Americans for Financial Reform Education Fund

This Week in Wall Street Reform | Mar 9 - 15

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'You Don't Get it.' Wells Fargo CEO Roasted At Congressional Hearing Amid Bank Scandals | Charlotte Observer
Wells Fargo came under blistering congressional scrutiny Tuesday in the wake of a series of consumer-related scandals.

The bank engaged in an "egregious pattern of consumer abuses," U.S. Rep. Maxine Waters said at the outset of a roughly four-hour hearing she chaired regarding the fourth-largest U.S. bank.

Tim Sloan's appearance before the House Committee on Financial Services marked the second time he has testified on Capitol Hill over problems at the bank following revelations in 2016 that bankers opened as many as 3.5 million unauthorized accounts to meet high-pressure sales goals. Since then, Wells Fargo has struggled to fix its image as it's disclosed harming customers in other areas of the company.

CEO Of Troubled Wells Fargo Says Bank Is Stronger | Associated Press
The CEO of beleaguered Wells Fargo told Congress Tuesday that the bank has cleaned up its act after a series of scandals that affected millions of customers.

But Democrats — and some Republicans — on the House Financial Services Committee didn't seem to be buying it.

Wells Fargo & Co. President and CEO Tim Sloan told the committee the bank is compensating customers who had been harmed, strengthening risk management and internal controls, and improving the culture at the consumer banking giant. Wells has paid billions of dollars in fines to regulators for consumer abuses in virtually every part of its business.

Wells Fargo CEO Faces Bipartisan Scolding, Defends Bank's Reputation | Washington Post
For more than four hours Tuesday, Wells Fargo chief executive Tim Sloan fought to convince lawmakers that the years of scandals that had tarnished the bank's image were in the past. Wells Fargo has shaken up its executive ranks, raised the minimum wage to $15 an hour and given millions to charity, he told them.

The House Financial Services Committee appeared skeptical.

"All the changes that you said you have made are not evident," said Rep. Maxine Waters (D-Calif.), chairwoman of the committee.

Wells Fargo has admitted to several misdeeds over the past two years: opening millions of accounts that customers didn't want or ask for; improperly repossessing thousands of cars, including from some members of the military; mistakenly foreclosing on hundreds of homeowners; and miscalculating the fees it charges customers.

Wells CEO: Bank Has 'Fundamentally' Changed | Politico Pro
Wells Fargo CEO Tim Sloan will tell House lawmakers on Tuesday that the bank has made broad changes to its governance structure and risk management that will help prevent the type of consumer-abuse scandals that have plagued the company for years.

"Solving past problems is not enough," Sloan will say at a hearing of the House Financial Services Committee on his bank, according to his prepared testimony. "We are equally committed to preventing new problems from developing. To do that, we have transformed our approach to risk management by fundamentally changing the organization of Wells Fargo."

The bank has to improve its ability to manage and communicate risks across the entire company before the Federal Reserve will consider lifting the cap it imposed on Wells' growth.

Wells Fargo Says Its Culture Has Changed. Some Employees Disagree. | New York Times
Wells Fargo has spent years publicly apologizing for deceiving customers with fake bank accounts, unwarranted fees and unwanted products. Its top executives say that because

they have eliminated the aggressive sales targets that spurred bad behavior, the bank's culture has changed.

Many employees say that is news to them.

There is no evidence that employees are secretly opening accounts in customers' names or tricking them into buying unnecessary auto insurance, as some did in the past. The bank has altered how it pays workers and added safeguards to catch bad behavior.

But Wells Fargo workers say they remain under heavy pressure to squeeze extra money out of customers. Some have witnessed colleagues bending or breaking internal rules to meet ambitious performance goals, according to interviews with 17 current and former employees and internal documents reviewed by The New York Times.

Wells Fargo CEO Heads To Congress Amid Claims That Reforms Are Slipping | Los Angeles Times
As the chief executive of Wells Fargo & Co. gets set to tell lawmakers that the bank is moving past its history of consumer abuses, a new report contends the embattled San Francisco financial institution is backsliding.

Some current and former employees said new customer-unfriendly sales incentives were replacing those eliminated after the bank's unauthorized-accounts scandal exploded three years ago, according to a report released Monday by the Committee for Better Banks, an advocacy group.

"As far as pressure, it's still there," said Meggan Halvorson, 35, who works in Wells Fargo's private mortgage banking division in Minneapolis and feels the constant push to get transactions "out the door."

Report: The Wheels Are Still Off At Wells Fargo: For Thousands Of Front-Line Employees, Wells Fargo Has Not Fixed Its Culture Of Fear And Intimidation | Committee For Better Banks

Wells Fargo Stands To Make $240 Million From Its Own Misconduct | Mortgage Professional America
In a development that is drawing ire from consumer groups, Wells Fargo may actually reap a $240 million reward for its various scandals.

If a judge approves a proposed settlement, unnamed insurance companies will pay the scandal-plagued bank $240 million to settle allegations that top Wells Fargo officials knew about and ignored widespread misconduct at the bank, according to a report by American Banker.

While up to $68 million of that could go to pay attorneys' fees, Wells Fargo could still make money from the deal, American Banker reported.

