Americans for Financial Reform Education Fund

This Week in Wall Street Reform | May 11 - 17

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ENFORCEMENT

Read: Senator Elizabeth Warren Releases Report On "Rigged Justice 2.0: Government Of By And For The Billionaires" **| Senator Warren Press Office**

US Bank Regulator Will Vet Next Wells Fargo CEO **| Reuters**
A top U.S. bank regulator said on Wednesday it will vet Wells Fargo & Co's pick for its next chief executive, a development that could complicate the scandal-hit lender's efforts to find a permanent replacement for CEO Tim Sloan.

Joseph Otting, the Comptroller of the Currency (OCC), told Congress he would use special legal powers that the regulator typically reserves for overseeing financially troubled lenders to review any proposed candidate.

But Otting said he does not plan to make findings from the review public, despite pressure from U.S. Senator Elizabeth Warren who pressed him on the issue during a hearing before the Senate Banking Committee.

Watch: Elizabeth Warren Just Laid A Devastating Burn On The Comptroller Of The Currency | Slate
Elizabeth Warren is not a fan of Wells Fargo's enthusiasm for fraud. It also appears that she is not a fan of the current federal banking official, Comptroller of the Currency Joseph Otting, who is in part responsible for regulating the repeat corporate offender.

That's just some tight dialogue!

Relatedly, here is an interesting story in the Intercept about Otting's work in his previous job, as CEO of OneWest Bank. In 2015, OneWest, which already had its own history of unethical business practices, was trying to merge with a company called CIT Bank. The Federal Reserve received 2,177 comments from individuals writing to support the merger … of which "approximately 2,093" were copies of a form letter that the company had created and which Otting had helped promote.

CONSUMER FINANCE AND THE CFPB

Read: Stop The Debt Trap Short Letter On CFPB's Proposal To Repeal Payday Rule

Read: Multi-Group Comment On CFPB's Proposal To Repeal Payday Rule

Read: Veterans Education Success Comment On Proposal To Repeal Payday Rule

AG Racine Leads 25-State Coalition Opposing Trump Administration Rollback Of Common-Sense Protections For Payday Loan Borrowers | Government Of The District of Columbia Press Office
Attorney General Karl A. Racine today led a coalition of 25 states opposing the Trump administration's efforts to eliminate rules protecting consumers from abusive payday and vehicle title loans. The states filed an official comment letter with the Consumer Financial Protection Bureau (CFPB) opposing the Bureau's proposed repeal of rules adopted in 2017 to protect consumers from excessive interest rates and other predatory practices that trap consumers in cycles of debt while preserving access to less-risky types of short-term credit. The letter argues that eliminating the 2017 protections, which were set to go into effect in August 2019, would harm consumers, reduce states' ability to protect their residents from predatory lending, and is inconsistent with the CFPB's legal obligations to protect consumers from unfair and abusive practices.

Labor, Consumer Groups Challenge CFPB Proposal To Ease Payday Loan Regulation | Morning Consult A coalition of consumer and labor groups is challenging the Consumer

Financial Protection Bureau's proposal to ease an Obama-era restriction on payday lenders, using language that suggests there are legal grounds to block the new rule.

CFPB Director Kathy Kraninger in February introduced the bureau's proposed plan to effectively unwind regulation imposing underwriting standards on payday lenders, which was originally supposed to go into effect Aug. 19. The proposed rule has been championed by payday and auto title lenders but opposed by consumer groups.

The coalition, led by Americans for Financial Reform and the Center for Responsible Lending, submitted its 220-page comment Thursday, when the comment period on the CFPB's proposal closed. The consumer advocates called the proposal "arbitrary and capricious," a direct reference to the Administrative Procedure Act, which tells courts to invalidate agency actions that are found to be "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law."

Payday Lenders Mobilize In Support Of Rule's Repeal, Consumer Group Says | Wall Street Journal
In a report to be published Tuesday, Allied Progress found that nearly a quarter of the 16,761 public comments submitted as of May 11 contained duplicated language supporting the latest regulatory revision.

For example, 2,364 comments said, "As you take a second look at the payday loan rule, please don't make it more difficult for me to get these loans … Millions of Americans like me rely on payday loans, and the government shouldn't take away our access to credit."

At least 213 others contained sentences reading: "I needed to replace my hot water tank. Then my appliances needed to be repaired and eventually replaced," according to Allied Progress. At least 141 comments said, "I borrow to help my child pay for college ... I can borrow a small loan rather than have her grow her student loan." At least 851 comments said: "Mandatory underwriting would be too costly and time-consuming."

CFPB Official Says No New Research Backs Payday Rule Rollback | Bloomberg Law
The Consumer Financial Protection Bureau did not conduct new research to justify rescinding borrower ability-to-repay requirements on payday loans, a top official said.

"We did not do any new research. We did not do anything," Thomas Pahl, a policy associate director overseeing the CFPB's Research, Markets & Regulations division, told House lawmakers May 16.

Democrats Grill CFPB Official On Payday Rewrite | American Banker
A senior official at the Consumer Financial Protection Bureau told lawmakers on Thursday that the bureau's reliance on a limited study of payday lenders was not strong enough to support strict underwriting requirements of small-dollar loans.

Thomas Pahl, the CFPB's policy associate director for research, markets and regulations, defended the agency's overhaul of its 2017 payday rule, announced earlier this year, by claiming the study the CFPB relied upon to impose tough ability-to-repay standards did not address vehicle title loans and was limited to data collected from one payday lender in five states.

“We did not do any new research,” Pahl told the House Financial Services subcommittee on economic and consumer policy. “We have decided to reconsider the rule, in part, because the research that was done — [there was] nothing wrong with it in and of itself — is not a very strong basis for addressing all vehicle title lenders nationwide and all payday lenders nationwide and for that reason we have questions about it, and that’s why we put it out for public comment to see if there are other sources of information on this point before the bureau makes a final determination.”

