Americans for Financial Reform Education Fund

This Week in Wall Street Reform | Mar 16 - 22

Please share this weekly compilation with friends and colleagues.
To subscribe, email info@ourfinancialsecurity.org, with "This Week" in the subject line.

TABLE OF CONTENTS

THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Trump Offers Fed Board Position To Economic Commentator Stephen Moore | Wall Street Journal

President Trump has asked former campaign adviser Stephen Moore to accept a nomination to serve on the Federal Reserve's Board of Governors, a senior administration official said Friday. Mr. Trump made the offer to Mr. Moore earlier this week, the official said.

Mr. Trump spoke to Mr. Moore to compliment the economic commentator on an opinion article he co-authored last week calling the Fed Chairman Jerome Powell's policy moves a threat to the U.S. economy. The article was published in The Wall Street Journal, where Mr. Moore previously worked as an editorial-page writer.

The offer is contingent on Mr. Moore clearing the background-check process that is typical for White House nominees, and that process often takes weeks or months, the official said.

Malaysia Court Sets June For Next Goldman 1MDB Case Hearing | Bloomberg

A Malaysian court set a new pretrial hearing date for the criminal case against Goldman Sachs Group Inc. relating to the state investment fund 1MDB.

The June 24 hearing will give prosecutors more time to serve summons against two of three Goldman Sachs units at the center of the allegations. At a hearing in Kuala Lumpur on Monday, only the U.S. firm's Singapore unit was a respondent.

The New York-based bank is accused of misleading investors when it helped 1MDB raise $6.5 billion through bond deals in 2012 and 2013, while allegedly knowing that the funds would be misappropriated. Prosecutors have said they will seek criminal fines in excess of the $2.7 billion allegedly misappropriated from the bond proceeds, and the return of $600 million of fees received by Goldman.

Trump And Deutsche Bank: $2 Million In Loans, A Wary Board, And Colorful Bankers | New York Times
For nearly two decades, Donald J. Trump relied on Deutsche Bank to lend to him when other banks wouldn't. Deutsche Bank, eager to expand in the United States, made a decision to repeatedly take a risk on him.

Much has been written about their relationship, which is now under investigation on Capitol Hill and by the New York attorney general. Here are some of the new revelations from The New York Times's investigation into Mr. Trump's ties to Deutsche Bank.

How Executives Vote With Their Wallets | New York Times (Andrew Ross Sorkin)
Rather than look at party affiliation or public statements, the researchers — Alma Cohen, Moshe Hazan, Roberto Tallarita and David Weiss — looked at the truest measure of political leanings: They followed the money.

For the study, to be released Tuesday, they tracked personal political contributions for more than 3,500 chief executives that occupied the corner office anytime from 2000 to 2017. The period covers a two-term Republican presidency, a two-term Democratic presidency and the start of President Trump's time in office — after he lost the popular vote but won the Electoral College. In other words, on the whole, voters have been pretty evenly divided between the parties in that time.

But just 18.4 percent of the executives studied were designated as Democrats. The clear majority — 57.7 percent — demonstrated their affiliation through donations to the Republican Party. Indeed, 75 percent of donations from the median chief executive were directed to Republicans.

CONSUMER FINANCE AND THE CFPB

Letters To Regulators: Coalition Letter To The CFPB Regarding Their Proposal To Delay The Rule On Small Dollar Lending

News Release: Broad Coalition Proposal To Delay CFPB Payday Rule

Consumer, Civil Rights Advocates Warn CFPB About Harm of Delaying the Payday Rule in Official Comment Letter | Center For Responsible Lending
Today, several national consumer and civil rights groups released their official comment letter, linked here, to the Consumer Financial Protection Bureau (CFPB) on its new leadership's proposed delay of a 2017 rule the agency had issued to stop payday and car title loans from trapping consumers in debt. The letter rebuts the CFPB's rationale for proposing a 15-month delay of the payday rule, which the agency is now also moving to gut by removing the common sense requirement that lenders generally verify that borrowers can repay a loan.

CU Leagues, Trade Groups Support Delay In CFPB Payday Rule | Credit Union Times
As the CFPB rewrites portions of its payday lending rule, state credit union leagues and national trade groups are calling for a delay in implementation and a broad exemption for short-term loans made by credit unions.

"We fully support the fight against unscrupulous payday lenders and vehicle title lenders, and we will oppose changes that would allow them to continue preying on the poorest of Americans; however, the rule in its current form unfairly lumps in pro-consumer credit unions with predatory storefront payday and vehicle title lenders," Paul Guttormsson, vice president of legal and compliance at the Wisconsin Credit Union League, wrote, in urging the agency to delay the mandatory underwriting provisions of the rule.

The CFPB has been seeking comment on a proposal to delay the mandatory underwriting provisions of the payday rule for an additional 15 months to November 19, 2020.

Survey: 80% of CEOs Want National Data Privacy Law | Politico Pro
Eighty percent of CEOs from the largest U.S. companies want Congress to pass a federal consumer data privacy law, according to the Business Roundtable's latest quarterly survey.

The survey reported that 51 percent of CEOs believe passage of such a law is "very important," given the number of privacy bills advancing at the state level, and 29 percent said it was "somewhat important."

BRT, which represents more than 200 CEOs, released a framework for a privacy law in December that would allow consumers to control whether companies can sell their personal data and have the ability to delete it.