The Newest Threat To Wall Street Is A House Freshman You Probably Haven't Heard Of | Washington Post
By the time it was Rep. Katie Porter's turn to ask Tim Sloan a question, the Wells Fargo chief executive had already taken a beating from more than two dozen members of the House Financial Services Committee.

The freshman congresswoman had just five minutes to quiz Sloan on the years of scandal that have plagued the megabank — from mistakenly foreclosing on hundreds of customers to opening millions of sham accounts. Porter zeroed in on Sloan's repeated promises to fix the bank's problems, including a pledge in a 2017 financial document sent to shareholders.

With a showman's sense of the dramatic, Porter bent under her desk and brought up a poster with the blowup of a quote from Wells Fargo's response to a federal lawsuit that appeared to contradict Sloan's promises. Why were the bank's lawyers arguing in court that Sloan's statements in the 2017 document were examples of "corporate puffery," she asked.

Wells Fargo Embarasses Itself Again | Washington Post (Helaine Olen)
Wells Fargo CEO Tim Sloan would have us believe he's running a changed bank. How seriously we should take him is another matter entirely.

At a House Financial Services Committee hearing on Tuesday on the bank's practices, one representative after another took their five minutes to blast Sloan and his bank's business practices. But let's give a hand to freshman Rep. Katie Porter (D-Calif.), who elicited the most damning detail. She pointed out that the bank's own lawyers say Sloan's past statements indicating a commitment to restoring customers' trust are mere "corporate puffery." Sloan's response? "I don't know why our lawyers are arguing that."

Wells Fargo Lawyers: Our CEO Is Full Of 'Corporate Puffery' | Huffington Post
The problem with running a business based on ripping people off is pretty simple: Everyone will hate you.

There is certainly no shortage of reasons to hate Wells Fargo. The bank opened over 3 million accounts for people who never actually requested them. It wrongly repossessed "at least 27,000" cars. It accidentally foreclosed on hundreds of people due to a computer glitch. It's still signing multibillion-dollar settlements for mortgage abuses dating back to the last big housing bubble. The bank has even scammed people on pet insurance.

On Tuesday, Wells Fargo CEO Timothy Sloan appeared before Congress to assure the country that the ripoffs are, at last, under control. Sloan promised that he has made "fundamental changes" at the bank and its problems have been "fixed."

AFR Thread of Video Clips From Tim Sloan Hearing

Watch: Freshmen Dems 'Changing Everything' For Trump | MSNBC

Trump Budget Calls For Subjecting Dodd-Frank Regulatory Offices To Congressional Oversight | Washington Examiner
President Trump's fiscal 2020 budget would subject two post-crisis financial regulatory offices to congressional appropriations, limiting their ability to act on their own.

The offices, the Financial Stability Oversight Council and the Office of Financial Research, were created by the 2010 Dodd-Frank financial regulatory legislation enacted by President Barack Obama and Democrats in response to the financial crisis.

The FSOC is a regulatory supergroup chaired by the treasury secretary and consisting of the heads of the federal financial regulatory agencies. It is tasked with preventing another financial crisis and has authority to identify nonbank companies that need additional oversight. The OFR, meanwhile, provides financial data for regulators and lawmakers to use in monitoring the financial system.

House Dems Should Regret Sluggishness, Not Overzealousness | Revolving Door Project Newsletter
Spotlight: The House Financial Services Committee, from leadership on down, has continued to model what unabashed oversight looks like. Chair Maxine Waters is tirelessly organizing hearings that put some of the country's worst actors from corporate America and the executive branch alike under the microscope. Her new committee members have significantly bolstered these oversight efforts. One in particular, Rep. Katie Porter, has stood out for consistently turning up the heat on officials who are unaccustomed to answering for their actions. Unsurprisingly, Porter shines as a candidate particularly reliant on small dollar donors rather than Wall Street in a report we conducted in collaboration with **Americans for Financial Reform.**

That Waters understands the moment may be why she has refused to shrink away from impeachment, unlike so many other members of Democratic leadership. That brutal honesty about Trump may explain the sharp contrast in Waters' approach to that of Neal. Our piece in The American Prospect demonstrates how Neal is unjustifiably shying away from requesting Trump's taxes, while Chairwoman Waters is appropriately eager to acquire Trump's mysterious Deutsche Bank records.

Kamala Harris Celebrates Her Role In The Mortgage Crisis Settlement. The Reality Is Quite Different. | The Intercept (David Dayen)
Equating a toothless settlement with a sufficient penalty for criminal fraud sets a meager baseline for what constitutes punishment, virtually ensuring subsequent crimes. If we will ever dismantle a system that delivers one set of laws for the powerful and another for everybody else, we must be honest about the glaring inadequacies of the past. Harris often uses the phrase "let's speak that truth" as a throat-clearer in speeches. Well, let's speak some truth about the national mortgage settlement.

Banks Bow To Pressure To Stop Profiting From Trump's Immigration Policy, But Big Tech Remains Defiant | Washington Post

President Trump's "zero tolerance" immigration policies are forcing corporate America into a tricky calculus: embrace the business opportunities presented by the expanded immigration detention regime or heed the backlash from the public and even their own employees.

