Americans for Financial Reform Education Fund

This Week in Wall Street Reform | Apr 29-May 3

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

CONSUMER FINANCE AND THE CFPB

Consumer Advocates Endorse 36% Interest Cap On Payday Loans | Credit Union Times

Consumer advocates on Tuesday endorsed plans to impose a 36% interest rate cap on short-term, small dollar loans—a proposal that could easily accommodate the 28% interest cap of the NCUA's Payday Loan Alternative Loan program.

"Congress can and should enact a rate cap of 36% or less, while not pre-empting the laws of states with even stronger rate caps," Diane Standaert, executive vice president and director of state policy at the Center for Responsible Lending, told the House Consumer Protection and Financial Institutions Subcommittee.

The subcommittee's hearing came as the CFPB considers whether to roll back the 2017 strict rule governing short-term loans, which often charge triple-digit interest rates and lock borrowers into a cycle of debt.

Critics Fear Shift At CFPB Will Let Firms Off The Hook | American Banker
By refocusing the Consumer Financial Protection Bureau on supervision instead of enforcement, Director Kathy Kraninger says she wants to prevent consumer harm. But skeptics say the new approach could have the opposite effect.

In a speech earlier this month laying out her priorities, Kraninger demonstrated how the agency continues to move away from the enforcement actions, large fines and public shaming that were the hallmark of her Obama-appointed predecessor, Richard Corday.

Instead, Kraninger said the agency is emphasizing preventive measures. "Supervision is the heart of this agency," she said.

Observers say while a stronger focus on supervision could benefit consumers more than enforcement in certain cases, civil fines will continue to plummet and a more private process to resolve regulatory matters instead of public disclosure of transgressions may let companies off the hook.

New York Launches Its Own CFPB | Housing Wire
Following through on a pledge made more than a year ago, the New York Department of Financial Services is launching its own version of the Consumer Financial Protection Bureau, seeking to fill the consumer protection gaps that are beginning to appear as the Trump administration puts more of its stamp on the CFPB.

Back in January 2018, Mick Mulvaney, then the acting director of the CFPB, told the bureau's employees that the agency would be much gentler towards the companies it regulates under his watch.

The Government Move That Threatens To Keep Americans Trapped In Debt | Washington Post (Anne Fleming)
In November 2017, the Consumer Financial Protection Bureau (CFPB) issued a rule requiring payday lenders to assess a borrower's ability to repay before making a loan. Then, in February, the agency reversed course and announced a plan to rescind the core features of the rule.

The hundreds of pages of evidence supporting the 2017 rule, amassed over five years, did not change in the interim. The CFPB's leadership did, and its new proposal threatens to continue a regime of ineffectual regulation, led by states, that has left many Americans trapped in a cycle of debt.

For more than a century, the states have regulated small-dollar, high-cost loans primarily through controls on the price of credit and limits on other loan terms. In the early 20th century, state usury laws capped how much lenders could charge for credit, and most set fees too low for small-sum lenders to operate profitably. Raising rate ceilings was the first step to creating a functioning and legal market for small-sum credit.

Capitol Hill Hearing Takes Up The War Between The Needy And The Greedy | Black Press USA (Charlene Crowell)
At an April 30 Capitol Hill hearing, the multi-dimensional problems wrought by small-dollar, high-cost loans were brought to the attention of lawmakers serving on the powerful House Financial Services Committee. A witness panel representing bankers, consumers, clergy, and public policy organizations taught, recounted, reasoned and preached to lawmakers on the rippling and disastrous effects of debt-trap loans.

Each addressed the industry that reaps billion-dollar profits from the poor: payday, car-title, and other triple-digit interest small-dollar products. The average annual interest rate for payday loans in the United States is 391% although in more than 17 states, many of them home to consumers of color, the APR is even higher.

As consumers suffer financially, it’s a different story for payday lenders: $4.1 billion in fees every year in the 33 states that allow these debt traps, according to the Center for Responsible Lending (CRL). Similarly, the annual fees generated on car-title loans was found to be $3.8 billion.

US Banks’ Bad Debt Pile Creeps Higher With Credit Card Losses | Bloomberg
For the biggest U.S. banks, not all consumer debt is created equal.