CFPB Defends Constitutionality Of Its Structure In 2nd Circ | Law360
The Consumer Financial Protection Bureau told the Second Circuit on Friday the Dodd-Frank Act provision protecting its director from being fired at will by the president isn't unconstitutional, and even if it were, there's a better, far less drastic solution than one advanced by a Manhattan federal judge last summer.

In a nearly 12,000-word brief, the CFPB argued that U.S. District Judge Loretta Preska got it wrong in June when she held the agency to be unconstitutionally structured under Dodd-Frank's Title X and struck down that section of the law entirely, knocking the legs out from under the agency's case against RD Legal Funding, a litigation finance firm accused of scamming 9/11 victims and former NFL players.

The CFPB told the appeals court that this "for-cause removal" protection is in line with what Congress has given to other independent agency heads and meets the U.S. Supreme Court's test that such removal restrictions can't block presidential oversight. According to the CFPB, however, Judge Preska "did not properly apply" this test.

Watching Your Wallet: Thousands Of Consumer Complaints Hidden In Federal Watchdog Database | KTUU
A federal watchdog agency that was created to protect consumers is keeping complaints about some banks and financial companies hidden from view.

That agency, the Consumer Financial Protection Bureau (CFPB), does not have jurisdiction over some companies that have generated tens of thousands of complaints, and the public is kept in the dark about those potential problems.

According to findings from InvestigateTV partner NerdWallet, two of those companies escaping scrutiny are Green Dot Corp, which sells prepaid debit cards through more than 100,000 retailers including Walmart and Apple, and Credit One Bank, a leading credit card company.

Trump Budget Projects More Consumer Finance Watchdog Staff Cuts | Bloomberg
The Consumer Financial Protection Bureau's staff would drop more than 20 percent by the end of fiscal 2020 if the Trump administration had its way, according to budget documents released by the White House.

The administration and Congress have no direct control over the CFPB's staffing levels and budget because the bureau is funded through the Federal Reserve. The proposed headcount reduction would be on top of a 10 percent decline in staff levels since former Director Richard Cordray's departure from the CFPB in late November 2017.

Ex-CFPB Chief Cordray Attacks Trump Administration For Retreating On Consumer Financial Protection | Forbes
Former Consumer Financial Protection Bureau Director Richard Cordray attacked the Trump Administration today for retreating on consumer financial protection.

Aggressive policies are needed to protect consumers, said Cordray, pointing to mortgage market abuses that helped to propel the recession as a poster child.

He urged states to take up the slack.

"More consumer protection from the states is a good thing," said the CFPB's first head. He was appointed by former President Barack Obama.

Lending Club Considering Application For OCC Bank Charter | Politico Pro

Financial technology company Lending Club is considering filing an application with the Office of the Comptroller of the Currency to become a full national bank, according to people familiar with the matter.

The company, which facilitates peer-to-peer loans and offers some additional products by partnering with a bank, was one of the firms paying keen attention to the OCC's new charter for companies that provide narrowly targeted banking services, such as making loans or paying checks.

But a full national bank charter would allow the firm to take deposits. It would also sidestep the ongoing legal fight between the OCC and state regulators over the limited fintech charter.
The OCC and Lending Club both declined to comment.

Facebook Agrees To Overhaul Targeted Advertising System For Job Housing And Loan Ads After Discrimination Complaints | Washington Post
Facebook on Tuesday agreed to overhaul its lucrative targeted advertising system to settle accusations that landlords, lenders and employers use the platform to discriminate.

The far-reaching settlement compels Facebook to withhold a wide array of detailed demographic information — including Zip codes, gender and age — from advertisers when they market housing, credit and job opportunities.

Although the settlement is unlikely to deal a major blow to Facebook's bottom line, the change represents a significant shift for a company that has built one of the most successful advertising platforms in history.

Popular Cash Advance App EarnIn Operating In Payday Loan "Gray Area" Critics Claim | New York Post
AJ Smith knows all about folks owing money. After all, he's a debt collector in Las Vegas, the gambling capital of the world.

So last March, when Smith downloaded Earnin, an app that fronts workers part of their paychecks early, he didn't think anything of it. It was cash he'd already earned, the company said it prevented overdrafts, and any fees were optional: The app called them "tips."

"It was just a way to get a couple of dollars here and there," said Smith, who would tip as much as $9 for one-week, $100 loans.

Pretty soon, however, things went wrong. Last August, a $100 advance that Smith requested to shop at Walmart, which usually hit his bank account immediately, took more than two weeks to arrive.

California Seeks To Revoke Auto Title Lender Insurance | American Banker
California's financial regulator wants to revoke the license of an auto title lender for allegedly

charging higher interest rates and fees than what is legally permitted and operating unlicensed storefronts.

The state's Department of Business Oversight filed an administrative action Tuesday against Fast Money Loan, in Long Beach, Calif., and its parent company, RLT Management. The agency said the lender charged annual interest rates above 100%, which exceeded the state's usury cap.

The state also launched an investigation to determine if the lender's high rates meet the state's legal standard for "unconscionable," which would authorize the Department of Business Oversight to void the loans.

Watch: Sign Here To Lose Everything | Bloomberg
If you're running a small business in America and you need to borrow money, you may be forced to sign a "confession of judgment" - an obscure legal document that gives your lender the right to seize your assets with no trial or advance warning. Bloomberg investigative reporters Zeke Faux and Zachary Mider discovered that some lenders have used this strategy to seize borrowers' money thousands of times in recent years, often bankrupting businesses and ruining lives.

