Crisis | CNBC
The question of whether a law firm seeking to foreclose on a property is a debt collector is one that could affect millions of Americans. In 2016, about 200,000 homes were lost to foreclosure in states that permit lenders to foreclose on a property without going to court. Business groups have argued that these so-called non-judicial foreclosures are more efficient and fair to borrowers. Progressives say borrowers are entitled to more protections.

Obduskey's attorney, Daniel Geyser, argued that McCarthy & Holthus is a debt collector and therefore required to comply with certain procedural protections contained in the 1977 Fair Debt Collection Practices Act. That law was passed to prevent debt collectors from engaging in abusive or predatory practices.

But Kannok Shanmugam, the attorney for the respondent in the case, argued that the FDCPA does not apply because, he said, the firm is not a debt collector. Shanmugam argued that Congress has long made a distinction between those collecting debts and those who seek to enforce security interests, or collect property that is owed without demanding payment.

America's Housing Crisis Could Imperil Trump's Presidency | The Atlantic (Derek Thompson)
Considering that the Trumps made their first millions in middle- and low-income units, one might think the president would leap at the opportunity to make home construction his presidential identity if only as a matter of habit, or familial loyalty. Instead, many of his administration's most famous policies—its stringent stance on immigration, its attempts to slash hud funding, and its tariffs on construction materials—are all impediments to affordable construction.

And yet, stimulating the housing economy has never been more important, particularly for the White House. Stocks have been volatile for several months over concerns about global growth and rising interest rates. Other indicators, such as ISM, which measures manufacturing activity, are turning down. Trump is the least popular president in modern history, facing a battery of investigations and an incoming Democratic Congress that's practically salivating over its broad subpoena powers. A recession could doom this presidency. To avoid one, Trump needs a strong housing sector.

PRIVATE FUNDS

Private-Equity Firms Create Funds That Are Built To Last | Wall Street Journal
Blackstone Group BX +0.58% LP, Carlyle Group CG +2.84% LP, CVC Capital Partners and others over the past couple of years have launched funds that can own companies for 15 years or longer. Carlyle and CVC are back in the market raising new long-term buyout funds, and others are joining the fray. KKR KKR +2.10% & Co. said it has raised $5.5 billion from a few large investors, which it is pairing with $3 billion from its own balance sheet to do longer-term deals.

Meanwhile, firms such as investment giant BlackRock Inc., BLK +1.47% which doesn't have a significant private-equity business, have eschewed the traditional fund structure altogether in launching vehicles that can hold assets indefinitely.

A typical buyout fund owns companies—acquired largely with borrowed money—for around five years. Managers will usually tinker with a company's operations or structure with the goal of selling it or taking it public at a profit. Most investments are supposed to be unloaded by the end of a fund's 10-year lifespan.

BlackRock Cutting Roughly 500 Jobs | Wall Street Journal
BlackRock Inc. BLK -0.40% is cutting about 500 jobs as the world's largest money manager looks to simplify parts of its business and focus more on areas such as technology, retirement and nontraditional alternative investments.

The cuts make up roughly 3% of BlackRock's more than 14,000 workforce and will take place over the coming weeks. BlackRock began laying off staffers Thursday, said a person familiar with the matter. The cuts will happen broadly across the firm; it isn't clear what areas will be most affected.

The firm's head count will still be 4% higher than a year ago following the departures. BlackRock is reinvesting the money saved to bolster areas such as technology offerings, illiquid alternatives, retirement products and its fast-growing exchange-traded funds business.

Debt Island: Wall Street Closes In On 40 Years Of Profits At Puerto Rico's Expense | Little Sis
An important chapter in the story of the Puerto Rican debt crisis is coming to an end this month, as an adjustment plan around sales tax-backed, or COFINA, debt is being voted on by creditors and will likely be approved by the federal court overseeing the restructuring process in mid-January. The agreement will lock in 40 years of payments to Wall Street bondholders, with deep consequences for Puerto Rico.