Credit-card losses are outpacing auto and home loans at a rate not seen in at least a decade. The question is whether banks’ plastic problem is an outlier or an omen.

For now, there’s no cause for panic. The strong U.S. economy and low unemployment means most consumers are able to stay current on debt payments -- new foreclosures and bankruptcies fell to the lowest level in at least 15 years in 2018. Yet the uptick in card losses is unmistakable. Credit-reporting company Experian Plc said some of the blame goes to banks offering credit to riskier borrowers, and the Federal Reserve has noted a spike in late payments by the elderly.

It’s Layaway, But For A Post-Recession Economy | New York Times
You may have already seen them beckoning, with offers that appear on the websites of Reformation, Urban Outfitters, Cole Haan, Mansur Gavriel, Ugg and Warby Parker. They have tag lines like: “Payment can wait. Your new look can’t,” and “Shop Now. Enjoy Now. Pay Later.”

Instead of shelling out, say, $140 dollars for an Anthropologie dress, the buyer can make “four interest-free installments of $35.00” to Afterpay instead.

Consumer advocates cautioned that buy-now-pay-later services are still in early stages, and their downsides remain to be seen. “It’s like having a new drug on the market,” said Linda Jun, a senior policy counsel at Americans for Financial Reform.

“Traditionally the installment plan was for lower-income people who needed to buy an oven or a refrigerator,” she said, adding that using Afterpay or Affirm can be helpful to someone on a tight budget or without a good credit score — as long as they pay on time.

But the services are aiming at “a specific group of people who have trouble resisting or waiting,” Ms. Jun said.

Rep. Maxine Waters asks about the efficacy and implementation of payday loan rate caps
The Rev. Dr. Freddy Haynes describes payday loans as a ‘weighted life-preserver’ thrown to a person drowning in bills
Rep. Jennifer Wexton shows how the payday lending industry earns most of its substantial profits through debt traps
Rep. Rashida Tlaib argues that federal inaction on payday lending is ultimately ‘subsidizing poverty’
Prof. Chris Peterson points out that the average payday loan charges a higher APR than the New York mafia charged at the height of its power via loan-sharking

Rep. Rashida Tlaib asks several questions about how auto lending intersects with race, credit scoring, redlining, and more.

SMALL BUSINESS LENDING

New York Officials Are Still Reaping Millions From Predatory Lenders | Bloomberg
The good times continue to roll for two New York City marshals whose work collecting debts for predatory lenders is making them millionaires.

Vadim Barbarovich, who already had the most lucrative city job in 2017, made 11 percent more last year, earning $1.9 million, according to documents released in response to a public-records request. His main competitor in collections work for the cash-advance industry, Stephen Biegel, almost doubled his take to $1.4 million.

The two marshals were the subjects of a Bloomberg News article in November detailing how they collect debts from small-business owners across the country by seizing cash from bank accounts and pocketing a share for themselves, often stretching the limits of their jurisdiction. The article prompted Mayor Bill de Blasio to declare that “the entire model needs a new look.”

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

Acosta Says Labor Department Will Revive Fiduciary Rule | Investment News
Labor Secretary Alexander Acosta told lawmakers Wednesday the agency would revive its fiduciary rule.

In a hearing of the House Education and Labor Committee, Mr. Acosta said DOL is working with the Securities and Exchange Commission as the SEC completes its investment advice reform package.

The SEC took the lead on the issue of raising advice standards when the DOL rule was killed in a federal appeals court last year. The new DOL rule likely would be contoured to the SEC's final regulations, which are expected to come out this summer.

Clayton Hints Reg BI May Be Out Sooner Than Expected | Investment News
Securities and Exchange Commission Chairman Jay Clayton remained tight-lipped about investment advice reform regulation on Thursday, but he hinted that it might be released sooner than expected.

In a discussion with reporters, he sidestepped a question about how the centerpiece of the package, so-called Regulation Best Interest, would address mitigation of broker conflicts of interest.

"Wait and see," Mr. Clayton said on the sidelines of an Investment Company Institute annual meeting in Washington. "You won't have to wait long."

