Americans for Financial Reform Education Fund

This Week in Wall Street Reform | Feb 2 - 8

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Banks Weigh Whether To Embrace Or Avoid Progressive Firebrand Ocasio-Cortez | Reuters

Barely a month into the new Congress, financial lobbyists in Washington are already strategizing how to handle the star power of rookie Democrat lawmaker Alexandria Ocasio-Cortez.

The Democratic Socialist and Wall Street critic joined the 60-member House Financial Services Committee in mid-January and more than a dozen lobbyists interviewed by Reuters say the 29-year-old activist and former bartender is too high-profile to ignore.

Richard Hunt, chief executive of the Consumer Bankers Association, said he had not encountered a lawmaker like Ocasio-Cortez in more than 20 years in Washington. "She has the ability to influence unlike a lot of other freshmen."

Trump Picks World Bank Critic Malpass To Lead Institution | Politico

President Donald Trump is expected to tap Treasury Department official David Malpass as the U.S. pick to lead the World Bank, according to senior administration officials, a clear sign the administration wants to rein in the international financial institution.

Malpass, Treasury's undersecretary for international affairs, has said global organizations like the World Bank "have grown larger and more intrusive" and "the challenge of refocusing them has become urgent and more difficult."

The institution aims to reduce global poverty by making loans, with a sizable portion flowing to China and India. Former World Bank President Jim Yong Kim stepped down abruptly early this year, effective Feb. 1, three years before the end of his term. Nominations for his replacement open Thursday and close March 14.

Trump Sought A Loan During The 2016 Campaign. Deutsche Bank Said No. | New York Times

The failed loan request is an untold chapter in Mr. Trump's long and tortured relationship with the banking industry. It shows that he was actively engaged in running his business in the midst of the presidential campaign, and it is likely to attract scrutiny from Democrats on two House committees that are investigating his two-decade relationship with Deutsche Bank.

In the early 1990s, Mr. Trump's hotel and casino properties declared bankruptcy four times, leaving prominent banks, including Citicorp and Manufacturers Hanover, with painful losses. The real estate mogul was all but excommunicated from Wall Street.

Deutsche Bank, which was eager to gain a foothold in the lucrative American market and more tolerant of risk than many of its rivals, filled the void. In 1998, it lent Mr. Trump $125 million for renovations on a Wall Street skyscraper. The relationship blossomed, and over the next 17 years, Deutsche Bank lent or participated in loans to Mr. Trump and his companies totaling more than $2.5 billion.

Then, just as the first votes were being cast in the Republican presidential primaries, Mr. Trump's lender of last resort got cold feet.

BB&T Buying SunTrust In Largest Megabank Merger Since Financial Crisis | Housing Wire

BB&T has purchased SunTrust Banks in a $66 billion deal announced Thursday. The all-stock deal combines two massive regional entities to create the sixth-largest retail bank in the U.S., and it marks the first major merger in the sector since the financial crisis ground big bank deals to a halt.

The move gives BB&T a much larger stake in the mortgage industry. In 2017, SunTrust ranked as top 25 lender with $10.6 billion in volume, according to data provided to HousingWire by iEmergent. By way of comparison, BB&T is ranked No. 34, with total mortgage lending volume of $6.7 billion.

The merged companies will rebrand under a new name, which will be announced prior to the deal's close.

Bernie Sanders And Chuck Schumer's Surprising Collaboration — And Weird Proposal — On Stock Buybacks | American Prospect (David Dayen)
The buyback explosion is the perfect example of how the Trump tax cuts operate as a transfer to the wealthy, and Schumer sniffed that out early. That companies like Wells Fargo have enjoyed huge profits from the tax cuts and spent billions on buybacks while laying off workers just makes it more acute. As primarily a political animal, Schumer will often throw populist elbows if it makes Republicans look bad. It's also the case that fewer shares on the market means less opportunity for stockbrokers, Schumer's constituents, to earn fees.

But if the critique is solid and broadly shared across the Democratic Party, the solution Schumer and Sanders advocate for here is … odd. Schumer and Sanders want to prohibit companies from buying back stock until it satisfies a checklist of "investing in workers and communities," including paying a living wage of $15 an hour, providing paid sick leave, and offering health insurance and defined benefit pensions to workers. This is similar to a bill presidential candidate Cory Booker introduced last year.

Elizabeth Warren Was Right: New Law Is Already Making Banks Bigger | The Intercept (David Dayen)
The proposed $28 billion merger announced Thursday between large regional banks SunTrust and BB&T is the biggest banking tie-up since the financial crisis, creating what would become the nation's sixth-largest bank. And it's a direct result of actions taken by the Trump administration and the bipartisan group of lawmakers who passed a bank deregulation bill in 2018.

While Democrats insisted that the bank bill, S.2155, was merely about community bank regulatory relief, critics and industry experts expected that it would lead to consolidation of the sector, which began to occur almost immediately after passage. "I'm concerned about the negative impact of increased consolidation caused by S.2155 on community banks and on customers who benefit from more competition for their business," wrote Massachusetts Senator Elizabeth Warren in April 2018, just a month after the bill's passage.