Hedge fund billionaires are on the verge of pulling off what seemed unthinkable in the wake of Hurricane Maria: a massive payday, at the direct expense of the Puerto Rican people, on debt that was trading for pennies on the dollar in the months following the hurricane. As a result of debt restructuring agreements like the COFINA plan, an island reeling from economic and climate-induced crisis will be paying for billionaire yachts and vacation homes instead of basic necessities and a just recovery.

But more is coming: in 2019, another major adjustment plan concerning the commonwealth's debt will need to be developed by the oversight board and approved by creditors.

Are Hedge Fund Dollar Store Dreams A Mirage? | Forbes
How many hedge funds does it take to turn around a dollar store?

At least a half dozen and counting when it comes to Family Dollar, which was taken over in mid-2015 after the scion of company founder Leon Levine warded off a who's who in activist hedge funds and a found a savior in acquirer Dollar Tree. However, due to years of continued challenges in Family Dollar's stores, it is white knight Dollar Tree that has seen its stock stagnate and attract powerful activists who are now calling for a demerger. Here's the rub: The obsession hedge funds seem to have for struggling dollar stores may be little more than a mirage.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Federal Banking Regulators Issue Bulletin On New Student Loan Program | Providence Business Journal
The Treasury Department has issued a bulletin to banks and other financial institutions apprising them of new legislation that allows them to create programs for borrowers to "rehabilitate" their private education loans under certain conditions.

The changes are covered under Section 602 of the federal Economic Growth, Regulatory Relief, and Consumer Protection Act, signed by President Donald Trump in May, according to the bulletin.

Americans for Financial Reform – a coalition of 200 consumer, civil rights, investor, retiree, labor and business groups – has expressed concerns that 602 programs could harm borrowers.

"The bill is presented as a new path for consumers to gain relief from indebtedness for private student loans," the group said. "However, this section does not require that a financial institution take any positive steps at all, such as removing a default from a consumer's credit report if payments are restarted nor does it ensure that any payment plans offered are reasonable and affordable.

DeVos Deregulation Will Leave College Students In The Lurch | New America
One week from launching negotiations to rewrite key regulations governing higher education, Education Secretary Betsy DeVos released her proposals -- and they paint a grim picture for the future of college in America. Taken together, the proposals are designed to make it easier for schools to take students' money, and harder for states, accreditors, and the Department itself to hold them accountable when they provide a poor-quality education.

It's hard to get your arms around the enormity of the proposal -- as the Department had promised in a previous notice, the regulatory changes touch on over a dozen issues, covering everything from accreditation, to the definitions of online programs, to state authorization, to TEACH Grants. To manage all the issues, the Department will hold a full committee meeting to address issues like accreditation and the outsourcing of educational programs to unaccredited providers and vote on the whole spectrum of topics; and three separate subcommittees to negotiate and make recommendations to the full committee on distance education, participation of faith-based entities, and TEACH Grants. The structure is unorthodox, to say the least. Negotiators won't have time to fully debate the issues or expertise to understand everything on the table and how they relate to each other, and they have little chance of reaching consensus -- without which the Department has the discretion to publish any rule it wants.

Why This For-Profit College Will Cancel $500 Million Of Student Loans | Forbes
Career Education, which operates the for-profit colleges Colorado Technical University and American InterContinental University and serves approximately 34,000 students, agreed to cancel $493.7 million in student debt for nearly 180,000 former students. The Illinois-based company faced allegations of fraud and deceptive practices, including allegedly misleading students about its job placement rate and actual cost of earning a degree, among other practices.

"[Career Education]'s practices were unfair to students as well as taxpayers who supported federal student loans that were destined to fail," said Iowa Attorney General Tom Miller, the settlement's co-lead negotiator, said in a statement. "This agreement not only provides relief to former students but also protects future students and advances our efforts to clean up the for-profit education industry."