DERIVATIVES AND THE CFTC

CFTC Proposes Rules For Derivatives Clearing Organizations | Politico Pro
The Commodity Futures Trading Commission will consider new oversight of derivatives as part of regulations the agency proposed today, a move spurred by the default last year by a trader on Nasdaq's clearing platform.

CFTC Chairman Christopher Giancarlo said in a statement that the agency is proposing to revise or delete certain regulations for derivatives clearing organizations, which are registered with the CFTC and include divisions of CME Group, Intercontinental Exchange and LCH.

But the proposed rule also includes new regulations stemming from the launch of Bitcoin futures and the Nasdaq clearing default, he said.

EXECUTIVE COMPENSATION

Citigroup CEO Corbat Defends Bank's Pay Gap: 'I Started In 1983 At $17,000 Salary' | CNBC
Michael Corbat defended the huge compensation gap between low-level employees and top management at Citigroup, saying it should inspire the rank-and-file workers who could someday fill his shoes.

"My answer is I am that person," Corbat said Thursday on CNBC's Squawk on the Street. "I started at our firm in 1983 at $17,000 a year."

The pay gap at Citigroup, led by Corbat since 2012, is the biggest among large U.S. banks. Corbat made $24.2 million last year, 486 times the median employee pay of $49,766. While other bank CEOs made similar paydays, higher median pay at Bank of America and J.P. Morgan Chase meant that Citigroup had the most extreme ratio.

Watch: Citi CEO Defends C-Suite Executive Pay Gap | CNBC

MORTGAGES AND HOUSING

Read: Letter From Senator Sherrod Brown And Eight Other Senators To Kathy Kraninger Demanding CFPB Maintain Home Mortgage Disclosure Database

Consumer Financial Protection Bureau Moves To Limit Home Loan Data | Reveal
Want to know which banks target people of color for loans with high interest rates, steep fees or reverse mortgages?

Or which banks deny home loans to African Americans and Latinos even when their income shows they could easily cover the monthly payment?

You won't be able to find out if new regulations proposed by the Consumer Financial Protection Bureau go through. The Trump administration on Thursday announced its intention to roll back rules adopted in 2015 under President Barack Obama, which dramatically expanded the public's access to home mortgage information. At the same time, the CFPB said it planned to limit the number of banks that have to report the race and gender of consumers who get – and are denied – loans.

The CFPB also said it would be closing a web portal that provides public access to the lending data – making it harder for journalists to identify patterns that suggest discrimination and for civil rights advocates to fight it.

Since 1980, Only High-Income People Have Seen Their Housing Costs Drop | City Lab
The 1 percent may be hoarding America's wealth, but the 25 percent are hoarding its housing opportunity.

That's according to an Apartment List analysis of changing incomes and housing rates in the U.S. It found that the current state of the housing market both exacerbates and mirrors the economic inequality widening at the national and local level. Incomes are growing fastest for the country's wealthiest, but at least for the top quarter of earners, their housing costs are also falling fastest. Meanwhile, it's Americans in the bottom 10 percent of incomes whose rents and mortgages are getting more expensive.

In other words, those with more to spend on housing are having to spend a lot less than they were a decade ago, and vice versa. Almost everywhere. "In the top 100 largest metros in the

U.S.—in each one of them—housing costs have grown more for the bottom half in income distribution than the top half," said Igor Popov, Apartment List's chief economist.

CFPB Proposes Additional Exemptions Under HDMA | Politico Pro
The Consumer Financial Protection Bureau today proposed a rule to exempt more small lenders from the reporting requirements under a law that tracks discriminatory lenders.

The agency proposed raising the Home Mortgage Disclosure Act reporting threshold to lenders originating either 50 or 100 closed-end mortgages in the previous two years. Reporting requirements currently kick in for lenders originating 25 such mortgages in that time period. The proposal would also extend the current temporary threshold of 500 open-ended lines of credit for two years.

"Today's proposed changes would provide much needed relief to smaller community banks and credit unions while still providing federal regulators and other stakeholders with the information we need under the Home Mortgage Disclosure Act," CFPB Director Kathy Kraninger said in an emailed statement.