Warren singled out by name her own Democratic colleagues who were supporting the bill, catching internal blowback from the caucus. But Warren's warnings have proven prescient, as the SunTrust/BB&T merger represents the latest in a wave of deals in the financial sector. "Once again, big bank deregulation is leading to more consolidation," said Rep. Katie Porter, D-Calif., a Warren protégé and first-term congressman who sits on the House Financial Services Committee. "I opposed last year's bank giveaway bill, and the Trump administration's loosening of protections, precisely because it would make Too Big to Fail even worse. This merger will do the same, and end up hurting our nation's community banks."

CONSUMER FINANCE AND THE CFPB

Consumer Protection Bureau Cripples New Rules For Payday Loans | New York Times

Payday lenders won a major victory on Wednesday after the Consumer Financial Protection Bureau moved to gut tougher restrictions that were to take effect later this year.

The industry has spent years trying to fend off the new rules, which were conceived during the Obama administration. The regulations were intended to prevent spiraling debt obligations by limiting the number of consecutive loans that could be made and requiring lenders to verify that borrowers could pay back their loans on time while still covering basic living expenses.

Linda Jun, the senior policy counsel for Americans for Financial Reform, wondered whether the change was simply the result of the industry making enough noise.

“It's not like the agency wrote the old rule on a whim,” she said. “It was the outcome of a five-year process, with a lot of research and conversations with stakeholders on all sides. To essentially say ‘just kidding' and toss it aside is extremely disconcerting.”

Trump Administration Rolls Back Payday Loan Protections, Which Could Affect Millions Of Young People | CNBC
The Trump administration on Wednesday rolled back protections set to make payday loans less risky for borrowers, which could affect millions of young people: Almost 10 million millennials have taken out one of these high-interest, short-term loans in the past two years.

The Consumer Financial Protection Bureau, the government agency tasked with regulating financial companies, said it plans to abandon Obama-era payday loan stipulations that would require lenders to ensure borrowers could repay their loans before issuing cash advances.

"This proposal is not a tweak to the existing rule; instead, it's a complete dismantling of the consumer protections finalized in 2017," says Alex Horowitz, senior research officer at Pew's consumer finance project. Over the past eight years, Pew Charitable Trusts has extensively researched the payday loan market and weighed in on policy proposals at the state and federal level.

Trump Administration Hands Payday Lenders A Huge Victory | Washington Post
The Consumer Financial Protection Bureau on Wednesday proposed significantly weakening Obama-era rules governing payday lenders, boosting the fortunes of an industry accused of keeping low-income borrowers trapped in a cycle of debt.

Under the existing rule, set to take effect in August, payday lenders would be required to take several steps to ensure borrowers can afford the loans they are being offered. The latest proposals would rescind that requirement and delay the rule's implementation until 2020.

Consumer Financial Protection Bureau Moves To Roll Back Payday Lending Rule | CNN

Consumer groups say that rescinding the underwriting provision would essentially gut the protections offered by the rule.

A 2013 report completed by the Consumer Financial Protection Bureau found that payday loans can come with fees that amount to an annual percentage rate of more than 300%.

CFPB Wants To Roll Back Obama-Era Restrictions On Payday Loans | New York Post
A federal banking agency said it's angling to roll back looming restrictions on high-interest payday loans that were slated to take effect in August.

The Wednesday proposal by the Consumer Financial Protection Bureau would nix a requirement, proposed in 2017 by the Obama Administration, that payday lenders vet whether borrowers have enough money to pay back their loans before fronting them cash.

Consumer Protection Bureau Aims To Roll Back Rule For Payday Lending | NPR
The Consumer Financial Protection Bureau is targeting one of the hallmarks of the Obama administration: a rule that would protect the most vulnerable borrowers from the ballooning debt that can accrue with payday loans.

The rule never actually took effect. And now the consumer protection bureau is proposing to take it off the table.

The agency's chief, Kathy Kraninger, said in a statement that pulling back the rule would encourage competition in the payday lending industry and help improve credit options for borrowers in need.

Trump Administration Brings Relief To Long-Suffering Payday Lenders | New York Magazine Intelligencer
Congressional Republicans have been willing to back a lot of extremely unpopular causes for the sake of freeing their party's corporate donors from the tyranny of Obama-era regulations. In 2017, GOP lawmakers went on the record in support of expanding coal companies' right to dump mining waste in streams, preserving retirement advisers' right to gamble with their clients' money, allowing internet service providers to track and sell consumers' data without seeking their permission, banning states from setting up retirement savings plans for private-sector workers (a betrayal of Federalism that serves no purpose beyond eliminating one of Wall Street's potential competitors), and ending discrimination against serial labor-law violators in the bidding process for government contracts.

But even Mitch McConnell's caucus has its ethical red lines — and helping predatory lenders trap the working poor into vicious cycles of compounding debt proved to be one. After all, even Republican governors had seen fit to crack down on usurious payday lenders in recent years.

Thus, instead of repealing the Obama administration's reforms to payday lending through a highly visible congressional vote, the GOP has opted to kill them quietly through regulatory fiat. On Wednesday, the increasingly misnamed Consumer Financial Protection Bureau announced that it plans to rescind a rule that would have required payday lenders to establish borrowers' capacity to repay their loans within 45 days or less beforeextending them credit.

[Thanks To Trump, Payday Lenders Will Keep On Merrily Bilking The Poor](#) | American Prospect

The cycle of the payday loan is a well-known horror story. A person needs money, and they need it fast, so they visit a payday lender with names like EZ Cash or Cash Express. They get their money on the spot. The trouble comes later, when it's time to repay the loan. Most borrowers default on that small-dollar loan, which is how EZ Cash profits—as the loan is renewed or rolled over and the fees rack up.