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

SEC Using 'Best Interest' As A 'Marketing Slogan:' Phyllis Borzi | ThinkAdvisor
Phyllis Borzi, Labor Department assistant secretary for the Employee Benefits Security Administration (EBSA) from 2009 to 2017 and key architect of the department's now-defunct fiduciary rule for advising retirement accounts, spares no disdain for the Securities and Exchange Commission's proposed Regulation Best Interest.

In an interview with ThinkAdvisor, she dismisses Reg BI's use of "best interest" as "a marketing slogan" and the proposed rule "not even as strong as [the] suitability [standard]." She is especially critical of Regulation Best Interest because it allows financial advisors to not work in the client's best interest as long as they disclose the conflict.

How SIFMA, FSI, FINRA And The SEC Conspired To Doom The Advisory Profession | Advisor Perspectives (James Rhoades)
Let us not claim we were "unaware." Let us not claim "fiduciary fatigue." Especially when the consequences are so grave.

Instead, let us recognize that – through "harmonization" – the broker-dealer community, aided and abetted by the SEC, is destroying the fiduciary standard, while imposing only new "casual disclosure" obligations upon broker-dealers. At its very core, this is an effort to make RIAs/IARs and BDs/RRs look identical.

And – once this is accomplished – FINRA will swoop in to seek oversight over the "harmonized" broker and investment adviser communities.

It Just Became Easier For Employers To Dump Retirees' Pensions | CNN
Traditional pensions are disappearing in America, and the federal government just made it easier for employers to get rid of them.

With no fanfare in early March, the Treasury Department issued a notice that allows employers to buy out current retirees from their pensions with a one-time lump sum payment. The decision reverses Obama-era guidance, issued in 2015, that had effectively banned the practice after officials determined that lump-sum payments often shortchanged seniors.

Now, advocates for the elderly worry that millions of people receiving monthly pension checks could be at risk.

Trump Administration Plan To Offer Lump-Sum Payout To Private Pension Holders Is A Wall Street Scam | ThinkProgress
The Trump administration has quietly rolled out a technical change to current Treasury Department policies that will allow corporations the leeway to alter their existing pension arrangements. The move, announced in early March, puts the private sector retirement benefits that millions of Americans have earned at risk.

The change allows businesses to offer retirees and their families a one-time payout to replace the monthly or yearly pension checks they currently receive.

Such lump-sum buyouts can be tempting for older beneficiaries, who generally underestimate their life expectancy. As such, these one-time payouts often fall far short of what they might otherwise be due under their existing pensions.

"It's not that people are greedy, it's that they're afraid," Economic Policy Institute (EPI) retirement expert Monique Morrissey told ThinkProgress. "And they have no way of evaluating this. They believe they're being protected and they're not."

AARP Presses For Changes To SEC's Variable Annuity Disclosure Proposal | Politico Pro
AARP has raised concerns with a proposed Securities and Exchange Commission rule to update regulations for variable annuity disclosures.

In a March 15 letter to the SEC, the seniors group said that while it generally supports the agency's effort to improve disclosures for the financial products, it should make changes to the proposed rule so investors are fully aware of all the information they have access to.

"The commission should require a disclosure stating that if a retail investor does not understand the terms of the variable contract, they should not invest in it until they do so," AARP said.

EXECUTIVE COMPENSATION

MORTGAGES AND HOUSING

The Fed Has Exacerbated America’s New Housing Bubble | Financial Times (Rana Foroohar)
Hyman Minsky would have had a field day with last week’s US inflation numbers.

One of the key points in the late, great economist’s Financial Instability Hypothesis was that there are two kinds of prices — prices for goods and services, and asset prices. Inflation in the two areas should, as a result, differ.

And indeed they have, quite markedly. The latest Consumer Price Index figures show that almost all core inflation, which was weaker than expected, was in rent or the owner’s equivalent of rent (up 0.3 per cent). Core goods inflation, meanwhile, was down 0.2 per cent.

Very simply, this means that the housing market is once again completely out of sync with the rest of the economy. A decade on from the subprime bubble, housing, which is not only shelter but also the biggest financial asset for most Americans, is the only major component of the CPI with a national inflation rate that is consistently above the overall number.

US Bank Regulator Fines Citigroup $25mln For Violating Fair Lending Rules | Reuters
The U.S. Office of the Comptroller of the Currency (OCC) said on Tuesday it has fined Citigroup $25 million for violating the Fair Housing Act after it denied some borrowers preferential rates on the basis of their race, color or other factors.

The OCC found that the bank’s program to provide eligible mortgage loan customers either reduced closing costs or an interest rate reduction had control weakness. As a result of these problems, some bank borrowers did not receive the benefit for which they were eligible, the OCC said.

Dreamers Denied: Evidence Mounts FHA Is Not Backing DACA Mortgages | HousingWire
Despite the Department of Housing and Urban Development stating recently that its policies have not changed in regards to the Federal Housing Administration backing mortgages for Deferred Action for Childhood Arrivals recipients, it appears that the opposite is actually the case.

Or at least that’s how the mortgage lending industry is reacting.

In the wake of HousingWire’s original reporting, numerous lenders reached out and said that they’ve been told directly by a HUD representative that DACA recipients, also called Dreamers, are no longer eligible for FHA mortgages.