Massachusetts Considers A Stress Test For Private Colleges | WGBH News
The Massachusetts Board of Higher Education is preparing to adopt a stress test to monitor the financial health of private nonprofit colleges in the state. The proposal comes after the abrupt shutdown of Mount Ida College in Newton last year.
A draft report obtained by WGBH News shows the board is considering a new method to determine whether a school is at risk of abrupt closure.
The report, drafted by a working group of the board, finds an "ongoing and likely growing threat that more Massachusetts non-profit colleges will be forced by their financial conditions to merge or close."
"Shifting fundamentals including on demographics, competition and costs have created significant financial viability risk for some private, non-profit colleges in Massachusetts and have led to closures so abrupt as to injure students and families and undermine the credibility of higher education," the report notes.

Flipping The Economics Of Paying For Education, Because They're Upside Down | New York Times (Andrew Ross Sorkin)
The concept is deceptively simple: Instead of charging students tuition — which often requires them to take out thousands of dollars in loans — students go to school for free and are required to pay back a percentage of their income after graduation, but only if they get a job with a good salary.

The idea, known as an Income Share Agreement, or I.S.A., has been experimented with and talked about for years. But what's happening at Lambda School, an online learning start-up founded in 2017 with the backing of Y Combinator, has captivated venture capitalists.

On Tuesday, Lambda will receive $30 million in funding led by one of Peter Thiel's disciples, Geoff Lewis, the founder of Bedrock, along with additional funds from Google Ventures; GGV Capital; Vy Capital; Y Combinator; and the actor-investor Ashton Kutcher, among others. The new funding round values the school at $150 million.

SYSTEMIC RISK

The Shutdown Isn't The Only Threat To The Economy | New York Times (Sheila Bair and Gaurav Vasisht)
The momentum behind the American economy is strong. In 2018, unemployment hit its lowest rate in 49 years, 3.7 percent. Real wages were (finally) increasing and inflation remained muted. In 2019, growth is projected to slow but still remain above 2 percent.

Yet risks abound. The trade war and the escalating drama over the government shutdown threaten growth. Meanwhile, the Federal Reserve's inaugural Financial Stability Report, an early warning system for the financial markets, recently highlighted the vulnerabilities created by investors who show a "high tolerance for risk-taking" in the market for corporate debt. The economy's continued health will hinge on whether big Wall Street banks can withstand shocks caused by these or other threats and continue lending.

On this front, it is far from certain that banks and their regulators are prepared.

For The First Time Since 2007, Not A Single US Bank Failed Last Year | CNBC
Not a single bank failed last year, a rare occurrence that highlights the strength of the U.S. banking system.

In fact, 2018 was the first year since 2006 and only the third since the Federal Deposit Insurance Corporation was founded in 1933 that a calendar year passed without a bank failure, according to the Calculated Risk blog.

Thanks to the U.S. economic expansion, corporate tax overhaul and post-financial crisis rules that bolstered safety, banks have been thriving. The six biggest U.S. lenders were on track to generate more than $100 billion in profit, an all-time record, according to Bloomberg.

But the smallest and most vulnerable institutions — those most likely to fail — seem to be benefiting as well. Just eight banks failed in 2017, and all were acquired by larger lenders.

Seeds Of Another Financial Crisis? | Politico Morning Money Newsletter
SEEDS OF ANOTHER FINANCIAL CRISIS? — New paper from Federal Financial Analytics' Karen Petrou: "This time may be different since banks in 2019 are a lot safer than they were in 2008, but then credit is now coming far more from nonbanks. ... A U.S. economy that combines highly-indebted lower-income households and unregulated financial intermediaries is a powder keg. 2019's combination of debt burdens for those least able to sustain them, lenders with no capital backstops or liquidity facilities, and markets prone to take flight at the height of the cycle looks a lot like 2007, but with even more risks because economic inequality is even worse."

The Fed Is Ignoring The Biggest Lesson Of 2008 | Bloomberg (Editorial Board) The 2008 financial crisis showed what happens when the banking system lacks an adequate foundation of loss-absorbing equity capital. Unable to raise what they needed from wary investors, banks were forced to slash lending at precisely the worst time for the economy. Ultimately, only the full faith and credit of the U.S. government — and a direct infusion of more than 200 billion taxpayer dollars — could prop them up.