Payday Loan Group Paid KSU For Favorable Research, Records Show | Atlanta Journal-Constitution
Georgia considers payday loans so hazardous to borrowers that they’re banned within state lines. U.S. military officers testified before state lawmakers that the high interest, short-term paycheck advances drown sailors and soldiers in debt. At one point, the U.S. Consumer Financial Protection Bureau, a federal consumer watchdog agency, planned a crackdown.

So when a Kennesaw State University study concluded that borrowers who take out a long string of payday loans fare better than those who don’t, industry advocates used it to fight off the planned crackdown. A Washington, D.C., lobbyist hand-delivered the report to a key administrator with the federal agency days before its public release, recently-released KSU emails show.

This was no ordinary academic study. The Consumer Credit Research Foundation, a group run by a payday loan industry backer, gave KSU $30,000 for the research, payable upon completion of the paper, according to a consulting agreement obtained by The Atlanta Journal-Constitution.

‘Absolutely Devastating’ To Small Lenders: Lawmakers Lay Into CECL | American Banker
The OCC issued a bulletin last year authorizing national banks to compete with payday lenders. The FDIC took a step in the same direction in November when it asked for public feedback on how the agency can help banks “offer responsible, prudently underwritten credit products."

McWilliams told the House committee that she expects the agency will act “soon” to unveil small-dollar loan policy.

“It is my personal belief as well as, I think, good regulatory policy that these products be offered by banks, where we can monitor for consumer protection and we can look for the other signs of weaknesses in the marketplace and what the banks offering,” McWilliams said in response to Rep. Barry Loudermilk, R-Ga. “My preference would be that banks offer these products.”

Trump Administration May Overhaul Rules Limiting Bank Overdraft Fees | Washington Post
The Trump administration is reviewing a 10-year-old federal rule that limits banks' ability to charge overdraft fees without customers' permission.

The move opens the door to a potential overhaul of regulations that the Consumer Financial Protection Bureau previously said saved consumers money but which the banking industry has argued needs an update.

The analysis will help the bureau determine whether the rule should remain intact, be amended or be "rescinded to minimize any significant economic impact," the CFPB said Monday. The effort is part of a new CFPB initiative to assess how existing regulations affect small businesses, the bureau said.

"I am most concerned about the CFPB using [the review] to water down the rule," said Linda Jun, senior policy counsel at Americans for Financial Reform. "For vulnerable consumers, overdraft fees often compound their vulnerabilities by making it even harder to recover."
The public will have 45 days to submit comments on the issue, the CFPB said.

Consumer Groups Oppose Allowing Debt Collectors To Email, Text And Call Seven Times A Week | Pittsburgh Post-Gazette
Consumer advocacy groups across the country are encouraging the public to voice objections to a proposal last week from the Consumer Financial Protection Bureau to change the rules on how debt collectors contact people.

Under the plan, creditors could call debtors up to seven times a week, plus send emails and text messages.

Linda Jun, a senior policy counsel for Americans for Financial Reform in Washington, D.C., said her organization is a coalition of 200 consumer advocacy, civil rights and labor organizations. She said members will be preparing comments during the CFPB's 90-day comment period to outline their many concerns for consumers.

"The fact is these proposals will open consumers up for more harassment potential," she said.

CFPB Move To Ban Suits On Stale Debt Stirs Advocate Angst | Law360
A major new package of debt collection regulations proposed by the Consumer Financial Protection Bureau calls for formally banning debt collectors from suing or threatening to sue over debt that's past its expiration date, but consumer advocates say this plan would actually weaken the status quo.

The CFPB's long-awaited draft Fair Debt Collection Practices Act regulations unveiled Tuesday have been touted by agency Director Kathy Kraninger as an attempt to modernize and clarify the "rules of the road" for the $11.5 billion debt collection industry and the tens of millions of consumers it affects.

Some of the draft rules' most-talked about features would make it clear how collectors can permissibly use email, text messages and voicemail to reach out to consumers and put flat caps on how often collectors can attempt to call delinquent borrowers about their accounts.

CFPB Official Under Fire For Past Writings On Race Resigns | American Banker
A senior political appointee at the Consumer Financial Protection Bureau has resigned following controversy over writings more than a decade ago in which he used a racial slur for African-Americans and claimed the majority of hate crimes were hoaxes.

Eric Blankenstein, the CFPB's policy director for supervision, enforcement and fair lending, said in an email Wednesday to agency employees that he had decided to "take another position," after working at the CFPB for 18 months. Blankenstein wrote that details of his next job "are still being finalized." His last day at the CFPB will be May 31.

Blankenstein came under fire when the Washington Post first reported last year that he had used a pen name in blog posts in which he suggested that people who use racial slurs are not necessarily racist and that most hate crimes were "hoaxes." In his writings, Blankenstein referred to a University of Virginia proposal to impose harsh penalties for acts of intolerance as "racial idiocy."

As CFPB Mulls Privatizing Database, Consumer Complaints Mount | American Banker
In the wake of the massive data breach at Equifax, it was not surprising that financial consumer complaints sent to the Consumer Financial Protection Bureau shot up by nearly a quarter in 2017. But last year, complaints kept climbing.

The CFPB received over a quarter-million complaints in 2018 — a record — which was a 6% increase from the previous year, according to a new report by the U.S Public Interest Research Group.

The analysis by U.S. PIRG's Education Fund comes as the consumer advocacy organization and others like it urge the CFPB to continue allowing the public to view the complaint database. PIRG has released a total of 14 reports about the complaint database since 2013.