Now, a new HousingWire investigation has uncovered lender bulletins or guidelines from a dozen different lenders each stating that Dreamers are not eligible for FHA financing.

Study: Gentrification And Displacement Most Intense In America's Largest Cities, And Absent From Many Others | National Community Reinvestment Coalition

Washington Leads All Other Cities In Gentrification, Study Shows | Politico Pro
Washington, D.C., led all other U.S. cities in the percentage of neighborhoods that gentrified between 2000 and 2013, a trend that led to the displacement of 20,000 black residents in the nation's capital, according to a study released today.

About 41 percent of the lower-income neighborhoods in the city experienced gentrification over that period, the report by the National Community Reinvestment Coalition concluded. That was far ahead of San Diego, the city with the second-highest percentage of lower-income neighborhoods being gentrified, with 29 percent.

The study, which used Census Bureau and economic data, counted neighborhoods as "gentrification-eligible" if they fell in the lower 40 percent of home values and family incomes for the broader metropolitan area in 2000. It measured increases in home values, education levels and incomes to determine which tracts had gentrified.

Study: Philly Among Leaders In Gentrification Which Has Pushed Out People Of Color | Philadelphia Enquirer
Seven cities account for nearly half of the gentrification in America — and Philadelphia stands prominently among them, according to a national study released this week.

The city also ranked high in the intensity of changes that have pushed many low-income people of color out of their longtime neighborhoods.

"A major transformation is occurring in the most prosperous American cities," the authors of the study conducted by the National Community Reinvestment Coalition wrote, and that has disproportionately hurt African Americans and Latinos "who were pushed away before they could benefit from increased property values and opportunities in revitalized neighborhoods."

Supreme Court: Foreclosure Firms Are Not "Debt Collectors" | Politico Pro
Businesses performing non-judicial foreclosures are not "debt collectors" under the Fair Debt Collection Practices Act, the Supreme Court unanimously ruled today.

The ruling in Obduskey v. McCarthy & Holthus LLP gives law firms, mortgage lenders and mortgage servicers more protection in states where foreclosures are not decided by the courts.

A Colorado homeowner who defaulted on his mortgage in 2009 brought the case against the law firm McCarthy & Holthus, which had been retained by Wells Fargo to foreclose the property, arguing that the firm failed to comply with the law's debt validation requirements.

PRIVATE FUNDS

CalPERS Wants To Double Down On Private Equity | Wall Street Journal
A new strategy to invest more deeply in private equity is roiling the nation's largest public pension fund.

Three of 13 directors who oversee the California Public Employees' Retirement System raised questions last month about the transparency and scope of a proposed venture that would divert as much as $20 billion over the next decade to new investments in technology startups and privately held businesses.

Board members are expected to vote on Monday to indicate whether they support the plan, which represents a dramatic new bet for the $356 billion retirement system known as Calpers. Chief Investment Officer Ben Meng has said the expansion will help the system meet its 7% future return targets. Calpers currently has $28 billion devoted to private-equity bets.

Wastewater — Private Equity's New Black Gold In U.S. Shale | Reuters
The average frack job now consumes 13 million gallons (49 million liters), up 40 percent in two years, according to a Reuters analysis of Permian producers' data reported to FracFocus.org.

That translates to water bills in the Permian Basin soaring 17 percent this year to $14 billion, according to consultancy IHS Markit, more than three times what North American producers spent last year on sand to frack their wells.

That lure is attracting investors who once viewed oil and gas as the prize.
TPG last week agreed to pay $930 million for a majority stake in Goodnight Midstream's water pipeline network, which consists of more than 420 miles (670 km) in three U.S. shale basins.

Other private equity firms, including ARM Energy Holdings and Ares Management, have committed $4 billion to buy or start water management firms over the last four years, according researcher Global Water Intelligence.

It Shouldn't Happen To A Vet | The Economist
The market town of Thirsk, two-and-a-half hours by rail north of London, has become a magnet for fans of James Herriot, the fictionalised Yorkshire vet, just as London's Kings Cross, from where the train leaves, is for Harry Potter lovers. Herriot, modelled on the life of his creator, the late vet-turned-author Alf Wight, was made world famous in the 1970s by a series of books, films and a television series. The surgery on which the books were based has been turned into a museum displaying its original 1940s apothecary and a breakfast table on which Wight sometimes performed surgery. The "wild panorama of tumbling fells

and peaks", where in the stories Herriot spent as much time wrangling with the farmers as he did with their animals, is as striking as ever.

But some of the town's folk are in high dudgeon over what they see as a betrayal of Herriot's legacy of small-town professional devotion. In 2017 the Skeldale veterinary practice, a partnership once run by Wight and Donald Sinclair (aka Siegfried Farnon), sold out to Medivet, a chain of more than 260 vet practices backed by a London private-equity firm, Inflexion. Chris Jeffery, a breeder of whitebred shorthorn cattle ("that's not because they eat white bread"), is among those who are fuming. "How much more traditional can you get than James Herriot's practice?" he exclaims. "It's been sold down the river."

Baker To Step Down As Head Of Hedge Fund Association | Politico Pro
Former Rep. Richard Baker, a top lobbyist for the hedge fund industry, will step down as head of the Managed Funds Association at the end of the year, he said today.

A onetime representative from Louisiana, Baker joined the association in 2008 and was previously a senior member of the House Financial Services Committee.

In a speech in Washington, Baker raised concerns with global political risks that he said could contribute to an economic recession. Brexit in Europe and U.S. political tensions "present considerable concerns," he said.