Last week, JPMorgan Chase, the nation's largest bank, became the latest major corporation to distance itself from Trump's immigration policies, concluding that its investments in private detention centers conflicted with its broader business strategy.

"We will no longer bank the private prison industry," spokesman Andrew Gray said in a statement.

The announcement follows similar moves by Wells Fargo and U.S. Bank, which told The Washington Post they are in the process of divesting from the private detention sector.

CONSUMER FINANCE AND THE CFPB

Tlaib Takes On Auto Insurers In Fight Over Consumer Data | Politico Pro
Rep. Rashida Tlaib on Thursday plans to introduce legislation that would prevent consumer credit data from being used to set auto insurance rates, a practice that the Michigan Democrat says leads to discrimination against low-income Americans.

It's a battle that the insurance industry has fought before but is taking seriously again as House Financial Services Chairwoman Maxine Waters (D-Calif.) — who proposed a similar bill more than a decade ago — crafts sweeping legislation to overhaul the credit reporting system.

For Tlaib, it's a critical local issue because Michigan has some of the highest auto insurance rates in the country.

CFPB Law Enforcement Plummets Under Trump Administration | Consumer Federation of America Press Office
A report released today by the Consumer Federation of America (CFA) finds that the volume of publicly announced enforcement actions under Trump Administration appointees at the Consumer Financial Protection Bureau (CFPB) is in steep decline. The news comes as CFPB Director Kraninger is set to testify this morning in the Senate Committee on Banking, Housing, and Urban Affairs.

"Law enforcement activity at the CFPB has dropped precipitously under the Trump Administration's leadership," said Christopher Peterson, CFA's Director of Financial Services and author of the report.

The CFPB is charged with enforcing federal consumer financial law and bringing legal action against companies that violate that law. The CFPB also has the authority to seek monetary restitution for harmed consumers and impose fines when it uncovers violations of the law. The report finds that activity in both of these areas is on the decline – overall enforcement activity is down by 80% from the Bureau's peak productivity in 2015 and average monetary relief to victims down by 96% per case.

White House Revives CFPB Restructuring Call In 2020 Budget | Law360
The White House's latest budget proposal released Monday revives a call to restructure the Consumer Financial Protection Bureau, an idea that has featured in the Trump administration's past two budgets as a way to put a tighter leash on the consumer financial watchdog.

The fiscal year 2020 budget materials put out by the Office of Management and Budget didn't describe the specific changes that the administration is contemplating this time around for restructuring the CFPB, an independent agency that spent $553 million last fiscal year and currently gets its funding from the Federal Reserve instead of congressional appropriations.

OMB representatives did not return a request for more details on Monday about what this proposed restructuring would entail, but in last fiscal year's budget proposal, the White House envisioned limiting the CFPB's ability to tap Fed coffers, bringing the agency into the appropriations process and enacting other legislative changes to the agency.

Bank Deposit Advances Are Payday Loans In Disguise | American Banker (Mike Calhoun)
In a recent op-ed, Consumer Bankers Association President Richard Hunt asserts that bank payday loans were a service to customers and argues that they should be restarted. The facts, though, show that while these loans produced huge fees for banks, they were a usurious debt trap for bank customers.

Just a few years ago, banks were making 200%-plus APR payday loans, which they euphemistically called "deposit advance products." While deposit advances were marketed as a small-dollar, quick fix to a budgetary shortfall, they typically led to an expensive debt trap. These were payday loans, dressed up in a suit and tie.

In 2013, regulators rightly took actions that led most, but not all, banks to stop issuing these dangerous balloon-payment payday loans. Importantly, this guidance issued by the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency, and the supervisory statement from the Federal Reserve, allowed responsible credit offerings to continue unimpeded.

JP Morgan Escalates Deposit Wars With Expansion Into The Heart Of Bank Of America Country | CNBC
As J.P. Morgan Chase builds out its web of branches across the U.S., it is launching into areas long dominated by two of its biggest rivals.

J.P. Morgan is expanding into nine new U.S. markets as it fills gaps in its network of physical locations, according to a release seen by CNBC. Bank of America or Wells Fargo are a top lender in seven of those nine cities, according to Federal Deposit Insurance Corporation data.

The new markets are Charlotte and Raleigh, North Carolina; Greenville, South Carolina; Kansas City, Kansas; Minneapolis; Nashville, Tennessee; Pittsburgh; Providence, Rhode Island; and St. Louis.

New Report Examines The Benefits And Potential Risks Of Fintech Products For Consumers | National Consumer Law Center Press Office
The use of technology in financial products and services (fintech) is resulting in a wide array of new approaches to financial products and services. A new report from the National Consumer Law Center provides a snapshot of some of the developments, potential promise, and potential concerns posed by fintech.

"Fintech products and services have the potential to provide important benefits to consumers, but innovation and fintech approaches are not invariably positive," said Lauren Saunders, associate director of the National Consumer Law Center and author of Fintech and Consumer Protection: A Snapshot. "It's important for regulators and policymakers to understand first and proceed with caution. Many fintech products are old wine in new bottles or pose new risks, and the allure of shiny fintech products should not be an excuse to weaken consumer protection rules and oversight, especially for untested new products and services."