It's A Mistake To Dismiss CFPB's Complaint Database | American Banker (Marcia Tal)
The Consumer Financial Protection Bureau has frequently been criticized for inaccurately portraying the number of complaints in its database. Because the CFPB frames "mere" inquiries as complaints too, the validity of its data is being challenged.

But customer voices are a business's most valuable asset and need to be taken seriously — whether they are categorized as complaints or inquiries. When people turn to the CFPB with a complaint or an inquiry, they have an issue that hasn't yet been resolved. With approximately one million complaints accepted over the course of seven years, the CFPB's volume of complaints is not small. The banking industry should pay attention to each and every complaint, regardless of how many complaints there are in total.

Any customer complaint can be unpacked for value, and each customer's voice must be listened to. After all, one customer's complaint can be tomorrow's headline. Each voice is a valid source of data that can be rich with insights. Each voice can shed light on new information for a company.

Rising Rent For Millennials Gives Rise To A New Type Of Lender | Wall Street Journal
These companies, which also include Domuso and Till, are entering a market long associated with payday lenders. Compared with cash-advance loans, which come with annual interest rates as high as 700% in some states, funds from the rent-lending startups are available at much lower cost. Some are competitive with credit-card borrowing rates at less than 20%.

That is a big help for those who rely on irregular paychecks or can't come up with large move-in deposits.

The pitfall to such credit is that the loans might encourage some young renters to live beyond their means. Large cities often have a high cost of living that can push residents ever deeper into long-term debt and strain their credit scores.

Outstanding consumer credit, which doesn't include mortgage loans, exceeded $4 trillion for the first time last year, according to data from the Federal Reserve.

Fintech Charter Delayed Following Court Ruling: Otting | American Banker
A recent court decision allowing New York's financial regulator to proceed in a case attempting to block the Office of the Comptroller of the Currency from offering fintechs a new federal banking charter is having a chilling effect on potential applicants, OCC chief Joseph Otting said.

In a recent sit-down with American Banker, Otting said he no longer expects to have a fintech firm formally apply for the new special purpose bank charter in the second quarter of the year, after a federal judge ruled May 2 that the New York State Department of Financial Services could continue with its case to invalidate the charter.

"I [previously] said in the second quarter" the OCC would have an applicant, but "clearly with this ruling, that is going to chill that a little bit," Otting said in the interview.

Fintech Seeks To Help Customers Avoid Overdrafts — With Assist From A Big Bank | American Banker
The savings app provider Digit on Tuesday unveiled an instant withdrawals feature that will let users move money from their Digit account to their bank account instantly. This can help them meet emergencies and avoid incurring overdraft fees and resorting to payday loans.

The move is significant for a few reasons.

One, it's a response to the backlash against overdraft fees among congressional lawmakers, consumer activists and consumers themselves. As the ranks of the working poor grow and the idea of having lower-income customers pay fees that subsidize free banking for higher-income customers with higher balances becomes less palatable, apps like Digit's — which help people save each month, alert them when their balances are low, and now let them quickly transfer money from savings to checking as needed — are being heralded as useful ways to avoid overdraft fees.

Two, it's an early, real-life use of the real-time payments service JPMorgan Chase has built based on The Clearing House's RTP service. For those wondering what the early adopters are getting out of this new payment rail, the ability to support fintech clients is one answer.

Credit Card Rates Are Now At The Highest Level In History And May Weigh On The Economy | CNBC
Americans now pay their banks an average 16.9% interest on credit cards — the highest level ever, according to the Federal Reserve. The skyrocketing borrowing rate does not bode well for the economic health of consumers, and therefore U.S. growth.

"This is key because of the obvious influence that consumers have on on the overall economy," said Peter Boockvar, chief investment officer of Bleakley Advisory Group. "The trajectory is is creeping up and is something that we have to watch closely."

With global trade slowing and worries about exports, Boockvar said the U.S. consumer has been a bright spot. Unemployment is at a 50-year lows and wages are rising. But softer-than-expected consumer spending data this week called some of that strength into question. U.S. retail sales fell 0.2% in April, the Commerce Department said Wednesday. Retail sales make up about one-third of consumer spending, which drives most economic activity.

Warning: Signs Of Credit Crisis Grow | Axios
A recent survey of bank officers shows U.S. institutions are tightening their lending standards and raising rates on commercial loans and credit cards.

Details: Bankers say they have increasing concern about future economic growth, despite continued U.S. labor market strength and solid economic fundamentals. The data banks are seeing runs contrary to the overall narrative of a strong U.S. economy.

Driving the news: Credit card delinquency rates in Q1 hit the highest level since 2012, driven in part by a spike in overdue payments by people ages 18–29, according to a report out this week from the New York Federal Reserve.

Five Things That Have Changed For Consumers Since Trump Became President | True New Jersey (Karin Price Mueller)
Think consumer protection. What happens if you've been wronged by a business? What if laws and regulations don't protect you and your wallet?

That's what consumer advocates say is happening under the Trump administration. They're alarmed by a cavalcade of changes they say leave the little guy behind while Wall Street and big corporations gain advantage.

"It's a disastrous administration for consumer protection," said Sally Greenberg, executive director of the nonprofit National Consumers League. "It's completely blind to the need for strong rules and strong consumer protections."

Here are five changes consumer advocates say are vital for consumers to know.

CFPB Director Kraninger Announces Deputy Director | CFPB Press Office
Consumer Financial Protection Bureau (CFPB) Director Kathleen L. Kraninger today announced that Brian Johnson will serve as the Deputy Director. Mr. Johnson first joined the Bureau in December 2017 as Senior Advisor to the Director and was named Principal Policy Director in April 2018. Mr. Johnson has served as Acting Deputy Director since July 2018.