Starbucks Invests $100M In Private Equity Fund; Tests New Coffee Traceability App Feature | GeekWire
Starbucks is using a new method to invest in burgeoning technology.

The Seattle coffee giant for the first time is putting cash into a private equity fund, announcing on Wednesday a $100 million investment in the new Valor Siren Ventures Fund managed by Valor Equity Partners.

The Chicago-based firm makes growth-stage investments across various industries and in companies such as SpaceX, Bird, Tesla, and a number of food-related startups including Eatsa, Sizzling Platter, Wow Bao, and Roti Modern Mediterranean. The new fund, which could reach up to $400 million, will also go toward startups developing retail-related technologies.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Freddie Mac Selects David Brickman As Next CEO | Politico Pro
Freddie Mac has picked a new CEO: Current President David Brickman will be elevated to the position on July 1, the company announced today.

Freddie's board had announced in September that CEO Donald Layton intended to retire in the second half of 2019 and that Brickman, then the head of the company's multifamily business, was being promoted to president.

Brickman will assume control of the company as the Trump administration seeks to overhaul the housing finance system and release Freddie and Fannie Mae from over a decade of government control.

How The Wealthiest Colleges Manage Their Endowments In A Financial Crisis | Education Dive

Harvard would make up for the endowment losses in the short term by borrowing $2.5 billion through a bond offering that year. As Wadhwani explains, that kept Harvard from having to break form and reduce spending. It also allowed the university to hold onto assets in its endowment rather than sell them at a major loss, she added. That would have represented a breach of investment philosophy by essentially taking income from future generations to cover short-term losses.

Harvard's endowment has since recovered. It is the largest in higher ed and today contributes even more to the university's operating revenue — accounting for about 40%. In a February note, Moody's analysts described the university's wealth as "substantial" with a "strong capacity to fund high levels of financial aid, diverse and specialized academic programming, and significant ongoing capital investments." They noted, though, that Harvard's reliance on endowment spending "can pressure the university's fiscal operations in the event of prolonged market weakness."

Yet institutions like Harvard, which have wealthy endowments and strong brands, are "positioned well to manage disruptions" such as the major market downturn seen in 2008, said Jeffrey Kaufmann, vice president and senior credit officer with Moody's. Among them is tuition, which he said Harvard currently relies on for about 20% of its revenue. "You also have to remember Harvard has tremendous fundraising capacity," he said. "That provides a strong safety valve."

SYSTEMIC RISK

Condemned To Repeat The History Of Bank Failures? | New York Times (Editorial Board)

The Federal Reserve is sufficiently concerned about the health of the economy that it has hit the pause button on further interest rate increases, and rightly so. The Fed left its benchmark interest rate unchanged Wednesday, and Fed officials predicted no rate increases during the rest of 2019 — which would be the first year without a rate increase since 2014. But at the same time, the Fed and other agencies keep chipping away at financial regulation — a course of action that threatens to hasten the arrival of the next economic downturn, and to make it more painful.

Barely a decade has passed since the recklessness of major financial institutions helped to catalyze the largest economic crisis since the Great Depression. Many Americans have yet to recover their losses. Yet somehow, the lessons of the crisis already appear to be fading.

The government has loosened a number of the key strictures imposed on banks and other financial firms in the wake of the 2008 crisis, and more leniencies are in the pipeline. In particular, the government is allowing large banks to rely more on borrowed money as a source of funding, even as it has reduced scrutiny of their lending decisions.

A Recession Is Coming, And Maybe A Bear Market Too | Bloomberg (Gary Shilling)
I first suggested the U.S. economy was headed toward a recession more than a year ago, and now others are forecasting the same. I give a business downturn starting this year a two-thirds probability.

The recessionary indicators are numerous. Tighter monetary policy by the Federal Reserve that the central bank now worries it may have overdone. The near-inversion in the Treasury yield curve. The swoon in stocks at the end of last year. Weaker housing activity. Soft consumer spending. The tiny 20,000 increase in February payrolls, compared to the 223,000 monthly average gain last year. Then there are the effects of the deteriorating European economies and decelerating growth in China as well as President Donald Trump's ongoing trade war with that country.

There is, of course, a small chance of a soft landing such as in the mid-1990s. At that time, the Fed ended its interest-rate hiking cycle and cut the federal funds rate with no ensuing recession. By my count, the other 12 times the central bank restricted credit in the post-World War II era, a recession resulted.

A Big Boost To Banks Draws Democratic Support | Huffington Post
Four top federal regulators — including two Democrats — urged the Federal Reserve last month to weaken a key post-crisis rule limiting risk-taking at the nation's six largest banks. If successful, the bipartisan effort would boost short-term bank profits but render the financial system vulnerable to another crash.

At issue is the supplementary leverage rule, which was adopted in the aftermath of the 2008 collapse as a last line of defense against financial excess. While most banking rules involve a dizzying array of technical definitions, exceptions and complications to account for different risks, the leverage rule was designed to be a simple, blunt instrument.

At the most basic operational level, banks get into trouble when they rely too heavily on borrowed money to "leverage" their own capital. The more borrowed money banks use, the bigger their profits during a boom and the larger their losses in an unforeseen downturn. Regulators impose leverage requirements in order to reduce the amount of borrowed money banks can put into play.