Watch: Katie Porter Featured On "Lawrence's Last Word" Segment | MSNBC

Consumer Protection Wanes Under Trump, Reports Find | USA Today
Tasked with protecting Americans against harmful financial practices, the Consumer Financial Protection Bureau has taken a less aggressive approach under the Trump Administration, according to a pair of new reports, one given exclusively to USA TODAY.

The CFPB doled out 35 enforcement actions with fines of $5,000 and above against corporations in the first two years of the Trump Administration, down from 64 in the last two years of the Obama Administration, according to Public Citizen, using a database compiled by Good Jobs First, an advocacy group promoting corporate and government accountability.

Similarly, overall enforcement activity has fallen 80 percent from the CFPB's peak productivity in 2015 and the average monetary relief to victims plunged 96 percent per case, according a study released Tuesday by the Consumer Federation of America.

Van Hollen Presses CFPB's Kraninger On Proposed Rollbacks Of Payday Lending Consumer Protections | Chris Van Hollen Press Office

Clip of Senator Chris Van Hollen Questioning CFPB Director Kathy Kraninger

Clip Of Senator Elizabeth Warren Questioning CFPB Director Kathy Kraninger

Clip Of Senator Jack Reed Questioning CFPB Director Kathy Kraninger

Clip Of Senator Sherrod Brown Questioning CFPB Director Kathy Kraninger

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

Firms Push SEC To Finish Investment Advice Rule, Fearing Efforts By States | Politico Pro
Financial firms are pressing the SEC to quickly finalize landmark investment advice regulations to head off attempts by states to write tougher rules of their own.

As a House Financial Services subcommittee prepares to hold a hearing Thursday featuring consumer advocates calling on the SEC to strengthen its "best interest" rule, industry representatives said the regulator should keep going.

"To best protect investors and avoid investor confusion, the most reasonable approach is to allow the SEC to promulgate a uniform, nationwide, heightened, best interest standard," the Securities Industry and Financial Markets Association said in a statement to be submitted for the hearing.

SEC Share Class Initiative Returning More Than $125 Million To Investors | SEC Press Office
The Securities and Exchange Commission today announced settled charges against 79 investment advisers who will return more than $125 million to clients, with a substantial majority of the funds going to retail investors. The actions stem from the SEC's Share Class Selection Disclosure Initiative, which the SEC's Division of Enforcement announced in February 2018 in an effort to identify and promptly correct ongoing harm in the sale of mutual fund shares by investment advisers. The initiative incentivized investment advisers to self-report violations of the Advisers Act resulting from undisclosed conflicts of interest, promptly compensate investors, and review and correct fee disclosures. The orders issued today address advisers who directly or indirectly received 12b-1 fees for investments selected for their clients without adequate disclosure, including disclosures that were inconsistent with the advisers' actual practices.

The SEC's orders found that the investment advisers failed to adequately disclose conflicts of interest related to the sale of higher-cost mutual fund share classes when a lower-cost share class was available.

SEC's Clayton Seeks Limits To Exchanges' Lucrative Data Market Feeds | Politico Pro
Securities and Exchange Commission Chairman Jay Clayton on Friday targeted for new regulation the lucrative stock market data feeds that exchanges sell to traders — a move that would deal a blow to the exchange operators' revenue.

In a speech in New York, Clayton said he wants the SEC to consider updating its rules for the "core data" that exchanges must make public to include more of the detailed stock market information that isn't required to be made public and that the exchanges sell at a premium to large firms. In recent years, the New York Stock Exchange and Nasdaq have increasingly relied on data revenue for profits rather than money that trading operations bring in.

"I have asked staff in our division of trading and markets to develop recommendations that would consider the concerns raised about core data," Clayton said. "I expect that, among other things, these recommendations will look to update and upgrade the content and infrastructure of core data."

EXECUTIVE COMPENSATION

Wells Fargo CEO Gets Five Percent Raise | Reuters
Wells Fargo & Co gave Chief Executive Tim Sloan a 5 percent pay raise for 2018, the bank said on Wednesday.

Sloan's base salary remained flat at $2.4 million, he earned $14 million stock awards and the board awarded him a $2 million bonus based on the bank's financial performance and other factors, according to a company filing.

In 2017, Sloan did not receive a bonus and his total compensation was $17.4 million.
Wells Fargo released compensation details one day after Sloan appeared before the House Financial Services Committee to show to lawmakers that the bank has reformed since 2016 revelations that it created millions of unauthorized customer accounts.

Wells Fargo CEO's Pay Raise Draws Rare Fed Response | Reuters
Wells Fargo & Co gave Chief Executive Tim Sloan a 5 percent pay raise for 2018, prompting the Federal Reserve to release a statement saying that it does not sign off on executive pay.

Sloan's base salary remained flat at $2.4 million, he earned $14 million stock awards and the board awarded him a $2 million bonus based on the bank's financial performance and other factors, according to a company filing. In 2017, Sloan did not receive a bonus and his total compensation was $17.4 million.

"The Federal Reserve does not approve pay packages. We expect boards of directors to hold management accountable," said a Fed spokesperson in an emailed statement when asked about the bank's new executive compensation numbers.