"I'm glad to announce officially that Brian will be the Bureau's Deputy Director," said Director Kraninger. "Not only has he done a fantastic job serving in the Acting capacity, he has been an invaluable part of the team. Brian's extensive experience on consumer and financial policy will continue to serve the Bureau in its focus on preventing consumer harm and using all of the tools Congress gave us to protect consumers."

Mr. Johnson joined the Bureau from the House Financial Services Committee where he spent over five years serving in various capacities including Senior Counsel, Chief Financial Institutions Counsel, and Policy Director. During his time on the Committee, Mr. Johnson led the policy and legislative work for the Financial Institutions and Consumer Credit Subcommittee on issues related to consumer protection and credit, mortgage origination, credit reporting, banking and data security. Prior to joining the Committee, Mr. Johnson worked for the Attorney General of Ohio and the White House Domestic Policy Council. He received his B.A. in economics, as well as his J.D., from the University of Virginia.

DERIVATIVES AND THE CFTC

EXECUTIVE COMPENSATION

Wells Fargo CEO Search Hobbled By Pay Limitations: Sources | Reuters
Wells Fargo & Co's hunt for a new CEO is being impeded by limits on how much the bank can pay its next leader, a person close to the search and several industry insiders told Reuters.

A handful of top candidates have already said they would not pursue the job because Wells Fargo is unlikely to meet their pay requirements, said the person, who spoke about private negotiations on the condition of anonymity.

Wells Fargo declined to comment on the search process.

Buyout Bonus Boom — The Gift That Keeps On Giving | Private Equity News
Private equity managers are projected to win the 2019 bonus race, with buyout firms' incentive pay set to rise driven by record fundraising and higher performance fees.

Alongside retail banks, private equity firms are the only group of financial companies forecast to increase spending on bonuses in 2019, as bankers' bonuses fall and fund managers' stay flat, according to new analysis by Johnson Associates, the US pay consultancy.

"Private equity has boomed in the last several years," said Alan Johnson, managing director at the consultancy. "Base salaries and bonuses have gone up much faster than the rest of financial services, driven by very effective fundraising. It has been the place to be in the last several years."

Private equity bonuses, which have been rising since 2016, are being driven higher both by growth in the industry and a trend towards charging investors lower management fees and higher performance fees.

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

SEC Poised To Adopt Landmark Financial Advisers Rule | Politico Pro
The SEC is expected to adopt landmark regulations for financial advisers as soon as this month, according to two people familiar with the matter.

Drafts of the final rules have been circulated among the agency's commissioners, and a vote to adopt the so-called best-interest regulations could be held in two to three weeks, said the people, who asked not to be identified to speak freely about the move.

They didn't offer details on the final rules and cautioned that the timing for a vote could slip into June. The SEC staff's final drafts, known as term sheets, that the commissioners are reviewing can still be reworked as they haggle over details.

SEC Approves New Stock Exchange For Long-Term Investors | Politico Pro
The Securities and Exchange Commission today approved a new stock exchange to compete alongside the New York Stock Exchange and Nasdaq.

The agency gave the Long-Term Stock Exchange approval to be a national securities exchange to facilitate stock trading and eventually list public companies.

The goal of the new exchange is to give investors more voting power in a listed company the longer they hold their shares. The idea is to give big, institutional investors a greater incentive to hold onto shares and to discourage trading solely on quarterly performance.

Senators Introduce Bipartisan Retirement Savings Bill | Politico Pro

Sens. Rob Portman (R-Ohio) and Ben Cardin (D-Md.) today introduced a bill to help Americans save for retirement, saying they were driven by concern over the vast number of people who have no money set aside for when they stop working.

The bill would help people who have saved too little to put aside more for retirement, while small businesses would be encouraged to offer employees 401(k) plans. It would also expand access to retirement savings programs to low-income people and increase to 72 the age at which people must start withdrawing from their retirement accounts.

As motivation for their legislation, the senators cited a 2019 Government Accountability Office report that found almost half of people 55 or older don't have any retirement savings. Among low-paid workers, only 22 percent participate in a retirement savings plan, the senators said.

MORTGAGES AND HOUSING

Fannie And Freddie Back More Mortgages Of Those Deeply In Debt | Wall Street Journal

The gatekeepers of the American mortgage market are increasingly backing loans to borrowers who have heavy debt loads, highlighting questions about mortgage risk as policy makers debate ways to change the system.

Almost 30% of loans that mortgage giants Fannie Mae FNMA 0.27% and Freddie MacFMCC 0.42% packaged into bonds last year went to home buyers whose total debt payments amounted to more than 43% of their incomes, according to an analysis by industry research group Inside Mortgage Finance. The share has nearly doubled since 2015. Data on other government mortgage programs also show an increase.

The backing of these loans opens up a debate about the government's role in the housing market. Some say cheap, federally backed financing has made credit available for millions of borrowers who otherwise might not have had a shot at homeownership. Others say that more-indebted borrowers are riskier, and that their purchases may be accentuating a rise in home prices that in many areas has outstripped median incomes.

Fannie Mae: Mobile-Home Loan Program Leaves Evictions, Billionaire Profits In Wake | Capitol Forum

Rather than insisting on protections for residents, Fannie and Freddie have loaned more than $15 billion to mobile-home investors with virtually no strings attached.

That credit has helped investors expand their mobile-home park business and squeeze the sites for profits while—thanks to the government backing—saving investors money.

The role of Fannie and Freddie in the mobile-home park sector could come under scrutiny as lawmakers and the Trump administration consider whether to hand the companies back to investors.

Top Treasury Official Craig Phillips To Depart | Politico
Craig Phillips, the counselor to the Treasury secretary who was spearheading the Trump administration's move to overhaul the nation's mortgage-financing system, is leaving his position next month, the department confirmed on Thursday.