The lesson seems clear enough: Banks should raise capital while they can, and before they have to. The Federal Reserve apparently hasn't learned it.

The 2010 Dodd-Frank Act gave the Fed this very responsibility: tell banks to build a buffer of extra capital in good times, when the economy is growing and funds are relatively easy to raise. This idea of so-called countercyclical capital has worked well in other countries, most notably Spain.

TAXES

Dems Look To Chip Away At Trump Tax Reform Law | The Hill
Democrats in the coming year will be laying the groundwork to eventually roll back parts of President Trump's tax law.

No Democratic lawmakers voted for the measure Trump signed in December 2017, criticizing the bill for providing large benefits to wealthy individuals and corporations and for adding to the federal deficit.

With Republicans controlling the Senate and the White House, Democrats are unlikely to be able to undo any significant portion of the law in the next two years.

The Economics Of Soaking The Rich | New York Times (Paul Krugman)
The controversy of the moment involves AOC's advocacy of a tax rate of 70-80 percent on very high incomes, which is obviously crazy, right? I mean, who thinks that makes sense? Only ignorant people like … um, Peter Diamond, Nobel laureate in economics and arguably the world's leading expert on public finance. (Although Republicans blocked him from an appointment to the Federal Reserve Board with claims that he was unqualified. Really.) And it's a policy nobody has ever implemented, aside from … the United States, for 35 years after World War II — including the most successful period of economic growth in our history.

Watch: AFR's Alexis Goldstein On "All In With Chris Hayes" Discussing The Ocasio-Cortez Tax Proposal

IRS To Issue Tax Refunds During Partial Shutdown, IRS Says | MarketWatch
Americans can expect to get tax refunds during the partial government shutdown after all, following a decision by the White House Office of Management and Budget.

As part of the Treasury Department, the Internal Revenue Service has been shut for more than two weeks, and had said refunds could not be paid. President Donald Trump and congressional Democrats are sparring over Trump's proposed border wall, and about a quarter of government has been shuttered since Dec. 22.

Russell Vought, the acting OMB director, said the White House is trying to make the shutdown as "painless as possible consistent with the law."

Tax-Season Plan For Shutdown Coming Soon, Treasury Says | Wall Street Journal
The Treasury Department said Friday the government will update its plan for income-tax filing during a government shutdown "in the coming days," but didn't specify when the Internal Revenue Service would begin accepting 2018 tax returns or whether it was seeking a legal way to issue tax refunds.

IRS funding expired Dec. 21, caught in a dispute between President Trump and lawmakers over a wall on the U.S.-Mexico border. Since then, seven in eight IRS employees have been furloughed and routine audits have stopped. The remaining workers include those who run critical computer systems and conduct criminal investigations.

Under the IRS's plan through Dec. 31 and a similar one prepared for last year's filing season, the tax agency lists "issuing refunds" among the activities it doesn't do during a shutdown. That plan remains in effect.

Reversing that decision would likely require a legal determination that tax refunds are exempt from the shutdown. The IRS pays refunds under a permanent appropriation that doesn't have to be renewed annually, but there are other recurring costs associated with those payments. The government could argue, as it does already for IRS workers who support Social Security, that those costs are implied by the permanent funding for refunds and can continue despite the shutdown.

Watch: Robert Reich: The Big Economic Switcheroo

OTHER TOPICS

U.S. Shutdown Curtails Treasury Anti-Laundering Guidance And Intelligence Sharing | Reuters
The continuing U.S. government partial shutdown has forced the U.S. Treasury Department to implement a "lapse in appropriations contingency plan," which curtails the activities of Treasury's anti-money laundering unit, according to an official document.

Treasury's Financial Crimes Enforcement Network (FinCEN) will not be working on regulatory guidance or rulemaking as its normal workforce of 285 employees is slashed to 130, according to a document posted on Treasury's website[here].

It also will not be providing public speakers for AML events, nor will it respond to routine requests for financial intelligence submitted by foreign law enforcement agencies.