The Bosses Of The Six Largest US Banks Made $150 Million Last Year | Quartz
Oh, to have the deep pockets of a bank CEO.

Last year, Jamie Dimon of JPMorgan, James Gorman of Morgan Stanley, Brian Moynihan of Bank of America, Michael Corbat of Citigroup, David Soloman of Goldman Sachs, and Tim Sloan of Wells Fargo collectively made $151.9 million in salary and bonuses. Altogether, that is an 8% increase on 2017.

If you squint really hard, you can make these eye-watering amounts seem small. The six banks made a collective $119 billion in profit in 2018, so the CEOs took home just 0.1% of that. On average, the CEOs received a quadruple-the-rate-of-inflation raise last year.

MORTGAGES AND HOUSING

White House Proposes Slashing HUD Funding By 16.4 Percent | Politico Pro
The White House budget proposal released today includes $44.1 billion for the Department of Housing and Urban Development — a cut of $8.7 billion, or 16.4 percent, from current levels.

As in previous years, the Trump administration recommended slashing two popular programs, Community Development Block Grants and the HOME Investment Partnerships Program.

Congress last year ignored those recommendations, opting to boost HUD's funding by $4.7 billion over the previous year after the administration requested $41.2 billion, a 14 percent cut, in HUD funding for the year.

Elizabeth Warren Has A Plan To Help End The Housing Crisis | Fast Company
America's housing crisis reaches across income levels and geography, but the further one goes down the socioeconomic ladder, the more dire it becomes: Currently, the U.S. is short 7.2 million homes for the 11 million residents living on very low incomes. The affordable rental market is so constrained that 71% of low-income families spend over half their income on rent. Absent any meaningful federal investment in affordable housing in the last few decades, local governments, nonprofits, and in some cases, private companies, have tried to step up, but still, the affordable housing gap persists.

The solution to this crisis–like many of America's crises–is more and better funding toward affordable housing construction and preservation, but to date, leaders have lacked the political will to demand it, says Diane Yentel, president and CEO of the National Low Income Housing Coalition. Senator Elizabeth Warren of Massachusetts is breaking this pattern. On September 26, she introduced the American Housing and Economic Mobility Act of 2018 to call for a $450 billion investment, spread out over the next decade, toward building and preserving affordable housing, and boosting rates of homeownership among low-income people. "Senator Warren's bill would reverse decades of chronic underinvestment by the federal government," Yentel tells Fast Company.

Warren Renews Push For 'Big, Bold' Housing Plan To Confront Affordability | Politico Pro
Sen. Elizabeth Warren (D-Mass.) reintroduced sweeping legislation to address the nation's housing affordability crunch by directing nearly half a trillion dollars in federal funds to build up to 3.2 million residential units.

The bill would inject the money into various housing funds, which would reduce rents for lower-income and middle-class families by 10 percent, according to one analysis. The cost of the bill, a version of which Warren introduced in the last Congress, would be offset by raising the estate tax — a levy that the Republicans just reduced in their 2017 tax law.

"The cost of housing is squeezing American families in communities all across the country — rural, suburban, urban — whether they're struggling to pay rent or trying to buy a home," Warren said in a statement. "It's time to stop nibbling around the edges and, instead, pass this big, bold proposal to solve our housing crisis and take the first steps to address the legacy of housing discrimination head on."

'Mom-And-Pop' Manufactured Housing Communities Might Be The Next Frontier For Investment In The Sector | National Real Estate Investor
Industry experts see plenty of room for growth in the manufactured home communities sector, particularly among the smaller properties.

Often referred to as mobile homes or trailers, manufactured home communities are, in fact, a specific type of factory-built housing, constructed in accordance with the U.S. Department of Housing and Urban Development's (HUD's) Manufactured Home Construction and Safety Standards Code. They should be distinguished from RVs, trailers and park-model homes.

Manufactured homes are an important source of affordable housing, particularly for rural and low-income residents, according to experts.

Within the last few years, some of the world's largest private equity firms, and institutional investors, with more than $1.77 trillion in assets, have made investments in manufactured home communities across the U.S., according to a report by the Private Equity Stakeholder Project, MHAction and Americans for Financial Reform Education Fund.

PRIVATE FUNDS

Real Estate Startups Try Their Hand At Private Equity Investing | Wall Street Journal
Five months after the co-working firm Bond Collective signed a 42,000-square-foot lease in a Brooklyn office building, the property's owners flipped it for a hefty profit.

"Hey, we can essentially do the same thing," Bond Collective founder Shlomo Silber recalled thinking after learning of the sale.

Four years later, the firm is co-managing its own real-estate fund. The fund owns stakes in properties in Miami, Nashville, Chicago and New York City and is in contract to buy two more.

Bond Collective is one of several real-estate startups that has tweaked its original business model in hopes of boosting revenue and creating new opportunities.

Private Equity Is More Friend Than Foe To Private Equity | Wall Street Journal
Global consumer companies face an increasingly powerful frenemy as they move to reshape their portfolios: private equity.