Yes, Millions Of Families Spend The Bulk Of Their Income On Housing | PolitiFact
Sen. Bernie Sanders, I-Vt., argued in a CNN town hall that a major sign of inequality can be seen in how much people pay for housing.

"I believe something is wrong in America today when you've got millions of families paying 40, 50, 60% of their limited incomes to put a roof over their heads," Sanders said.

Are millions of American families spending more on housing than almost anything else combined? We looked into the burden of housing for American families.

Sanders was talking about renters, a spokesperson for the Sanders 2020 campaign told PolitiFact. The campaign cited a study from the National Low Income Housing Coalition that said 10.7 million renter households spent more than half of their income on housing in 2017.

PRIVATE FUNDS

Fact Sheet: Wall Street Private Equity Landlords Snapping Up Apartment Buildings | Americans For Financial Reform, New York Communities For Change, Private Equity Stakeholder Project

How Private Equity Is Turning Public Prisons Into Big Profits | The Nation
Today, a handful of privately held companies dominate the correctional-services market, many with troubling records of price gouging some of the poorest families and violating the human rights of prisoners. But the problem doesn't end there. These companies are often controlled by private-equity firms, which through financial alchemy transform the prison-industrial complex into lavish returns for pensions, endowments, and charitable

foundations. And, as successive administrations have ramped up immigration enforcement, they've also squeezed money out of immigrant detention.

Bianca Tylek, the founder of [Worth Rises], an advocacy group that tracks commercial interests in corrections, has catalogued 3,100 companies with a financial stake in mass incarceration. Her findings were released last April in a Corrections Accountability Project report and include not only the well-known, publicly traded private-prison contractors but also divisions within companies with household names like Amazon, General Electric, and Stanley Black & Decker. In addition, dozens of boutique firms are dipping deep into the corrections-industry well, from Wall Street Prison Consultants, which provides advice to white-collar offenders, to a lawn-mower service that sells only to prisons. "We've underestimated the size of the prison-industrial complex," Tylek said. "Every estimate you've seen until now is a conservative one."

Or as Alex Friedmann, associate director of the Human Rights Defense Center and managing editor at Prison Legal News, put it, "Pretty much every conceivable service in the public prison system has been privatized in one form or another, with the exception of putting people to death."

Private Equity-Backed Sungard Availability Files For Bankruptcy | Yahoo News
Sungard Availability Services Capital Inc. filed for bankruptcy with a pre-negotiated plan in place to slash its debt load and hand control to a new set of owners.

The private equity-owned company filed for Chapter 11 protection Wednesday in U.S. Bankruptcy Court in White Plains, New York, listing $1.4 billion of liabilities and $496 million of assets. If approved, the process will allow Sungard to reduce its debt by about two-thirds as it continues to operate.

With support from a majority of its creditors, Sungard is seeking to speed through its restructuring as quickly as it went in. A combined first-day and confirmation hearing is scheduled for 2 p.m. New York time in front of Judge Robert Drain. The record for the fastest Chapter 11 process is held by retailer Fullbeauty Brands Inc., which emerged from its restructuring in under 22 hours.

Unions Take On The Worst Of The Hedge Funds Pillaging The News Biz | American Prospect
Last year, a colleague and I wrote about the business model of private equity companies and hedge funds like Alden and its subsidiary Digital First Media. They strip assets from newspapers, sell off real estate, cut staff to the bone, incur debt that they then put on the newspaper's own balance sheet, and pull out short-term profits.

They take out so much money so fast, much of it from debt, that even if the paper goes broke they still come out way ahead. Alden-owned newspapers have slashed newsroom employment at about twice the rate of other chains.

This time, two unions that represent Gannett workers, the NewsGuild-CWA and the Teamsters, are playing a major role in impeding Alden's plans. The Guild has contacted Gannett shareholders in advance of the Gannett shareholders' meeting on May 16, urging them to vote down the Alden proposal

The Ruthless, Secretive, And Sometimes Seedy World Of Hedge Fund Private Investigators | Institutional Investor

Such tactics are part of the shadowy world of private investigative services, populated by ex-cops, former lawyers and prosecutors, former investigative journalists, and onetime spies from the CIA, Mossad, and MI5. It isn't just activist investors and their corporate prey who are hiring them, either. Long-short firms — notably short sellers — and private equity firms are also big clients, as are their investors.