One of the last regulations published under President Obama's director of the Consumer Financial Protection Bureau (CFPB), Richard Cordray, was a 2017 rule that would have curbed the most-egregious forms of payday lending. The Trump administration on Wednesday proposed to revise that rule—aiming to gut a powerful provision designed to protect borrowers.

The oft-cited statistic that the average American doesn't have the means to come up with $400 in an emergency was thrown into sharp relief over the past month, as federal workers missed out on their paychecks during the longest government shutdown in history. Workers told of difficulties buying diapers for their kids, trying their hands at Uber driving, and visiting food banks for the first time.

Some workers undoubtedly turned to payday lenders.

Warren Calls On Kraninger To "Immediately" Withdraw Payday Revision | Politico Pro

Sen. Elizabeth Warren (D-Mass.) called on Kathy Kraninger, the new director of the Consumer Financial Protection Bureau, to "immediately" rescind a proposal to weaken the payday lending rule, becoming the latest prominent Democrat to weigh in on Kraninger's first major initiative.

"The rule you released today makes a mockery of the CFPB's statutory mission of protecting consumers. It should be withdrawn immediately," Warren, who helped establish the CFPB under President Barack Obama, said in a letter on Wednesday to Kraninger that was obtained by POLITICO.

The CFPB yesterday proposed scrapping the ability-to-repay underwriting requirement at the heart of the agency's 2017 rule reining in payday lenders.

Waters Demands That Consumer Bureau Pull New Payday Proposal | Politico Pro

Rep. Maxine Waters (D-Calif.) on Wednesday called on Consumer Financial Protection Bureau Director Kathy Kraninger to rescind a new proposal easing restrictions on payday lenders, in a sharp rebuke to the new CFPB chief on her first major initiative.

Waters, the chairwoman of the powerful House Financial Services Committee, said she is "deeply troubled" by the proposed revision, which would scrap a key underwriting requirement of the consumer bureau's contentious rule reining in the lenders, who she said often charge interest rates of "300 percent or more."

"This proposal essentially sends a message to predatory payday lenders that they may continue to harm vulnerable communities without penalty," Waters said in an e-mailed statement. "I urge Director Kraninger to rescind this proposal and work on implementing a comprehensive federal framework -- including strong consumer safeguards, supervision, and robust enforcement -- to protect consumers from the cycle of debt."

Equifax To Provide Free Credit Reporting Service To Consumers Impacted By Partial Government Shutdown | Equifax
Equifax Inc. (NYSE: EFX), a global information solutions company, announced today that it will provide a free credit report service to consumers employed by the federal government who were impacted by the partial shutdown. The free credit report service, available here, enables consumers to access their Equifax credit report at no charge and is in addition to the free credit report consumers may obtain every 12 months by visiting annualcreditreport.com (ACR.com).

From Dec. 22, 2018, through Jan. 25, 2019, nearly 800,000 federal government employees and contractors did not receive their paychecks on time. Many consumers became increasingly stressed about their ability to meet their existing financial commitments and were concerned about the implications missed or late payments might have on their credit history.

"While the government has re-opened, consumers may be just starting to see the effects a missed or late payment has on their credit history," said Mark Begor, CEO of Equifax. "We recognize the stress this situation may have caused for so many, and we are eager to assist furloughed federal employees, contractors, their families and communities during an extremely challenging time.

Joint Letter: Letter To CRAs Urging Credit Relief For Federal Contractors And Small Businesses Affected By The Shutdown

Include link to the letter we were part of to credit bureaus asking them to do the right thing for federal workers and contractors

Democrats Request CFPB Documents On Zero-Fine Settlements | Politico Pro
wo House Democrats with oversight of the Consumer Financial Protection Bureau today requested documents from CFPB Director Kathy Kraninger on the agency's settlements with companies that have not resulted in fines or restitution.

In a letter to Kraninger, Reps. Maxine Waters (D-Calif.), chairwoman of the Financial Services Committee, and Al Green (D-Texas), chairman of the Subcommittee on Oversight and Investigations, noted that the agency "has recently announced several settlements against entities for engaging in unlawful practices without requiring the payment of redress to consumers harmed by the illegal conduct."

"This stands in stark contrast to the Consumer Bureau's practice under the leadership of former Director [Richard] Cordray. During Director Cordray's tenure, the Consumer Bureau recovered nearly $12 billion in relief for harmed consumers over its first six years," they added. "American consumers deserve a Consumer Bureau that will fight to recover their hard-earned money when they are cheated."

Consumer Financial Protection Bureau Settles With Cash Tyme | CFPB Press Office
The Consumer Financial Protection Bureau (Bureau) today announced a settlement with Cash Tyme, a payday retail lender with outlets in Alabama, Florida, Indiana, Kentucky, Louisiana, Mississippi, and Tennessee. Cash Tyme is the operating name for CMM, LLC, and its wholly owned subsidiaries in those states.

The Least Savory Actors In The Information Economy | Washington Post (Editorial Board)
The debate over data privacy has Facebook and Google squinting into a harsh spotlight, while the least savory actors in the information economy have managed to stay offstage. That is no surprise, since hiding is at the core of data brokers' business.