Some of the buyout industry's biggest names, including Blackstone BX +1.00% and CVC, are currently slugging it out against public companies Unilever and Beiersdorf to buyNestlé 's NSRGY +0.53% multibillion-dollar skin health division. The business was put on the block last year as part of Chief Executive Mark Schneider's turnaround of the Swiss food giant.

Buyout firms show up more often as rival bidders at auctions that used to be dominated by corporate buyers. Packaged-goods giants could do without the competition. But private equity is also a blessing when brand owners need to sell the less-loved bits of their own portfolios.

When Niche Goes Mainstream In Private Equity | Institutional Investor
As interest in niche private equity strategies grows, so too does the size of the funds. But at what point does niche go mainstream?

According to new data on mega private equity funds published by PitchBook on Monday, more private equity firms than ever are reaching “mega-fund” status. In other words, funds with more than $5 billion in assets account for 45.3 percent of capital raised in North America between 2016 and 2018, according to the report.

This trend is expected to continue through 2019, which could be a record-breaking year in private equity, according to the report. And the industry stands to grow most when it comes to niche strategy funds, according to the PitchBook report.

These strategies can focus on a specific sector within the asset class, or a specific method of investing, the report said. But as they become mainstream, raising billions to invest, it's unclear whether the strategies they sell can be considered unique.

Private Equity Firm TPG Says It Fired Executive Charged In College Bribery Case, But He Says He Quit | CNBC
The college admissions scandal that broke earlier this week has put the private equity firm TPG and one of its senior executives in a fight over whether he quit or was fired for cause.

On Thursday evening, TPG emailed a statement to CNBC's Leslie Picker that said William McGlashan, who had been the head of its growth buyout fund, had been "terminated for cause." He had been on administrative leave since Tuesday, after he was charged in the nationwide scheme that involved parents bribing college coaches and arranging for falsified standardized test scores to gain admission for their children to several elite universities.

"After reviewing the allegations of personal misconduct in the criminal complaint, we believe the behavior described to be inexcusable and antithetical to the values of our entire organization," TPG's statement said.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Dream Center Will Stay In Receivership — For Now | Chronicle Of Higher Education
The tattered remains of what was once Dream Center Education Holdings will continue to be administered by a controversial receivership, a federal judge has decided.

Until the college chain imploded on Friday, Dream Center owned Art Institute and Argosy University campuses around the country. Those colleges had long operated as for-profit universities until Dream Center — a Christian nonprofit — purchased them more than a year ago.

Dream Center entered receivership in January as its financial problems mounted. The court-appointed receiver, Mark Dottore, has been criticized by student groups for failing to do enough to protect the tens of thousands of students who attended Dream Center campuses. In recent months, Dream Center improperly kept millions of dollars in financial-aid money that belonged to students. Dottore has denied any involvement in the wrongdoing.

Timeline: How Dream Center's Higher Ed Bid Went Off The Rails | Education Dive
In the fall of 2017, the faith-based nonprofit Dream Center Foundation entered the higher education world when it acquired the college assets of the for-profit Education Management Corp. (EDMC). The deal included the Art Institutes, a chain of for-profit art colleges that traces its roots back nearly a century.

The deal was a disaster, almost from the moment the ink dried. Enrollment and revenue fell far short of EDMC's projections, and Dream Center lost accreditation for some of its schools. By the end of 2018, Dream Center Education Holdings (DCEH), a nonprofit set up to manage the acquired colleges, was facing insolvency and looking to get rid of most of its higher ed assets.

The organization successfully unloaded eight of its remaining Art Institutes and most of the South University system, while deals to purchase the campuses it kept in receivership have since fallen through. The latter group includes a handful of Art Institutes, Argosy University and two South University campuses.

House Panel Takes Up Oversight Of For-Profit Schools | Courthouse News Service
In a House subcommittee hearing Tuesday on the regulation of for-profit colleges, lawmakers across the aisle agreed that Congress needs to intervene against predatory behavior from private institutions like the now-defunct ITT Technical Institute and Argosy University.

"There are dreams and aspirations being dashed by these for-profit colleges," Chairwoman Rosa DeLauro, D-Conn., said in her closing remarks, capping off testimony that focused on the number of students left with enormous debt and little to show for it when they leave certain for-profit schools.

The House Subcommittee on Labor, Health and Human Services, Education and Related Agencies invited former for-profit college student Eric Luongo to testify about his experience at DeVry University.

House Subcommittee Hearing Puts Spotlight On For-Profit Colleges | National Association of Student Financial Aid Administrators
The House Subcommittee on Labor, Health and Human Services, Education, and Related Agencies (Labor-HHS-Education) held a hearing Tuesday to learn more about for-profit colleges in an effort to protect students and taxpayer dollars from predatory practices. This is only the second congressional hearing since 2010 focusing on for-profit institutions.

Rep. Rosa DeLauro (D-CT), chair of Labor-HHS-Education, started the hearing Tuesday by putting the committees charge into perspective, saying "it is this committee's responsibility to shine a light on the bad actors in the for-profit sectors. It's an area we must address because predatory colleges are scamming taxpayers out of millions of dollars, and Education Secretary Betsy DeVos is helping them get away with it. It's our responsibility to ensure that students don't get taken advantage of while they seek to invest in their own skills and we will continue fight for taxpayers and students by demanding the Trump administration enforce the gainful employment and borrower defense rules.