Fed Rejects Trump's Growth Forecast, Confirms Rate-Hike Pause | Politico Pro
The Federal Reserve sent a clear signal Wednesday that it's unlikely to raise interest rates at all this year, a striking change from December when central bank officials judged that two more hikes might be necessary in 2019.

That message is certain to please President Donald Trump, who last year repeatedly bashed the Fed for its steady campaign of rate increases. What bodes less well for Trump is that the central bank downgraded its estimate for rate hikes because it expects slower economic growth.

The Fed did not announce any rate moves on Wednesday.

Fed officials project that the U.S. economy will grow by 2.1 percent this year, down from their 2.3 percent prediction in December. That outlook clashes with the optimistic growth forecast put forward just the day before by White House economists, who projected that gross domestic product would expand at or above 3 percent for the next five years, citing a pickup in business investment after the 2017 corporate tax cuts.

The Fed's New 'Normal' Looks Worrisome | Wall Street Journal (Greg Ip)
The Federal Reserve now believes its monetary policy is back to normal. That should worry you: if this is normal, then the Fed has precious little ammunition for when economic conditions again turn abnormal.

Since 2015, the Fed has been "normalizing" monetary policy by raising interest rates and shrinking its bondholdings from levels intended for a weak, postcrisis economy.
This week, it declared the process all but done: Fed officials see no more rate increases this year and perhaps one next year, and they will stop shrinking the balance sheet this September.

Yet by any historical benchmark, this "normal" stance of monetary policy is extremely stimulative. The federal-funds rate, at between 2.25% and 2.5%, is just 0.25% when adjusted for long-term expected inflation. By comparison, the real rate was 2.75% at the end of the Fed's last tightening cycle in 2006, and 4% at the end of the prior cycle in 2000.

TAXES

Investors Eagerly Await Trump Rules On Opportunity Zones | New York Times
A new batch of tax regulations from the Treasury Department will establish the most comprehensive guidelines yet for what sorts of investments qualify for tax benefits associated with opportunity zones, which were created by the 2017 tax law, and how investors must proceed in order to take advantage of them.

Potentially billions of dollars are waiting on the Treasury's decision. Civic leaders in areas like Avondale, which is still hurting from the 2008 housing crisis, are hoping the rules will be broad enough to improve the odds of attracting new businesses that offer well-paying jobs to residents. Investors, eager to put money into the tax-advantaged opportunity zones, are also clamoring for guidelines that could determine the types of projects they can back.

Among the money dependent on the Trump administration's rules is $22 million in investment guarantees, to be announced Monday by the Kresge Foundation, to support two socially conscious investment funds that hope to pour $800 million into manufacturing, clean energy and other business development in Opportunity Zones.

Trump's Tax Cut Won't Power The Growth He Predicts, Officials Concede | New York Times
The Trump administration pushed a $1.5 trillion tax cut through Congress in 2017 on the promise that it would spark sustained economic growth. While the tax cuts have goosed the economy in the short term, officials now concede they will not be enough to deliver the 3 percent annual growth the president promised over the long term.

To produce that average growth rate for the next decade, White House forecasters say, the American economy would need additional rollbacks in labor regulations, a $1 trillion infrastructure plan and another round of tax cuts.

Getting all those policies implemented would be highly unlikely, given a divided Congress and a ballooning federal deficit, which could limit lawmakers' appetite to spend money on a new tax cut or infrastructure plan.

How To Tax The Rich, Explained | Vox
The 1990s Democratic Party made friends with the rich. The 2008 Democratic Party was eager to bail them out. The 2019 Democratic Party seems ready to declare war.

In just the past few months, at least three major Democratic Party figures, two of whom are presidential contenders, have proposed large tax increases targeted at the richest Americans:

Rep. Alexandria Ocasio-Cortez (D-NY) floated a big increase in top marginal income tax rates in an interview on 60 Minutes. Sen. Elizabeth Warren (D-MA) proposed an annual wealth tax. Sen. Bernie Sanders. (I-VT) proposed a drastic hike in the estate tax.

OTHER TOPICS

U.S. Treasury Yield Curve Inverts For First Time Since 2007 | Bloomberg
A closely watched watched section of the Treasury yield curve on Friday turned negative for the first time since the crisis more than a decade ago, underscoring concern about a possible economic slump and the prospect that the Federal Reserve will have to cut interest rates.

The gap between the 3-month and 10-year yields vanished on Friday as a surge of buying pushed long-end rates sharply lower. Inversion is widely considered a reliable harbinger of recession in the U.S. The 10-year slipped to as low as 2.439 percent.

U.S. central bank policy makers on Wednesday lowered both their growth projections and their interest rate outlook, with the majority of officials now envisaging no hikes this year. That's down from a median call of two at their December meeting. Traders took that dovish shift as their cue to dig into positions for a Fed easing cycle, pricing in a cut by the end of 2020 and a one-in-two chance of a reduction as soon as this year.

The Debt Shift Theory Of The Global Financial Crisis And The Great Real Estate Bubble | Forbes

Since the 1990s, the majority of bank credit in advanced economies has gone into buying real estate and financial assets, like stocks, instead of going to businesses that create new goods and services (non-financial services, that is). That's according to a recent working paper, "Credit where it's due: A historical, theoretical and empirical review of credit guidance policies in the 20th century," by Dirk Bezemer (University of Groningen, Netherlands), Josh Ryan-Collins (UCL Institute for Innovation and Public Purpose), Frank van Lerven (New Economics Foundation) and Lu Zhang (Utrecht University, Netherlands).