FinCEN will, however, continue to provide financial intelligence to U.S. law enforcement and intelligence agencies in support of money laundering and terror finance investigations, the document states. It also will continue to maintain the IT systems that banks and other financial institutions use to file Suspicious Activity Reports and other filings required by the Bank Secrecy Act.

Female Economists Push Their Field Towards A #MeToo Reckoning | New York Times
The economics profession is facing a mounting crisis of sexual harassment, discrimination and bullying that women in the field say has pushed many of them to the sidelines — or out of the field entirely.

Those issues took center stage at the American Economic Association's annual meeting, the largest gathering of the profession, last weekend in Atlanta. Spurred by substantiated allegations of harassment against one of the most prominent young economists in the country, top women in the field shared stories of their own struggles with discrimination. Graduate students and junior professors demanded immediate steps by the A.E.A. to help victims of harassment and discipline economists who violate the group's newly adopted code of conduct.

Leading male economists offered an unprecedented acknowledgment of harassment and discrimination in the field. "Economics certainly has a problem," Ben Bernanke, the former Federal Reserve chairman, who took over as A.E.A. president this year, said during a panel discussion. The profession has, "unfortunately, a reputation for hostility toward women and minorities," he said.

[When America Stared Into The Abyss](#) | The Atlantic (John Lawrence)
Ten years ago this past September, financial markets imploded, threatening to collapse the entire U.S. economy and setting off an extraordinary, and improbable, collaboration between the deeply divided Congress and the Bush administration. Prospects for successful cooperation were inauspicious: a highly partisan atmosphere, significant divisions within each party, deep suspicions of the administration's credibility, displeasure over Bush's indifferent record on regulating the financial-services industry, and a national election just six weeks away. And yet, remarkably, a political system widely castigated as dysfunctional proved capable of passing an enormously expensive, complex, and contentious piece of legislation that prevented a second Great Depression. As a senior aide to Pelosi, I had an opportunity to witness both the unfolding of the crisis and the private discussions and negotiations that saved the American economy from the worst meltdown since the 1930s. As a historian, I fortunately recorded on legal pads those private conversations as they unfolded, revealing the strategies, tensions, and interactions that allowed political rivals and adversaries to avoid the abyss. I have given those notes to the Library of Congress. This article marks the first time those discussions have been revealed.

World Bank's Kim To Resign Effective Feb. 1 | CNBC
World Bank Group President Jim Yong Kim, who was at odds with the Trump administration's policies on climate change, will resign effective Feb. 1, more than three years ahead of his term's expiration, the multilateral lender said on Monday.

Kim, 59, a physician and public health advocate, was nominated by former U.S. President Barack Obama for a first and second term. Kim had pushed financing for green energy projects and largely dropped support for coal power investments, but had avoided public clashes with the Trump administration.

Two people familiar with Kim's announcement to the World Bank executive board said he was leaving of his own accord and was "not pushed out" by the Trump administration.

President Donald Trump however, will wield strong influence in choosing Kim's successor as the United States holds a controlling share of the World Bank's voting rights. The bank president has traditionally been an American chosen by the U.S. administration.

The Embarrassment That Is Wells Fargo | Charlotte Observer (Editorial Board)
Editorial boards prefer to be prescriptive with the opinions we offer. A good gripe might be satisfying, but it's more productive when that comes with suggestions on how things might get better.

Sometimes, though, you just need to say when something is awful.

In Charlotte, a city that has long touted itself as a banking center, Wells Fargo has become an embarrassment.

It's embarrassing to the many employees who do good and honest work there. It's embarrassing to the cities, including ours, in which it has a significant corporate presence. It has become, simply, a stain on the banking sector.

Wells Fargo CEO: We're Proud Of Our Progress | Charlotte Observer (Tim Sloan)
In response to "The embarrassment that is Wells Fargo" (Our View, Jan. 6):

As CEO of Wells Fargo, I strongly disagree with your editorial board's characterization of our company as an "embarrassment" to Charlotte. I believe your editorial reflects a lack of understanding and appreciation for one of the city's most important employers — a company that long has been committed to Charlotte's growth and success.