SYSTEMIC RISK

Global Debt Is Up 50% Over The Last Decade, But S&P Still Says Next Crisis Won't Be As Bad | CNBC
Global debt has jumped since the financial crisis, though one ratings agency thinks that it poses significantly less danger than the last time around.

Corporate, government and household indebtedness rose to $178 trillion as of June 2018, a 50 percent increase from a decade ago, according to figures S&P Global Ratings released Tuesday. The expansion was especially acute at the government level, which stood at $62.4 trillion, or 77 percent higher than it did before the public borrowing binge began.

"Global debt is certainly higher and riskier today than it was a decade ago, with households, corporates, and governments all ramping up indebtedness," S&P Global Ratings credit analyst Terry Chan said in a statement. "Although another credit downturn may be inevitable, we don't believe it will be as bad as the 2008-2009 global financial crisis."

How Stock Buybacks Undermine Sustainable Prosperity | American Prospect (William Lazonick and Ken Jacobson)
The debate on the role of stock buybacks in the performance of the U.S. economy is heating up. There are executives, journalists, and academics who, like us, argue that corporation's repurchases of shares on the open market —the vast majority of buybacks—do great damage to the economy because they undermine stable and equitable growth. On the other side is a growing chorus of executives, journalists, and academics who insist that buybacks, like dividends, improve U.S. economic performance because the shareholders who receive

these distributions inevitably put them to use “somewhere” in the economy. In a recent New York Times op-ed, Joshua Bolten, chief executive of Business Roundtable, and Ken Bertsch, executive director of the Council for Institutional Investors, sang buybacks’ praises.

So let’s compare these two very different perspectives on corporate resource allocation. Our view is founded on the conviction that, to compete successfully on a product market, a company must invest in productive capabilities: not only in plant and equipment, but, more important, in its employees’ collective and cumulative learning. It is organizational learning that enables the company to improve its products, which in turn enables it to expand its market share and achieve economies of scale. This process, through which employees create value, results in higher productivity that shows up in increased profits. The corporation’s reinvestment over time of a substantial portion of profits in the productive capabilities of its employees has always been, and remains, the financial foundation for the growth of the firm.

‘There Will Be Problems:’ US Officials Warn Of Brexit Risk | Politico Pro
Financial markets are in danger of underestimating the imminent stress posed by Brexit, the U.K.'s separation from the European Union, top U.S. regulatory officials said on Monday.

While financial institutions have been dutifully preparing to weather the looming possibility that the U.K. will crash out of the EU in a so-called hard Brexit, "the larger question is what will it really mean to the markets and how do you actually get ready for those events," said Craig Phillips, counselor to the Treasury secretary. "It does have really significant implications on the valuations of equities, credit markets" and other assets, he said.

"The more you hear about it, there are things outside the financial system that are at risk," Phillips said, speaking at an Institute of International Bankers conference in Washington. "Your trading desk might be completely ready to trade, but you can't get parts for your copier or travel is interrupted."

Treasury’s Phillips Says Volcker Proposal Might Need Rewrite | Politico Pro
A proposed overhaul of the so-called Volcker rule, which restricts banks' ability to make speculative trades, might need to be redone, a senior Treasury Department official said today.

Speaking at a conference in Washington, Craig Phillips, counselor to the Treasury secretary, said that after regulators reviewed all the comments that banks submitted about the Volcker rule rewrite last year, "I suspect the rule might have to be resubmitted."

"There has been a substantial amount of input and comment," he said. "We continue to look forward to really refining and maintaining the protections of the Volcker rule provided but also [to] better calibrate [it]."

As Fed Ponders A New Lever, Here’s Wall Street’s View | Bloomberg
Wall Street’s abuzz about a new tool Federal Reserve policy makers are studying for managing interest rates.

The Federal Reserve Bank of New York asked primary dealers -- the traders who deal directly with the central bank -- whether it should do something to keep money-market rates from rising too far above the Fed's target range, people familiar with the discussions have said previously. Although policy makers haven't been too specific about what they're considering, economists are advocating for a standing repo facility, which could involve banks converting Treasuries to reserves on demand at an administered rate.

Strategists at Bank of America Corp. and BMO Capital Markets think a plan, if implemented, would indeed keep a lid on rates; others at Goldman Sachs Group Inc. and NatWest Markets are skeptical. JPMorgan Chase & Co. suspects taxpayers would benefit because the facility would tend to reduce the government's borrowing costs. Barclays Plc argues dealer balance sheets are already too bloated from current regulatory requirements, so it's not clear they can absorb more assets as would be required from a new Fed program.

TAXES

Steve Wynn Met With Treasury Officials About Opportunity Zones After Stock Sale | Wall Street Journal
Former casino executive Steve Wynn generated $2.1 billion and a big potential tax bill last March when he was forced to sell his stake in Wynn Resorts Ltd. after sexual-misconduct allegations. Less than three months later, he held a meeting with Treasury Department officials as they were writing regulations for a new tax incentive that had the potential to help him defer and reduce those taxes.