Many investigators say they are governed by strict compliance rules that forbid them from engaging in certain practices, like obtaining material nonpublic information, getting law enforcement records, or pretending to be someone else — a legally murky tactic known in the trade as pretexting. The term has become so common in the hedge fund world that it even merited a mention in a recent episode of Billions, the hit Showtime show about a hedge fund mogul.

Yet seasoned professionals acknowledge off the record what they won't acknowledge on: That the field is awash in unscrupulous characters who stretch the outer bounds of legality and morality, individuals willing to secretly record targets, pay off sources, hack, and steal, all covered by what one due diligence researcher calls an attitude of "don't ask, don't tell."

David Rubinstein's Private Equity Firm Is Pushing Poor People Out Of Their Homes | Duke Chronicle (Sydney Roberts)

On April 7th, Last Week Tonight—the late night HBO talk show hosted by John Oliver—aired a piece on mobile homes. The Youtube clip of the 15 minute segment has already amassed nearly five million views and focuses on exploitation of manufactured home owners by wealthy investment firms. While those who live in mobile homes usually own their residence, they pay rent on the land it's residing in. In the past few years, private equity firms have been buying up mobile home parks and sharply increasing rent to astronomical levels for the majority low-income residents. Because, as John Oliver points out, manufactured homes are not easy or cheap to relocate, poor residents on fixed incomes face eviction and homelessness as rent increases threaten to price them out of their mobile home parks.

Between clips of residents explaining that they've had to ration medication to keep up with rent hikes, a familiar face flashes once across the screen: David Rubenstein. A 1970 graduate, former Board of Trustees Chair, namesake of the David M. Rubenstein Rare Book and Manuscripts Library, and financer of a scholarship program for low-income students, he's best known on Duke campus for his philanthropy and staggering donations. However, Rubenstein is also a co-founder and co-executive chairman of the Carlyle Group, one of the largest private equity firms in the world with a self-reported $216 billion in assets. While his accomplishments are well broadcasted, what you won't hear in Rubenstein's 2017 commencement address or read in Duke Today is how his investment firm has produced millions in returns for investors through "preying" on poor residents.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Crisis For Another For-Profit | Inside Higher Ed
As Democratic lawmakers raked many for-profit colleges over the coals during the past decade, National American University, a chain based in South Dakota, managed to keep its reputation mostly intact.

But the publicly traded company has been beleaguered in recent years by the same troubles affecting much of the for-profit sector. Plummeting enrollment has prompted National American to close physical locations and place its bet on online education as the path to sustainable growth.

The company's financial challenges also have prompted scrutiny from the U.S. Department of Education and other regulators.

Senator Elizabeth Warren's College Plan Aids Overburdened Graduates | USA Today (Josh Bivens and Elise Gould)
Sen. Elizabeth Warren's plan for college aid and debt forgiveness recognizes just how broken our system of financing higher education has become.

From 1980 to the mid-1990s, the wage boost connected to a college degree rose significantly. Young adults were told a degree was as close to a sure thing as any investment could be. But starting in the mid-1990s, states cut spending on public universities, and students had to bear ever increasing costs. Again they were told it was worth it — even if it meant taking on debt. The Great Recession supercharged state cutbacks and tuition hikes. The one-size-fits-all advice to get a degree, by borrowing if necessary, also helped spur the rise of for-profit colleges.

But since the mid-1990s, growth in the college wage premium has slowed to a crawl, while debt loads have raced forward. And college is not a financial guarantee. A fifth of men ages 25-34 with degrees earn less than the average worker with just a high school diploma, and many take on debt without earning a degree.

SYSTEMIC RISK

Trump Won't Nominate Stephen Moore For Fed Board | New York Times
President Trump said he would not nominate Stephen Moore for a seat on the Federal Reserve board after several Republican lawmakers raised concerns about the conservative economist's previous comments denigrating women.

Mr. Trump, in a tweet, said "Steve Moore, a great pro-growth economist and a truly fine person, has decided to withdraw from the Fed process."