Data brokers, who prefer to be called by the ostensibly more flattering title of "information resellers," deal in information on consumers with whom they have no direct relationship and to whom they provide no service. Sometimes, brokers use that information to run people-search sites: You put in a phone number, and you get a name or address. Sometimes, they use it for marketing, assembling detailed dossiers on consumers and allowing advertisers to target their products to specific demographics. The collection occurs, with the help of telecommunications companies and sketchy smartphone apps passing along location data and more, with most Americans totally unaware.

DERIVATIVES, COMMODITIES & THE CFTC

U.S. Bank Rally At Risk As Derivatives Contagion Spreads Spreads From France | The Street
In an echo of the malaise that haunted markets in 2011, this year's rally in U.S. bank stocks could be derailed by a new streak of trading losses at French lenders including BNP Paribas SA (BNPQY) , according to a warning from a veteran bank analyst.

David Hendler, principal at Viola Risk Advisors in Montebello, New York, says a recent string of derivatives-trading losses at the banks are just the beginning. With no end in sight to the geopolitical and economic uncertainty spurred by President Donald Trump's policies, the price swings of recent months in global markets are likely to become the norm, Hendler says.

French banks have used derivatives -- a little-regulated, thinly collateralized financial contract that's essentially just a bet on stocks, bonds, commodities or currency markets -- to

create investments known as structured notes for banks, pension funds and wealthy investors, Hendler says. It's part of an effort to provide juicy returns to customers at a time when yields on European bonds are unusually low.
But recently, the derivatives trades have led to a string of losses.

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

Multimillion Dollar Shareholder Settlements Targeted At SEC | Politico Pro
Trial lawyers and big asset managers are scrambling to stop the Securities and Exchange Commission from allowing companies to block shareholder lawsuits, an issue that's drawing attention from Rep. Maxine Waters and could become a political headache for SEC chief Jay Clayton.

In a letter sent Thursday to Clayton, a trade association for corporate and municipal pension funds is asking the agency to reaffirm its opposition to forcing shareholders to agree to mandatory arbitration. Private arbitration would undermine one of the key ways shareholders can check the power of corporate managers by preventing them from going to court, the Council of Institutional Investors said.

The SEC has a longstanding tradition of ensuring that shareholders have access to courts and has previously rejected company appeals for binding arbitration. Though the agency's position has not changed, it is now being forced to wade into the issue.

SEC Charges Gaming Company Founder With Fraud | Politico Pro
The Securities and Exchange Commission on Thursday charged the founder of an online gaming business with allegedly defrauding investors of $9 million.

Robert Alexander sold investments in Las Vegas-based Kizzang LLC but then stole at least $1.3 million, the SEC said. He told investors they would make a minimum of 10 times their investment, the agency said.

In a parallel action, the U.S. Attorney's Office for the Southern District of New York filed criminal charges against Alexander.

EXECUTIVE COMPENSATION

CEO Pay Is An Underrated Risk To Stocks | Washington Post & Bloomberg (Nir Kaissar)
As U.S. stock investors contemplate the biggest long-term risks facing the market, such as a global economic slowdown, trade tensions or rich equity prices, they shouldn’t overlook a critical one: the pay disparity between corporate bosses and workers.

In 2015, the Securities and Exchange Commission adopted a rule that required public companies to disclose the median compensation of employees and that of the CEO, beginning with fiscal year 2017. The numbers have confirmed what many suspected: Chief executives are paid tremendously more than workers.

The numbers also revealed that hundreds of the biggest U.S. public companies pay their workers less than a living wage. That's not sustainable. As the grim pay disclosures pile up year after year, the backlash against the corporate elite will intensify. If corporate boards can't find a better balance in their pay structure, outside forces will, and at a potentially far greater cost to companies and their shareholders.

MORTGAGES AND HOUSING

Crapo Transforms Housing Finance Debate By Releasing Plan | Politico Pro
Faced with the prospect of the White House moving unilaterally to end government control of Fannie Mae and Freddie Mac, Senate Banking Chairman Mike Crapo laid down a marker Friday with his own plan to overhaul the nation's housing finance system.

Crapo (R-Idaho) offered the three-page outline with little notice Friday morning in the wake of comments by a top housing regulator suggesting that the Trump administration would go it alone on reforming the system — a goal that has remained elusive since the two mortgage giants were seized during the 2008 financial crisis.

Fannie and Freddie, which dominate mortgage financing, would become private guarantors whose market share would be capped under the plan. They would be required to sell off their multifamily businesses. No mortgage guarantor would be allowed to offer discounts to issuers based on volume, and banks would not be permitted to become guarantors.

GSE Reform, CFPB Underwriting Rule Are On Collision Course | American Banker
As Congress and the Trump administration chart a future for the government-sponsored enterprises, they face a fast-approaching deadline when a huge chunk of Fannie Mae and Freddie Mac's loans could be in violation of federal underwriting requirements.

The White House and Senate Banking Committee are pursuing parallel tracks to end the GSEs' federal conservatorships. Any resulting plan must deal with whether GSE-backed mortgages are still exempt from the Consumer Financial Protection Bureau's Qualified Mortgage rule.

The exemption, known as the GSE "patch," sunsets in January 2021 or when the conservatorships end, whichever comes first. Unless the patch is extended or the CFPB eases underwriting requirements for all loans, nearly a third of loans backed by the GSEs could face new legal liability. Other government-backed loans such as those insured by the Federal Housing Administration have a similar exemption.