“Banking systems in industrialised economies have shifted away from their textbook role of providing working capital and investment funds to businesses. They have primarily lent against pre-existing assets, in particular domestic real estate assets.”

Looking at 1973 to 2005, the researchers found that financial sector deregulation in advanced economies is significantly associated with a lower share of bank loans going to finance the production of goods and services (non-financial services).

Democrats Push Financial Inclusion As 2020 Election Race Heats Up | Reuters

Boosting access to the U.S. banking system is emerging as a prominent theme as Democrats tap discontent over income inequality ahead of the 2020 presidential election.

Following the 2008 financial crisis, many banks pulled back from their poorest customers. The shift has had lasting costs for millions of Americans now struggling to access mainstream financial services such as checking accounts and credit cards.

Ten years later, Democrats, driven by progressive firebrands like Senators Bernie Sanders, Elizabeth Warren and Representative Alexandria Ocasio-Cortez, see financial inclusion as a draw for voters.

The three Democrats, along with Senator Kirsten Gillibrand, have advocated for the U.S. Postal Service to provide banking services. Senator Cory Booker has said he wants to ban overdraft fees and Senator Kamala Harris has called for a crackdown on payday lenders.

Did Wall Street Get A ‘Trillion-Dollar Bailout’ During The Financial Crisis? | Washington Post Fact-Checker Column (Glenn Kessler)

“Not one major Wall Street executive went to jail for destroying our economy in 2008 as a result of their greed, recklessness and illegal behavior. No. They didn’t go to jail. They got a trillion-dollar bailout.”
— Sen. Bernie Sanders (I-Vt.), in a speech in North Charleston, S.C., March 15, 2019

Sanders, who is running for the Democratic presidential nomination, includes a version of this line in his stump speeches — as part of a slew of statements that he says demonstrates how the system is rigged in favor of the rich and powerful.

But his language is a bit slippery and exaggerated. Let's take a look.

Turns Out That Trillion-Dollar Bailout Was, In Fact, Real | Rolling Stone (Matt Taibbi)
Kessler dumps on these numbers because a) Ben Bernanke once said they were "wildly inaccurate," and b) because loans listed as different expenditures often represented the same loan simply rolled over. Under that standard, Kessler quotes the Government Accountability Office, which said "loans outstanding for the emergency period peaked at about $1 trillion in late 2008."

This would seem to get us past a "trillion dollar bailout" already, but Kessler also wants to argue the issue of whether the bailouts were good or bad. What that has to do with fact-checking is not clear, but he goes there. "The Fed is not a Federal Agency" he writes, and insists its bailout facilities made profits and were a social necessity. For instance, he says, they unfroze the commercial paper market, which was "essential for meeting liabilities such as workers' payroll." Had the Fed not acted, he says, "the U.S. economy would have ground to a halt."

This is basically the history of the bailouts as written in self-congratulatory tomes like Ben Bernanke's The Courage To Act (revised, probably, from My Courage To Act) and Timothy Geithner's Stress Test. It's Wall Street's one-sentence summary of the bailouts: they weren't that big, but if they were, they were necessary, and made a profit, and even though they made us rich again, they were done for you, the ordinary person!

Amazon Likely The Second-Largest Employer Of PhD Economists Behind The Federal Reserve | TechSpot
With the goal of being able to measure and predict inflation better than any government entity, Amazon has a "secret squad" of economists working behind the scenes.

Estimating inflation rates is a very complex and imperfect science. The Bureau of Labor Statistics sends testers to stores to manually record the prices of common goods, like groceries and tires. Surveys are done via phone to get real-time data on what consumers are paying for commodities like fuel and heating oil.

Using data and trends from their own platform, Amazon's economists are drilling down into product descriptions to identify the quality of a product, and indexing the products based on consumer demand and pricing history. Given that a whopping 75 percent of American consumers shop on Amazon most of the time, the shopping giant may well have the largest transactional data set in existence. With that much data, it stands to reason that Amazon isn't relying on the feds to validate or improve on their economic model.

Over the past three years, the company has hired over 150 PhD economists, likely making it the largest employer of economic doctors behind the Federal Reserve. At the American

Economics Association's January conference, Amazon was the only company there recruiting, handing out pens and stress balls. The talent pool of PhD economists only grows by 1,000 or so new graduates per year.

Elizabeth Warren Actually Wants To Fix Capitalism | New York Times (David Leonhardt)
This history suggests that the Democratic Party's economic agenda needs to become more ambitious. Modest changes in the top marginal tax rate or in middle-class tax credits aren't enough. The country needs an economic policy that measures up to the scale of our challenges.

So far, only one candidate among the 2020 contenders has an agenda with this level of ambition: Elizabeth Warren. Her platform aims to reform American capitalism so that it once again works well for most American families. The recent tradition in Democratic politics has been different. It has been largely to accept that big companies are going to get bigger and do everything they can to hold down workers' pay. The government will then try to improve things through income taxes and benefit programs.

Warren is trying to treat not just the symptoms but the underlying disease. She has proposed a universal child-care and pre-K program that echoes the universal high school movement of the early 20th century. She favors not only a tougher approach to future mergers, as many Democrats do, but also a breakup of Facebook and other tech companies that have come to resemble monopolies. She wants to require corporations to include worker representatives on their boards — to end the era of "shareholder-value maximization," in which companies care almost exclusively about the interests of their shareholders, often at the expense of their workers, their communities and their country.