Phillips' departure comes as a surprise since he was widely seen as playing a central role in the administration's effort to end government control of Fannie Mae and Freddie Mac, the mortgage-financing giants that were seized on the verge of collapse during the housing crisis. Treasury is expected to release a blueprint for reform as early as next month.

“In addition to managing the extensive domestic finance portfolio, Craig led the Department’s efforts that produced significant financial regulatory reform." a Treasury Department spokesperson said in a statement. "Craig has been critical in establishing a housing policy finance reform framework, and will stay until the completion of the Treasury Housing Reform Plan.”

Opinion: Potential Obstacle In Ending ‘Redlining’ | Tribune News Service (Preeti Vissa Kristipati)
Reporting requirements under HMDA were updated by the Dodd-Frank financial reform act and again by the Obama administration to give regulators a clearer picture of what’s happening. The updated rules required lenders to report every loan’s interest rate and the relationship between an applicant’s income and total amount of debt the would-be borrower was taking on. They also required more detail on ethnicity — like whether an Asian American borrower, for example, was of Chinese or Cambodian heritage.

Now the Consumer Financial Protection Bureau — formerly a tough consumer watchdog that’s fast becoming a bankers’ lapdog — has proposed new rules that would roll back the information requirements the Obama administration added. The bureau says it will close a web portal that has allowed easy public access to this information, giving vague promises to eventually develop a new tool for this purpose.

The proposed updates would exempt some lenders, such as smaller banks and credit unions, from having to report at all — even though some of them make more loans to low-income borrowers than do major banks. The administration claims these changes will provide “much needed relief” from supposed regulatory burdens.

HUD Immigrant Plan Could Displace 55K Children | Politico Pro
A plan by HUD to end housing assistance for undocumented immigrants would displace more than 55,000 children who are U.S. citizens or legal residents, according to a staff analysis of the proposed rule.

HUD has cast the proposal as a way to trim waiting lists for American citizens seeking subsidized housing. The proposal would "close a loophole and ensure we enforce what is already law," Secretary Ben Carson tweeted Friday.

Existing law bars HUD from providing financial assistance to undocumented immigrants. But according to the way the rules work now, a so-called mixed-status family — with both citizen and non-citizen members — can receive pro-rated housing aid if one of the members is an eligible citizen.

Former Countrywide CEO Angelo Mozilo Wasn't His Fault: 'We Did What We Felt Was Right.' | CNBC
With his perpetual deep tan and coiffed white hair, Angelo Mozilo, for many, was one of the enduring faces of the financial crisis.

Too enduring, in fact, for his taste.

Looking back more than a decade later, the former head of Countrywide Financial, whose sprawling subprime loan business symbolized the financial recklessness of the real estate bubble, said he's become a convenient scapegoat without justification.

"Everybody blames the subprime. To me, it's nonsense," he said this week at the SALT 2019 conference in Las Vegas. "If you take the totality of the subprime assets, the value of the subprime business that existed at the time ... it was a puddle in an ocean. But it's an easy target for the politicians and media to attack, to rile people up about. But it was not the cause at all."

PRIVATE FUNDS

Read: Heather Slavkin Corzo Testifies About Policies To Protect Investors, Increase Transparency, And Promote Worker Rights

Private Equity's Allure Poses Big Risks For The Stock Market And Its Investors In The Next Recession | CNBC
Private equity has taken center stage in active investing, and that means the stock market and its investors could face more challenges — especially in a recession.

The transition is already underway and according to asset manager AllianceBernstein, won't be ending soon. In a note to clients this week, the firm outlined an upcoming decade in which the "main expression of active investing" is in private markets.

Analysts say this shift introduces potential problems. Liquidity could dry up in public markets, causing more volatility. And retail investors may have fewer high-growth opportunities as companies easily raise money privately, opting out of listing on exchanges. Alternative assets are off limits unless you're a qualified, or accredited investor.

"It throws a spotlight on the resilience of the liquidity of public markets and even questions the point of a public stock market," Bernstein senior analyst Inigo Fraser-Jenkins said in a note to clients this week. "Soon, active investing is going to be mainly in private markets."

BlackRock Completes eFront Acquisition | Private Equity Wire
BlackRock has completed the acquisition of eFront, an end-to-end alternative investment management software and solutions provider.

BlackRock says the combination of eFront with Aladdin will set a new standard in investment and risk management technology, vastly expanding Aladdin's alternatives capabilities and providing a whole-portfolio technology solution to clients.

It's Risky To Be A Creditor In This Private Equity World | Bloomberg
Credit investors who've plowed billions of dollars into private equity-sponsored LBO debt will be hit hard when the credit cycle turns and defaults rise, Moody's Investors Service warns in a new report.

The giants of the PE world have used their imposing status to loosen terms on the bonds and loans they sell to yield-hungry investors, says Neal Epstein, a senior credit officer at Moody's. That gives them more room to preserve their investments in a downturn -- even if it means losses for creditors.

"The investor demand for this debt is so strong that if the private equity sponsors want to borrow more money for their companies and do it with weaker terms, they can," said Epstein. His report, published on May 7, named KKR & Co., Apollo Global Management, and Blackstone Group as firms that helped write this playbook.

Private Equity Is A Driving Force Behind Devious Surprise Billing | The Hill
What's behind this explosion of outrageous charges and surprise medical bills? Physicians' groups, it turns out, can opt out of a contract with insurers even if the hospital has such a contract. The doctors are then free to charge patients, who desperately need care, however much they want.

This has made physicians' practices in specialties such as emergency care, neonatal intensive care and anesthesiology attractive takeover targets for private equity firms. As health reporter Bob Herman observed, acquisition of these health services "exemplifies private equity firms' appetite for buying health care providers that wield a lot of market power."