PRIVATE FUNDS

Teachers' Union Targets Private Equity's Role In Prison Industry | Bloomberg
The American Federation of Teachers is encouraging pensions to consider avoiding private equity investments in companies that profit from mass incarceration.

Investing in companies in the prison business carries financial, headline and regulatory risks, the group said in its second report on the topic, released Tuesday morning. The AFT, the country's second-largest teachers' union, represents 1.7 million members participating in pension funds with an estimated $3 trillion under management.

"This is, first and foremost, a humanitarian and civil rights issue -- but it is also a financial issue that brings the misaligned incentives of our justice system into stark relief," said AFT President Randi Weingarten. "Private prisons and private equity firms that invest in corrections companies are profiting from jailing people -- disproportionately people of color -- and are a major contributor to the United States' world-leading incarceration rate."

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Schultz's Toxic Investments: For-Profit College, Tax Shelter For The Rich | Politico
Howard Schultz, the billionaire former Starbucks CEO and possible independent presidential candidate, invested millions of dollars and personally owned stock in Capella University, a troubled for-profit college that overcharged the federal student loan program hundreds of thousands of dollars, records show.

Schultz, a co-founder of the venture capital group Maveron, invested in the Minnesota-based university in 2003 and exited when the online institution went public in 2006, according to an analysis of federal records, press releases and Maveron's website.

Schultz touted the relationship in a 2003 news release announcing Maveron's $7.5 million investment in Capella's online education programs.

Circuit Judge Wary Of DeVos' Student Loan Debt Formula | Courthouse News Service
A Ninth Circuit judge suggested Friday that the Trump administration's Education Department used a flawed formula to make defrauded students pay back at least some loan debt to the federal government.

"It certainly seems at least plausible to say what was being compared here were apples and oranges, and the number that was being used as the comparator was being taken out of context entirely," U.S. Circuit Judge Marsha Berzon said during Friday's hearing.

Berzon was responding to a Justice Department lawyer's argument that the method used to determine how much defrauded students should pay back in loan debt was both fair and practical.

For-Profit Law School Seeks Shift To Non-Profit | Inside Higher Ed

Florida Coastal School of Law, a Jacksonville-based for-profit institution, says it will seek to reclassify as a nonprofit entity, joining a number of other for-profit institutions that have recently announced plans to change tax status as a solution to legal, regulatory or marketing hurdles.

The law school has faced growing scrutiny in recent years from legal education observers and its accreditor over its admissions standards and bar-passage rates. The American Bar Association found Florida Coastal out of compliance with accreditation standards last year. Other law schools operated by its parent company, InfiLaw, meanwhile, have closed or faced sanctions in recent years.

But Florida Coastal leaders say they've overhauled their academic curriculum and have made significant strides in student outcomes, boosting bar passage rates by 15 percentage points last year to over 62 percent.

Report: Almost All Non-Profit Organizations Would Pass 90/10 Rule | National Association Of Student Financial Aid Administrators

In their most recent bills to reauthorize the Higher Education Act (HEA), House Republicans sought to eliminate the so-called "90/10" rule, which currently prohibits for-profit institutions from collecting more than 90 percent of their revenue from federal aid programs, while House Democrats proposed to revert back to the ratio of 85/15—such as it was when the rule was first established in the early 1990s. A new report from the Brookings Institution explores whether this rule unfairly targets the for-profit sector, and discovers that almost all nonprofit institutions already fall below threshold.

The authors of the report—Adam Looney and Vivien Lee—found that more than 97 percent of public and private nonprofit institutions already comply with the 90/10 rule, compared with 82 percent of for-profit institutions. For example, the authors wrote that public two-year institutions on average receive 46 percent of their funding from sources such as state legislatures and charitable organizations. They also found that if the rule was changed to a ratio of 85/15, 13 percent of for-profit schools in 2015 would have been found to be noncompliant, and 27 percent would fail the rule if it were adjusted to 80/20.

Clash Over Ashford Univ. Casts Doubt On VA Protection Of Students | Republic Report

The U.S. Department of Veterans Affairs is charged by law and principle with shielding veterans from predatory abuses — deceptive recruiting, high prices, low-quality programs — by colleges seeking to profit off the GI Bill, which helps veterans pay for higher education. But as the Trump administration, especially the Betsy DeVos Department of Education, has moved to trash protections for students and taxpayers against predatory for-profit schools, the VA has continued allowing such colleges to enroll veterans.

Now, in an escalation of a long-running dispute over the continued operation of troubled for-profit Ashford University, the California state veterans affairs agency has responded to a threat from the Trump VA with a letter asserting that the VA is trying to force it to choose between two courses of action, one of which the California agency says would be "slovenly and inequitable" and the other that would be "a dereliction of our duty to protect our veteran students."

Uncertainty Looms As 2 More Art Institutes Prepare To Close | Education Dive
At least two more Art Institutes still controlled by Dream Center Education Holdings (DCEH) are slated for closure as uncertainty looms over the organization's remaining schools.

DCEH unloaded eight Art Institutes in a deal with another nonprofit in January. The organization itself and its remaining colleges went into receivership later in the month. DCEH, which is owned by the faith-based Dream Center Foundation, has faced heavy operating losses and mounting problems with creditors and landlords since buying the Art Institutes out of bankruptcy from Education Management Corp. (EDMC) a little more than a year ago.