Mr. Wynn met with senior Treasury officials on June 4 to discuss "opportunity zones," a break that was part of the 2017 Republican tax overhaul. The opportunity-zone program gives individuals a chance to defer and reduce capital-gains taxes if they make investments into low-income areas.

Mr. Wynn, who left his company and a Republican National Committee position early last year after being accused of sexual misconduct by former casino employees, attended the meeting in the Treasury building with Daniel Kowalski, a counselor to Treasury Secretary Steven Mnuchin who was helping write opportunity-zone regulations. Mr. Mnuchin stopped by the meeting to greet Mr. Wynn, according to a copy of the secretary's calendar that the department periodically releases.

OTHER TOPICS

Letter to Regulators: AFR Education Fund Letter To The CFTC Regarding Proposed Rule On Swap Execution Facilities And Trade Execution Requirement

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Listen: Fed: U.S. Household Net Worth Drops To Lowest Level Since Financial Crisis | Marketplace

Bank M&A: Few Deals, But Much Drama | American Banker
BB&T in Winston-Salem, N.C., and SunTrust Banks in Atlanta shocked the industry when they announced a merger agreement valued at $28 billion.

It immediately fueled speculation that other large deals could be on the horizon. Such questions had already begun last month when Chemical Financial in Detroit and TCF Financial in Wayzata, Minn., announced a merger agreement to form a $45 billion-asset bank.

That excitement aside, just nine bank deals were announced last month, down from 17 in January. Overall activity in the first two months was off more than 25% from a year earlier, based on data compiled by FIG Partners.

Still, there were some other notable deals announced in February. Another credit union agreed to buy a bank, and a few serial acquirers continued their quests for scale. Here are five takeaways from the month's M&A activity.

The Bull Market Began 10 Years Ago. Why Aren't More People Celebrating? | New York Times
The rise has generated more than $30 trillion in wealth. Adjusted for inflation, that is the most created during any bull run on record, edging out the $25 trillion in gains during the epic streak from December 1987 to March 2000, which ended with the bursting of the dot-com bubble, according to Federal Reserve data.

But compared with Americans' attitudes during that earlier climb, reactions to the latest rally are downright subdued. There has been no frenzy for stock trading. Nobody is quitting an accounting, advertising, or waitressing job to concentrate on day trading.

Why so somber?

The psychological and financial damage inflicted by the 2008 financial crisis and the ensuing Great Recession continue to weigh heavily. Fewer people are invested in stocks than before that meltdown, and many of them are wary of taking their gains for granted. That caution could last for decades.

"This was probably the most disliked or most suspected rally that we've ever had in the stock market," said Charles Geisst, a professor at Manhattan College who has studied the history of financial markets.

Trump’s Pick For World Bank Presidency Faces Clear Path | Wall Street Journal
President Trump’s pick to lead the World Bank, Treasury official David Malpass, will almost certainly assume the bank’s presidency this year, after the deadline for countries to nominate candidates passed with no other challengers.

Mr. Malpass, currently the Treasury Undersecretary for International Affairs, has traveled across Asia and Europe in the month since his candidacy was announced, securing support from key World Bank shareholders. Even if a last-minute candidate had emerged on Thursday, he or she would have stood little chance against Mr. Malpass, who has garnered public support for his candidacy from key World Bank shareholders including Japan, South Korea and France.

The White House historically has picked the World Bank president, but this is neither a formal rule nor guaranteed. The candidate must win the approval of the World Bank’s board of executive directors—25 representatives of the 189 countries that are shareholders of the bank.

2020 Dems Have A Money Problem | Politico
Democratic presidential candidates have a money problem: They need to raise a ton of it while simultaneously proving their distance from big donors — and most candidates can’t do both at once.

The candidates are eager to please voters and potential small-dollar donors who want to see less big money in politics. Washington Gov. Jay Inslee, the only declared Democratic candidate with a super PAC actively backing him so far, faced swift criticism for not rejecting big-money groups when he leapt into the race.

Big money has never been so toxic in national politics, with President Donald Trump using it as a foil in his upstart 2016 campaign and Democrats running against it when they took back the House in 2018. But few candidates can attract hundreds of thousands of online donors and free themselves from soliciting big checks at this point, the way Sen. Bernie Sanders did at his campaign kickoff, even as 2020 Democrats swear off some types of major donors in an effort to make themselves more appealing to the grassroots.

Some House Democrats Who Took A ‘No Corporate PAC’ Pledge Are Already Getting Pressure To Ditch That Promise | Vox
The coming 2020 election will be a huge test for these new House Democrats, but it will also be a test for one of the key messages that helped them win — dozens of incoming new members pledged never to take money from corporate PACs.

Already, a few are getting pressure from longer-tenured House Democrats to ditch their pledge ahead of 2020. Three first-term members told Vox they’ve been approached by longtime members who suggested they should consider walking back their no-corporate-PAC pledge to gain a financial edge.

“Mostly from members who have been here a long time ... a few of whom have been very dismissive and said, ‘You’re going to have to get rid of that,’” Rep. Susan Wild (D-PA) told Vox. Wild, who won a special election to replace longtime Republican Rep. Charlie Dent, added that she doesn’t plan to go back on her word.