Private Prison Stocks Reel From Big Banks' Decisions To Stop Providing Financing | Eyes On The Ties
The stock prices of the two largest U.S. private prison corporations, GEO Group and CoreCivic, tumbled last week as JPMorgan Chase and Wells Fargo, the first and fourth biggest U.S. banks, announced their decisions to stop financing private prisons. These decisions come amidst mounting pressure on financial institutions, from a range of organizations and campaigns, to stop financing an industry that profits off of mass incarceration and the detention and separation of immigrant families.

The drop in private prison stocks was noted last Thursday by Daniel Altschuler of Make the Road New York:

Writing at the close of the U.S. stock market a day later, Forbes contributor Morgan Simon noted that "the stocks of private prison leaders GEO Group and CoreCivic are down 16% and 8% respectively today since last Tuesday," when JPMorgan Chase announced it would stop financing private prisons.

Deutsche Bank And Commerzbank Go Public With Merger Talks | Reuters

Deutsche Bank and Commerzbank confirmed on Sunday they were in talks about a merger, prompting labor union concerns about possible job losses and questions from analysts about the merits of a combination.

Germany's two largest banks issued short statements following separate meetings of their management boards, a person with knowledge of the matter said, indicating a quickening of pace in the merger process, although both also warned that a deal was far from certain. "In light of arising opportunities, the management board of Deutsche Bank has decided to review strategic options," Deutsche said in its statement.

Christian Sewing, Deutsche Bank's chief executive, told employees that Deutsche still aimed "to remain a global bank with a strong capital markets business... with a global network".

Investors Should Encourage A Resurgence Of Local Community Banking | CNBC (Alex Sanchez)
The number of community banks in our nation is at the lowest point in recent history. From a high of 18,033 in 1985, there were 5,477 as of the third quarter of 2018. Because of the interest and value in community banks, many have sold to larger institutions as heavy consolidation has occurred in the banking sector. This consolidation creates opportunities for investors to start new community banks.

In sunbelt states like Florida, where we have more than 900 new Floridians daily, some of our major metropolitan areas lack a locally-headquartered community bank. As a result, several new banks have opened in Florida, including Winter Park National Bank in Orlando and Gulfside Bank in Sarasota. There have also been recapitalizations of old banks under new management, such as Beach Community Bank and One Florida Bank. These four banks combined have raised more than $200 million from investors.

Local banks are important because our country thrives on small businesses, which employ a majority of Americans. According to the Small Business Administration, small businesses make up 99.7 percent of U.S. employer firms, 64 percent of net new private-sector jobs, and 49.2 percent of private-sector employment. Their lenders of choice tend to be community banks.

Ex-Goldman Exec Scrutinized For Economic Development Post | New Haven Register
A former top Goldman Sachs executive tapped to oversee economic development policy in Connecticut and lauded by Gov. Ned Lamont for his caliber of financial and investment experience finds himself answering a lot of questions about his role in the mortgage meltdown of 2007-08.

Since his nomination last month, David Lehman has spent hours talking publicly and privately to lawmakers about his time as co-head of the investment bank's Structured Products Group Trading Desk and other positions at Goldman over the past 15 years, and whether he shares any responsibility for the revolving door of toxic mortgages that led to the crisis.

While a new governor's cabinet appointments are typically given deference by lawmakers, Lamont's fellow Democrats in the state Senate, where Lehman still awaits confirmation, have raised some of the loudest concerns about whether he is the best choice.

Skills Matter, But What Matters More Is Who Gets The Skills, And Who Gets Left Behind | MarketWatch (Livia Lam and Daniella Zessoules)
Like the Industrial Revolution, we are now at a turning point where profound changes are underway in where we work and how we do our jobs. Upskilling matters.

But because future job prospects can also vary depending on whether you've been unemployed for a long time, are a veteran or a woman, a person of color or an older worker, didn't finish high school, have a disability, or whose first language is other than English, it's necessary to deploy employment strategies beyond skills attainment alone.

For example, race plays an especially important role in what kind of job you can get, or not get. Wealth inequality research has shown that white high school dropouts have lower unemployment rates than blacks who have completed some college or earned an associate degree, and blacks face a higher unemployment rate than whites at every level of degree attainment.

Our Friend, The Market | Democracy Journal (Dean Baker)
Finance is another area where government policy structured the market to support a bloated industry, one that creates large fortunes for a small number of people. The most dramatic incident in this respect was the massive bailout for the industry after the financial crisis. The magic of the market would have sent Goldman Sachs, Citigroup, and other financial behemoths into bankruptcy.

Instead, Congress and the Federal Reserve Board raced to supply the necessary loans and guarantees to keep the major banks afloat. (No, we did not risk a second Great Depression without the bailout. The Federal Deposit Insurance Corporation could have kept the normal flow of payments going. And we learned the secret to escaping a severe depression almost 80 years ago with the start of World War II. It's called "spending money.")

Beyond the bailout, government policy has structured finance to support an incredibly inefficient industry that unnecessarily makes some people very rich. Government policy literally rewrote the rules on bankruptcy to support mortgage-backed securities and derivative trading. Also worth noting is the fact that the financial industry would be dramatically downsized if financial transactions were not exempted from the sort of sales tax imposed on most other items in the economy. Again, it is clearly the rules that government puts in place that give so much money to the big winners in finance, not anything intrinsic to the market.