Most of the other Art Institutes in receivership were already scheduled to close and were teaching out their remaining students. Of the three Art Institutes still operating and enrolling students, two — Las Vegas and Pittsburgh — are expected to close. The closures would wind down all but one of the Art Institutes remaining with DCEH not currently in teach-out mode. As for the remaining school, AI Seattle, it has been barred by its state regulator from enrolling new students after a surety bond expired.

SYSTEMIC RISK

Federal Reserve Board Finalizes Set Of Changes That Will Increase The Transparency Of Its Stress Testing Program For Nation's Largest And Most Complex Banks | Federal Reserve Board Press Office
The Federal Reserve Board on Tuesday finalized a set of changes that will increase the transparency of its stress testing program for the nation's largest and most complex banks. The changes are intended to improve public understanding of the program while maintaining its ability to independently test large banks' resilience.

The first change, which will begin for the 2019 stress test cycle and expand in subsequent years, will provide significantly more information about the stress testing models used in the Board's annual Comprehensive Capital Analysis and Review (CCAR).

Fed Kicks Off 2019 Stress Tests | Politico Pro
The Federal Reserve on Tuesday kicked off its annual stress tests by announcing the scenarios for this year's examination, finalizing moves to make them more transparent and extending the test cycle for certain regional banks.

Its annual stress tests, known as the Comprehensive Capital Analysis and Review, measure whether large banks have sufficient capital to weather a severe economic crisis by modeling how they would perform in hypothetical scenarios.

The Fed is making 2019 an "off-year" for lenders with between $100 billion and $250 billion in assets, in line with last year's bank deregulation law, which called for those firms to be stress tested “periodically,” rather than annually. The central bank proposed in October to test those banks every two years.

Fed’s Bullard: ‘Restrictive’ U.S. Policy Likely Curbing Inflation | Reuters
The U.S. Federal Reserve’s interest rate increase in December likely tipped monetary policy into a restrictive setting that may be pushing the economy farther from one of the Fed’s key goals, James Bullard, president of the St. Louis Federal Reserve Bank, said on Thursday.

Bullard, in remarks to reporters after an appearance at St. Cloud State University in Minnesota, said that on an inflation-adjusted basis he now views the current federal funds rate as “a little bit restrictive.”

The Next Financial Crisis May Come Soon — Are We All That Safe? | The Guardian (Kenneth Rogoff)
decade on from the 2008 global financial crisis, policymakers constantly assure us that the system is much safer today. The giant banks at the core of the meltdown have scaled back their risky bets, and everyone – investors, consumers, and central bankers – is still on high alert. Regulators have worked hard to ensure greater transparency and accountability in the banking industry. But are we really all that safe?

Normally, one would say “yes”. The kind of full-blown systemic global financial crisis that erupted a decade ago is not like a typical septennial recession. The much lower frequency of systemic crises reflects two realities: policymakers respond with reforms to prevent their recurrence, and it normally takes investors, consumers, and politicians a long time to forget the last one.

Unfortunately, we don’t live in normal times. Crisis management cannot be run on autopilot, and the safety of the financial system depends critically on the competence of the people managing it. The good news is that key central banks still, by and large, have excellent staff and leadership. The bad news is that crisis management involves the entire government, not just the monetary authority. And here there is ample room for doubt.

Senator Tillis Should Care More About Americans Than Big Banks | Forbes (Mayra Rodriguez-Valladares)
In an opinion piece yesterday, Big-bank rule may have fueled December’s stock market rout, Senator Thom Tillis argued that the Globally Systemically Important Bank (GSIB) surcharge could be one of the causes for the market volatility in December. He argued that this type of volatility should move “should not be happening with the economic fundamentals we currently have.” Given that Senator Tillis is a member of the Senate’s Committee on Banking, Housing, and Urban Affairs, I am concerned that there are a number of significant problems with his assertion about the role of the GSIB charge.

TAXES

Soak The Rich? Americans Say Go For It | Politico

The prospect of 70 percent tax rates for multimillionaires and special levies on the super-rich draw howls about creeping socialism and warnings of economic disaster in much of Washington.
But polling suggests that when it comes to soaking the rich, the American public is increasingly on board.
Surveys are showing overwhelming support for raising taxes on top earners, including a new POLITICO/Morning Consult poll released Monday that found 76 percent of registered voters believe the wealthiest Americans should pay more in taxes. A recent Fox News survey showed that 70 percent of Americans favor raising taxes on those earning over $10 million — including 54 percent of Republicans.

How To Soak The Rich | The Atlantic
The shared idea here is to make the tax code far more progressive as the left makes the government far more redistributive. Such tax policies tend to please liberals concerned that the party has failed to curtail inequality and to blunt its political effects, and terrify conservatives who argue that such policies are confiscatory and would hurt long-term growth. But what about the tax nerds? What do they make of these ideas on how to soak the rich?

U.S. Banks Win $21 Billion Trump Tax Windfall Then Cut Staff, Loaned Less | Bloomberg
Major U.S. banks shaved about $21 billion from their tax bills last year -- almost double the IRS's annual budget -- as the industry benefited more than many others from the Republican tax overhaul.