Wells Fargo is proud to employ 25,500 hardworking and dedicated team members in Charlotte. We also donated more than $11 million to local nonprofits in 2017 (the latest year for which we have complete data), and local team members donated nearly 180,000 volunteer hours to community causes. Charlotte team members also joined their colleagues across the company in making us the No. 1 United Way campaign in the U.S. for the ninth consecutive year. And just last fall, our company committed another $20 million to address the need for affordable housing in Charlotte. We are proud of our contributions to the city, and we look forward to a continued, robust presence in Charlotte.

Blowin' In The Wind | Calvert Advisors (Camden R. Fine)
"Equal Justice Under Law" is a societal ideal that has guided the American judicial system since our founding. But within the American financial services system this ideal, this phrase, which is engraved on our Supreme Court Building, has been undermined by size and wealth. "Too Big To Prosecute" and "Too Big To Jail" are more apt phrases - at least when it comes to holding the mega financial firms like Wells Fargo accountable.

Much of the current distrust of our nation's banking system and the public cynicism toward our regulatory authorities stem from the fact that not one single CEO or even the second or third ranking executives of the so called "Too Big To Fail" (TBTF) financial firms was ever prosecuted much less charged with any kind of wrongdoing. What do you think spawned movements like "Occupy Wall Street"?

How many times does Wells Fargo have to break the law and violate banking regulations before real consequences are imposed? The laws and regulations that Wells Fargo has violated over the past decade are too numerous to count. Yet the CEO, top executives, and the Board have faced no personal consequences. And like the most recent fines, the numerous monetary penalties levied against Wells Fargo amount to nothing more than a slap on the hand in relation to the firm's balance sheet. We must demand a regulatory and judicial system that will punish wrong doers no matter their societal perch or the size of their institution.

There Are Fewer Gig Jobs Than You Think. Economists Walk Back Study That Showed Huge Increase | CNN
It was one of the most striking findings of 2016: The share of workers in "alternative" work arrangements, such as Uber drivers and other independent contractors, had risen dramatically over the previous decade.

The gig economy was exploding. The study from two well-known economists seemed to confirm that the traditional employment relationship was on the way out, to be replaced by micro-tasks delivered on demand.

Now the authors of that study — Alan Krueger of Princeton University and Larry Katz of Harvard — have walked back its conclusions. Their new study, released Monday, shows the challenge of figuring out how much Uber-type jobs have changed the landscape of American work.

Katz and Krueger's 2016 paper, based on data collected with the RAND Corporation, attempted to replicate the US Bureau of Labor Statistics' 2005 contingent worker supplement. At the time the Labor Department, the parent agency of BLS, didn't have the money to field a new survey itself.

The High Cost Of Financial Panics | Wall Street Journal
As we mark the 200th anniversary of the 1819 panic, it is worth pondering the role of governments in a financial crisis. During a panic in Rome in the year 33, the emperor Tiberius's prompt action prevented a total collapse of the city's finances. Rome was caught among falling property prices, a real estate bubble and a sudden credit crunch. Instead of waiting it out, Tiberius ordered interest rates to be lowered and released 100 million sestertii (large brass coins) into the banking system to avoid a mass default.

But not all government interventions have been as successful or timely. In 1124, King Henry I of England attempted to restore confidence in the country's money by having the mint-makers publicly castrated and their right hands amputated for producing substandard coins. A temporary fix at best, his bloody act neither deterred people from debasing the coinage nor allayed fears over England's creditworthiness.

On the other side of the globe, China began using paper money in 1023. Successive emperors of the Ming Dynasty (1368-1644) failed, however, to limit the number of notes in circulation or to back the money with gold or silver specie. By the mid-15th century the economy was in the grip of hyperinflationary cycles. The emperor Yingzong simply gave up on the problem: China returned to coinage just as Europe was discovering the uses of paper.