SMALL-BUSINESS LENDING

FTC Commissioner Calls For Review Of Small-Business Loan Practices | Bloomberg
The U.S. Federal Trade Commission should scrutinize potentially abusive terms in small-business lending contracts, including the use of a legal instrument known as a confession of judgment, Commissioner Rohit Chopra said.

Such terms "have led to a flood of questionable legal actions" against small-business borrowers, Chopra said at an agency forum in Washington on Wednesday. "We are accountable for cleaning up this market."

The merchant cash-advance industry, which provides an unregulated form of financing for small businesses, has embraced the use of confessions of judgment in recent years. Small businesses sign them as a condition of getting loans, effectively agreeing in advance to lose a court dispute if one later arises. Cash-advance companies have won more than 25,000 judgments against small businesses across the country since 2012, Bloomberg News reported last year. The judgments allow lenders to legally seize borrowers' bank accounts and other assets without a judge's review.

CFPB Sued For Not Collecting Data On Business Lending To Women | Reuters
A California community group has filed suit against the Consumer Financial Protection Bureau, accusing it of failing to collect data from banks on lending to women- and minority-owned small businesses as required by federal law.

Filed on Tuesday in San Francisco federal court, the lawsuit by the California Reinvestment Coalition said the data is critical to identifying "credit deserts" where the small businesses may have difficulty getting loans. The 2010 Dodd-Frank Wall Street reform act required the CFPB to collect and publish the data but the bureau has not done so, the lawsuit said.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

DeVos Department Denies Directing DREAM Center To Deceive | Republic Report (David Halperin)
In a new letter to Senator Dick Durbin (D-IL) and other members of Congress, Diane Auer Jones, Betsy DeVos's top higher education aide, reaffirms the Department's claim that it never advised Dream Center Education Holdings to publicly misrepresent its accreditation status — contrary to an allegation made to me last year, and reaffirmed again to me today, by a source close to DCEH.

A year ago today, May 16, 2018, I first reported that a DCEH web page addressing accreditation said as to the company's Illinois Institute of Art and Art Institute of Colorado that each school "is in transition during a change of ownership. We remain accredited as a candidate school seeking accreditation under new ownership and our new non-profit status" — even though the schools' accreditor, Higher Learning Commission, had taken action effective January 20, 2018, to change the status of the two schools from "Accredited" to "Candidate" and explained, "During candidacy status, an institution is not accredited…."

Republicans Need A Plan For Student Debt Reform | Washington Examiner (Joel Acevedo)
Private universities (which cater mostly to wealthier, upper-middle class type students) are often given massive subsidies in the form of low-cost student loans and tax deductions for people who make charitable contributions to them. Public universities also get subsidies from the federal government. Whatever state governments fail to put into their own institutions — and they're put in $7 billion less this year than they did in 2008, adjusting for inflation — they count on Uncle Sam to make up the different through loans to cover higher tuitions.

This is a position Republicans should embrace. In a world without taxpayer-subsidized no-risk loans, colleges will be forced to make tuition affordable to more students. They will also be forced to create new, private financing options that students can access without putting the weight of the world on their shoulders for decades to come.

As it stands, private institutions are not sufficiently incentivized to lower tuition rates to compete with publicly funded schools. Public schools are raising tuition to make up for a lack of state investment. The end result in both cases is the same.

SYSTEMIC RISK

Read: AFR Education Fund Comment On FSOC's Proposed Guidance Weakening Oversight Of Nonbank Systemically Important Financial Institutions

America's Next Too-Big-To-Fail Bank | HuffPost (Zach Carter)
Waters and other high-profile Democrats have been railing against corporate monopolies for years now. Back in 2017, the party's leadership rolled out an economic agenda for the Trump era that explicitly attacked "corporate power" and "big mergers."

And the two banks involved in this particular big merger are thoroughly Republican institutions. Of the $363,950 that BB&T's corporate PAC spent on campaign contributions in 2018, 96% went to Republicans. SunTrust's PAC favored the GOP almost 7 to 1. A former Republican Senate staffer is SunTrust's lead lobbyist on the deal, and Trump has blocked Democratic appointments at the key regulatory agency reviewing the merger.

But Democratic Party officialdom has been almost silent about the deal and the new locus of conservative financial power it portends. The BB&T-SunTrust merger isn't just a triumph for the economic vision of the American right. It's also the product of a long, sad struggle within the Democratic Party over how to fight the Trump administration.

When Lenders Push Borrowers Over The Edge | New York Times (William Cohan)
What hedge funds have been doing is buying the debt of troubled companies at a discount, for pennies on the dollar, from creditors who are eager to unload it, and then purchasing insurance on the full value of the debt. If the company later defaults on the debt, that clever strategy can pay off big time.

So instead of trying to find ways to keep a company out of bankruptcy — say, by restructuring repayments or lowering the interest rate owed or adjusting other terms of a loan covenant to avoid default — hedge fund managers have been pushing the companies that owe them money into bankruptcy. The hedge funds figure they can make more money from the insurance payoff than they can from getting their principal repaid.

While that tactic may be perfectly legal, and highly rewarding for the hedge fund, it's a disaster for everyone else: the company and its employees suddenly faced with bankruptcy, other creditors who haven't insured their risk and, of course, the insurers who have to make good on the defaulted debt.

Bernanke, Yellen Warn Against 'Substantial Weakening' Of Post-Crisis Rules | Politico Pro
Ben Bernanke, Janet Yellen, Tim Geithner and Jack Lew today warned of a "substantial weakening" of safeguards enacted after the 2008 financial crisis as the government scales back procedures designed to identify potential risks posed by large financial institutions.

The former Federal Reserve chairs and Treasury secretaries, who served during the depths of the crisis and its aftermath, criticized a plan by a Treasury-led panel of regulators to inhibit its own ability to impose oversight on "systemically important financial institutions" that fall outside the jurisdiction of bank regulatory agencies.