By year-end, most of the nation's largest lenders met or exceeded their initial predictions for tax savings. On average, the banks saw their effective tax rates fall below 19 percent from the roughly 28 percent they paid in 2016. And while the breaks set off a gusher of payouts to shareholders, firms cut thousands of jobs and saw their lending growth slow.

Democrats' Tax Plans Reflect Profound Shift In Public Mood | Washington Post
From the outset, several top-tier Democratic presidential candidates are pushing for new taxes on the wealthiest Americans and attempting to portray themselves as best positioned to fight the country's yawning inequality gap.

It is an indication of how much the Democratic Party is shifting and how far the candidates are willing to go to appeal to the party's energetic liberal faction. The debate over wealth — particularly with billionaires in the field and Democrats challenging a president whose riches helped get him to the White House — is a dominant theme of the early primary season.

Among the first advisers the candidates are consulting are not foreign affairs veterans or domestic policy experts, but economists.

Senate GOP Tax Writers Have No Interest In Revisiting SALT Cap | Politico Pro

The Senate Finance Committee won't be taking another look at the limit on state and local tax deductions enacted in the Tax Cuts and Jobs Act, H.R. 1 (115), a spokesperson for Chairman Chuck Grassley (R-Iowa) said today.

President Donald Trump had invited the question by telling reporters on Wednesday that he would be open to revisiting the $10,000 cap, saying he had heard the new policy had been "severe" on some taxpayers. His remarks came as Democratic governors have accused Republicans of deliberately targeting their states with the tax law.

But there's little appetite for any changes in the GOP-controlled Senate, since the states most affected by the cap — California, Connecticut, New York and New Jersey, for instance — are deep blue.

Trump "Open To Talking About" A Change In Tax Law That Is Costing Californians $12 Billion | Sacramento Bee
President Donald Trump said Wednesday that he is open to revisiting changes to a state and local tax deduction that Republicans in Washington enacted in 2017 and were projected to cost California taxpayers an extra $12 billion.

"There are some people from New York who have been speaking to me about doing something about that, about changing things," the president told a small group of regional reporters at the White House. "I'd be open to talking about it."

Until last year, taxpayers could deduct their state and local tax payments from their federal income taxes if they itemized their deductions. Republicans' 2017 tax overhaul, however, capped the deduction at $10,000, which primarily affected wealthy individuals in high tax states like California, New York and New Jersey.

OTHER TOPICS

Entire Industries Are Being Blacklisted By Insurers Over #MeToo Liability | The Intercept
Ten of the 32 insurance companies polled by Richard S. Betterley, publisher of the Betterley Report, said they were not underwriting the legal industry. Financial firms, including brokers, investment banks, and venture capital operations landed on the prohibited lists of eight insurers. Seven insurers said they'd blacklisted companies in the entertainment industry. Betterley shared a copy of his report, completed in December, exclusively with The Intercept and Type Investigations.

Betterley reached out to the biggest companies offering what is called "employment practices liability insurance," or EPLI, which covers sexual harassment, sex discrimination, and other employee claims. Among the companies responding to Betterley's survey were AIG, Chubb, The Hartford, and Travelers.

EPLI insurers christen their products with names like “ForceField” and “Employment Edge” and sometimes market their wares with #MeToo paranoia in mind. A blogger at a Manhattan insurance brokerage asks readers, “Is your industry a snake pit for sexual harassment claims?” At Nationwide, a webpage devoted to EPLI insurance warns that “a business is more likely to have an employment claim than experience a fire.” To attract clients for their expensive policies, which can demand seven-figure premiums for large firms, some insurers offer extras, such as free consultations with an outside law firm and sample employee handbooks.

Will David Malpass Run The World Bank Or Ruin It? | Foreign Policy
When it comes to the World Bank in particular—the world’s biggest development bank—Malpass in his time at Treasury has tried to slow down the its ability to raise more capital and to limit the number of countries it lends to.

He argues that revolutionary developments in capital markets over the last generation mean that much more private capital is available to more countries at reasonable rates for their development needs, and that there is a smaller, more targeted role for the World Bank. He’s been especially critical of the fact that China, the world’s second-largest economy, is the World Bank’s biggest borrower. He has also criticized the bank’s lending criteria, while taking potshots at what he sees as a bloated staff with inflated salaries.

“It’s the attitude people had 25 years ago, informed by a policy stance he had while working in the Reagan administration,” said Scott Morris, an Obama administration Treasury official who is now a senior fellow at the Center for Global Development. “He still sees the institution through that lens.”

Global Regulators Having Hard Time Defining Fintech -- Like The Rest Of Us | Forbes
Global regulators are having a hard time defining fintech credit like many consumers, investors---and reporters, The Financial Stability Board says in a report today.
“Descriptions of fintech credit business models vary significantly across jurisdictions,” the study explains.
FSB is an advisory body on the global financial system to the G20.
Only 26 percent of the regulatory agencies surveyed said they have formal or informal definitions of fintech lending.
The national financial regulators that do have definitions often focus on specific segments of the market including peer-to-peer lending, marketplace lending and lending-based.

Millennials’ Pay Still Stunted By 2008 Financial Crash | The Guardian
Millennials who entered the job market during the financial crisis are still suffering “scarring” effects on their earnings as they enter their mid-30s, making it even harder for them to cope with the economic pressures of having a family, a leading thinktank has warned.

Their pay has suffered by far the biggest squeeze of any age group since the 2008 crash, according to a study by the Resolution Foundation. While the wages of the over-50s have recovered to levels above those seen a decade ago, it found the typical salary for workers in their 30s was still 7% below its pre-crisis peak last year.

As young workers in their 20s during the financial crisis, millennials were by far the worst affected as salaries failed to keep up with inflation. Their pay fell by 11% from 2009 to 2014 before recovering some lost ground after that.

Why Record Job Growth In America Hides A Troubling Reality | The Guardian
January marked the 100th consecutive month of job creation in the United States – a record breaking streak of job creation that has left employers scrambling to find workers and dragged the long-term unemployed back into the market.

Yet even now, 20m jobs later, there are some parts of the US economy that have yet to reflect the positive image projected by the continuous job growth and low unemployment rate.

“That we’ve had the unemployment rate at or below 4% since last February is obviously historically remarkable,” said Mark Hamrick, senior economic analyst at Bankrate.com. “But the composition of the workforce or employment obviously paints a much more complicated story.”

What troubles analysts like Hamrick, as well as the central bankers at the Federal Reserve, is the fact that the US economy is now dominated by high skill, high wage jobs and low skill, low wage jobs. Gone are many of the middle skill, middle wage jobs and that, said Hamrick, a trend that has led to “not only the economic divisiveness of our country but to some degree the political divisiveness”. Take manufacturing for example, where about 25% of jobs have disappeared over the last two decades thanks to globalization and automation.

On Beyond Howard Schultz: Let’s Think About Bigger Things Than A Schultz Candidacy | American Prospect (Jim Lardner, AFR Alumnus)
It’s been fun, the Howard Schultz blowback. Sources close to Schultz say he was seriously unprepared for the experience of being called an egotistical billionaire asshole by just about everyone he had not hired to help his presidential candidacy boot up. Perhaps the response will lead the Starbucks founder to decide he is not our great national savior after all. I join with many others in wishing him a speedy journey to that conclusion.

That said, I suspect there is a warning here not just for Schultz but for us, his critics. To begin with, we should watch out for the danger of thinking small—of approaching the 2020 election from a place of fear.

Behind the anti-Schultz mobilization lies the nightmare of another close contest in which victory is undone by the combination of third- and/or fourth-party candidates and a less than ideal Democratic nominee. Memories of 2000 and 2016 make that scenario vivid. Anticipation of a second Donald Trump term makes it horrifying.But a close contest is hardly foreordained. Given the way things have been going lately (the government shutdown, the indictment of Roger Stone, the latest plunge in the President’s approval ratings), an easy win for the Democratic standard-bearer seems just as likely.

Want A Green New Deal? Then Challenge Global Capitalism | American Prospect (Terri Friedline)
To address these inequities and rising global temperatures,the Green New Deal must challenge the global capitalist activities that amplify racial and gender disparities in how people experience the effects of climate change. Black and brown people are already absorbing these effects by drinking poisoned water and breathing polluted air. Women are dying of miscarriages and children are at higher risk of disease and malnutrition.

Fortunately, the Democratic Party is poised to advance strong financial regulations and consumer protections in the coming years. With the 2020 campaign already underway, presidential contenders like Senators Elizabeth Warren and Sherrod Brown are likely put financial reforms front and center in their campaigns. And the newly empowered House Democrats won't be far behind. TheHouse Committee on Financial Servicesis set to dramatically pivot its attention to these critical issues under Representative Maxine Waterswhose leadership has been bolstered by the appointments of newly elected progressive Representatives Alexandria Ocasio-Cortez and Rashida Tlaib.

Given the massive scale of the problem, Americans need leaders who are committed to advancing this ambitious and expansive agenda. As Ocasio-Cortez's campaign platform affirmed, "It's time to shift course and implement a Green New Deal—a transformation that implements structural changes to our political and financial systems in order to alter the trajectory of our environment."

Federal Reserve Chair Calls Income Inequality The Biggest Challenge In Next 10 Years | Danbury News-Times
Federal Reserve Chairman Jerome Powell said that the U.S. economy is in a "good place" but warned that income inequality is the nation's biggest economic challenge in the coming decade.

"We want prosperity to be widely shared," Powell said Wednesday evening. "We need policies to make that happen."

The Fed leader was speaking at a town hall event with teachers when one asked him about the top head winds in the next 10 years. Powell, who was appointed by President Donald Trump but has been a frequent target of Trump's ire, said he was concerned that income growth for middle- and working-class Americans "has really decreased," while "growth at the top has been very strong."

Federal Reserve Survey Shows Tighter Lending Standards, Weakening Credit Demand | Wall Street Journal
A growing minority of banks reported tightening their standards for some loans in the fourth quarter and said they expected loan demand and performance to weaken, the Federal Reserve said Monday.

After a year in which banks continued to lend freely despite steadily rising interest rates, the Fed's January survey of senior loan officers showed an increasing number of institutions bracing for a lending slowdown.

"Banks reported expecting to tighten standards for all categories of business loans as well as credit-card loans and jumbo mortgages," the survey said. "Meanwhile, banks anticipate that loan performance will deteriorate for all surveyed categories."

Banks can tighten their lending standards in a variety of ways, such as charging higher interest-rate premiums, reducing the size of credit lines or imposing greater requirements for collateral or loan covenants.