The Financial Stability Oversight Council, which includes the heads of the Fed, SEC and other agencies, has proposed instead focusing on potentially risky activities rather than individual firms and following new cost-benefit analysis requirements before tapping individual companies for greater regulation.

Former Top Financial Regulators Warn Against Move To Ease Oversight Of Firms | New York Times
Two former Treasury secretaries joined two former Federal Reserve leaders on Monday to warn that the Trump administration's efforts to relax oversight of certain financial firms could seriously threaten the stability of America's financial system.

The stark warning came two months after a federal oversight panel said it planned to stop designating large, non-bank financial institutions like insurers and asset managers as "systemically important" and placing them under stricter federal oversight.

The Financial Stability Oversight Council move would ease a process put in place after the 2008 financial crisis that aimed to prevent non-bank financial firms, like American International Group, from posing a risk to the American economy. Instead of designating companies that the government believes pose a risk to the financial system, the oversight council has proposed designated "activities" that pose a risk, such as certain financial products.

Read: House Financial Services Committee Members Write To Federal Reserve Expressing Concern Over Regulatory Rollbacks

JPMorgan Bets Own Cash Again With $1 Billion For Sinclair Deal | American Banker
To help pull off the biggest media deal of the year, JPMorgan Chase embraced a Wall Street practice that fell out of favor after the financial crisis.

The largest U.S. bank agreed to take a $1 billion equity stake using its own money. The check helped Sinclair Broadcast Group amass the cash it needed for a $9.6 billion purchase from Walt Disney without too much leverage. In exchange, JPMorgan got the promise of juicy yields.

It's an unusual move for almost any regulated bank, but especially for JPMorgan, which would have deemed such an investment too risky a few years ago, according to people with knowledge of the bank's strategy, who asked not to be identified discussing internal matters.

JPMorgan's investment bankers got approval from senior executives about a year ago to invest the bank's own money to help arrange bespoke financings for a coterie of corporate clients, one of the people said. Since then, the team has deployed the strategy five times, with the investment in the Sinclair deal the largest yet, the person said.

Economy Could Suffer As Bank Regulators Forget Lessons From The Financial Crisis, GAO Warns | Forbes
The economy could suffer as bank regulators forget lessons from the 2007-2009 financial crisis, the Government Accountability Office warned in a new report today.

“For example, (the Office of the Comptroller of the Currency has) reported that credit quality remains strong, but credit risk is increasing because of accumulated risk in loan portfolios from successive years of incremental easing in underwriting, risk layering, concentrations, and rising potential impact from external factors, GAO said.

Bank regulators could be lulled into complacency and not uncover dangers masked by years of a strong economy, asserted the report from the agency, the investigative arm of Congress.

Will Corporate Debt Set Off The Next Financial Crisis? | Independent Institute Blog (Alvaro Vargas Llosa)
This is not a big deal, some may say, given that an overwhelming amount of corporate debt is rated as investment grade by rating agencies. But wasn’t that the case also with mortgage-related debt before the bubble burst in 2007/2008? Half of the debt given an investment grade by Standard & Poor’s today is actually bordering on junk status—i.e., its rating is the lowest in the investment grade scale. A total of $3 trillion in debt is currently in that situation. These companies’ debts can be downgraded to non-investment grade at any moment.

Nearly half of all outstanding corporate bonds will need to be refinanced before 2023, the year in which they will mature. Many companies will not be able to refinance their debt, given that their financial situation offers banks little guarantee that they will pay it off. The average debt-to-earnings ratio, not far from 4, is much higher than it was before the last financial crisis and nearing the level of the dotcom bubble. Clearly, a large number of corporations currently given the lowest investment grade by rating agencies are candidates for junk status. Once they are downgraded, they will trigger a massive sell-off by institutional investors such as pension funds whose rules do not allow them to invest in junk.

It doesn't take much foresight to see that there won't be many willing buyers of the bonds that these investors will have to dump on the market overnight, which in turn will cause a collapse in prices. Not to mention the disaster that the inability to refinance their debts will bring on the many corporations currently bearing the weight of too much debt relative to their earnings—that is, to their ability to service and repay it!

TAXES

ELECTIONS, MONEY, AND POLITICS

The 10 Biggest Political Spenders On Wall Street | ThinkAdvisor
The financial industry spent $1.9 billion on lobbying and campaign contributions between 2017 and 2018, the largest-ever amount for a non-presidential election cycle, outstripping the $1.4 billion spent in the 2013-'14 cycle by 36%, according to a new report by Americans for Financial Reform, a group that supports tighter oversight of Wall Street.

The figure includes contributions to campaign committees and leadership PACs ($922 million) and lobbying expenditures ($957 million). A big push during the 2017-'18 cycle went toward securing votes for a bill intended to roll back key provisions of Dodd-Frank — S. 2155, The Economic Growth, Regulatory Relief and Consumer Protection Act, which was signed into law last May.

The 63-page report, "Wall Street Money in Washington," draws on a special data set compiled by the Center for Responsive Politics for AFR. The set excludes spending by health insurers and does not include "dark money" that goes mostly unreported.

Hedge-Fund Billionaires Were Democrats' Main Bankrollers In 2018 | American Prospect
In the 2018 midterms, Democrats benefited more than Republicans from election spending by outside groups for the first time in recent history. Now, thanks to a new report from Public Citizen, we have a better understanding of where much of that money backing Democrats came from: wealthy individuals who earn their livings as hedge-fund founders, bank executives, and other key positions in the financial industry.

The report, named "Plutocrat Politics: How Financial Sector Wealth Fuels Political Ad Spending" and authored by Public Citizen's Alan Zibel, analyzed the 100 individuals who gave the most money to outside political spending groups in the 2018 cycle and found that about half of that money came from people with financial industry backgrounds. Roughly three-quarters of the money donated by financial industry donors was spent supporting Democratic candidates. The finance industry donors in the top 100 gave $264 million to Democrat-supporting outside groups in 2017-18, according to the report.

"By lavishing spending on both Republicans and Democrats, the ultrawealthy receive access and influence to block the aggressive, progressive policy agenda that Americans favor by overwhelming margins," Robert Weissman, president of Public Citizen, said in a press statement. “Our democracy can’t function if the plutocrat class maintains an iron grip on American election campaigns.”

Watch: Elizabeth Warren Predicted The 2008 Financial Crisis Years Before It Happened | NowThis News

Sen. Collins Rakes In Wall Street Donations, Risks Maine’s Financial Security | Dirigo Blue
Mainers who want to know where Sen. Susan Collins strongest allegiances lie don’t have to look further than her own filings with the Federal Election Commission. For decades, Collins has depended on her deep-pocketed supporters on Wall Street to finance her campaigns, and we can reasonably expect she’ll double down and look to them for even greater amounts of funding in preparation for the 2020 elections.

Since entering Congress in 1995, she’s received a $1.1 million from investment banks and securities traders, according to her disclosure forms as compiled by the Center for Responsive Politics. Plenty of industries try to buy favor from Collins, but Wall Street has outspent its nearest competitor nearly two to one.

During the last Congress, Wall Street contributions to Collins’ war chest rose from $362,100 in 2016 to $496,400 by 2018. That’s a net gain of $134,300, the second-highest net increase in Collins’ entire Congressional career (The highest was in 2007-2008, when she faced a re-election campaign and Wall Street faced the financial crisis.)

Listen: ‘Banks Are A Big, Fat Target’: Inside The 2020 Primary | Bankshot Podcast

OTHER TOPICS

Watch: Heather Slavkin Corzo Explains The Problem Of ‘Abusive Stock Buybacks’

Fed Officials Sound An Alarm, Worrying Weak Inflation Could Last | New York Times
Federal Reserve officials are increasingly worried that inflation is too low and could leave the central bank with less room to maneuver in an economic downturn.

In recent speeches and remarks, several Fed officials have expressed a strong concern that persistently low inflation may be a more permanent economic phenomenon, one that could hamstring the Fed’s room to cut interest rates next time the American economy enters a recession.

The Fed strives to achieve full employment and stable price increases around 2 percent annually. The labor market has been humming, with unemployment at its lowest level since 1969 and wages climbing gradually. Price gains, on the other hand, have come in consistently short of the Fed’s goal, and eased to 1.6 percent in March

Fed's Brainard Says Income Inequality May Be Hampering The U.S. Economy | MarketWatch

Rising inequality could be a factor behind sluggish growth in the U.S. economy in the wake of the financial crisis, said Federal Reserve Governor Lael Brainard on Friday.

Consumer spending remains the main engine of growth in the U.S., and data show that the recovery in consumer spending after the crisis has been slower than would have been expected given the recovery in aggregate household income and net worth, Brainard said, in a speech at a Fed conference on community development.

"Rising inequality is one plausible explanation" for this trend, she said.

Research shows households with lower levels of wealth spend a larger fraction of any income gains than households with higher levels of wealth, Brainard said.

"Consequently, an economy that delivers and increasing share of income gains to high-wealth households could result in less growth in consumer demand than one in which the gains are distributed more equally," Brainard said.

When American Capitalism Meant Equality | Chicago Booth Stigler Center (Matt Stoller)

I was a staffer in Congress during the crisis, and it was incredibly difficult to understand why our political leaders handled the collapse of our financial system in such a destabilizing manner. Did they not understand that massive interventions to prioritize the interests of the powerful would undercut the legitimacy of the political system?

To begin answering this question, I looked at how American leaders handled the financial crisis of rolling bank runs occurring from 1929-1933, which was the last time we dealt with such a profound political challenge. What I noticed were profound ideological differences that played out in the response to the crisis. In short, in the 1930s New Dealers broke up banks and restructured the economy. This time, we didn't.

My conclusion, after researching how New Dealers thought about the world, versus how the New Democrats surrounding Obama thought about the world, led me to the observation that the meaning of American capitalism changed. We transitioned from a relatively egalitarian New Deal state to today's unequal and concentrated corporate apparatus. This change was accompanied by a parallel shift in how Americans thought about themselves as economic and political actors.

Bankers Worry About A Potential Competitor: Amazon | Columbus Dispatch

Amazon doesn't even need to become an actual bank to cause trouble for banks, Carmichael said. It could, for example, strike a deal with Quicken Loans for mortgages or enter into a partnership with JPMorgan Chase & Co. to offer checking accounts. Carmichael has reason to be concerned.

Nearly two-thirds of Amazon Prime customers say they would be willing to try a free, online checking account with 2 percent cashback on Amazon purchases, according to a survey last year by consulting firm Bain & Co.

“The challenge of Amazon is they have the resources and staying power. If they want to disrupt, they can go full force,” said Bruce Clapp, president of Market Match, a Dayton-based financial-marketing company.

‘I Didn’t Expect A Tough Job Search’ | BBC News
The Resolution Foundation says those who entered the world of work between 2008 and 2011 bore the brunt of the sharp economic decline, when compared to young people entering work before or after the downturn.

"Low-skilled workers faced a higher risk of unemployment, while graduates were more likely to trade down the types of jobs they did, with their pay and prospects stunted as a result," said Stephen Clarke, senior economic analyst at the Resolution Foundation.

"These scarring effects have stayed with the crisis cohort for up to a decade, reducing their living standards at a time when they may be facing the additional financial strains of buying a home, or bringing up kids," he said.

Policy makers should look at ways to mitigate the impact, he added.