[The Superrich Can't Agree On Stephen Moore's Fed Nomination](#) | HuffPost (Zach Carter)

On the far right, anti-government purity calls for opposition to the conventional monetary policy operations of modern central banking. Economic outcomes should be determined by free markets, not government bureaucrats, the thinking goes. Therefore the Fed's efforts to manage inflation, deflation and the international value of the dollar are crimes against freedom. The solution is a gold standard — tying the value of the dollar to a certain amount of gold, thus restraining the government's capacity to meddle. This is what former Rep. Ron Paul (R-Texas) was talking about when he called to "end the Fed."

As a conservative commentator, Moore repeatedly voiced support for the gold standard, and even talked it up on the campaign trail with Trump in 2016. But there's a reason no country has used the gold standard for decades: the Great Depression. By limiting governments' ability to respond to economic shocks like bank failures and stock market crashes, the gold standard fueled a deflation around the world. This deflation, in turn, crushed corporate profits and sparked horrific levels of unemployment. (The classic account is University of California, Berkeley economist Barry Eichengreen's "Golden Fetters.")

Some Republican megadonors, including billionaire hedge fund magnates Robert and Rebekah Mercer, love the gold standard. It's a question of freedom. But for other megadonors who want to keep making money from roaring stock markets and an economy that is not persistently mired in monetary muck, the gold standard is a dangerous threat to profits and stability. Jim Pethokoukis of the conservative American Enterprise Institute voices this perspective when he refers to talk of returning to gold as "crankery."

So a great deal of Wall Street is rightly worried that Moore's ultraconservatism would end up actually hurting the interests of the superrich.

The Fed Is Looking At A New Program That Could Be Another Version Of 'Quantitative Easing' | CNBC

Federal Reserve officials are considering a new program that would allow banks to exchange Treasurys for reserves, a move aimed at ensuring liquidity during difficult times that also would help the central bank decrease the size of its nearly $4 trillion balance sheet.

The so-called standing repo facility is in its early discussion phases. Respected St. Louis Fed economists David Andolfatto and Jane Ihrig have authored two papers on the plan, which they say would ease the regulatory burden for banks that feel pressured into holding ultra-safe assets.

In some quarters, the idea is viewed as a natural extension of current Fed policy. Others, though, think it in essence could be a repackaged form of quantitative easing and thus yet another iteration of the Fed's decadelong tinkering in financial markets

The Return Of Synthetic CDOs | Axios

Left for dead in the aftermath of the global financial crisis, collateralized debt obligations (CDOs), one of the most notorious agents in the collapse of the financial system, are starting to gain favor again on Wall Street.

The big picture: Synthetic CDOs, seen as particularly risky, both for a bank's balance sheet and its reputation, also have seen a wave of fresh investment this year as investors look for ways to bet on corporate defaults and generate yield.

Details: Christopher Whittall of International Financing Review reports, "Trading volumes in synthetic collateralized debt obligations linked to credit indexes are up 40% this year, according to JP Morgan, after topping US$200bn in 2018 on the back of three years of double-digit growth. Meanwhile, analysts predict more than US$100bn in sales of bespoke synthetic CDOs in 2019 following an estimated US$80bn of issuance last year."

How A Lone Norwegian Trader Shook The World's Financial System | New York Times
It was Sept. 10, 2018, nearly 10 years to the day that the bankruptcy of the investment bank Lehman Brothers sparked a global financial panic.

The short, intense crisis Mr. Aas created was a precarious moment for the financial industry. It cast doubt on the safety of institutions like Nasdaq Clearing, which were supposed to prevent another meltdown, not create one. Within the small and dispersed community of regulators and central bankers whose job it is to maintain the infrastructure of global commerce, the incident provoked a debate about contagion that continues to rage.

Bank Profitability: Consider The Source | International Monetary Fund Blog (Udaibir S. Das, Kun Hu, and TengTeng Xu)
The global financial crisis of 2007–2009 and the ensuing period of low interest rates have renewed interest among policy makers in the relationship between bank profitability and financial stability. Despite the subsequent recovery, the return on equity of many banks remains below the cost of equity. Market valuations remain below the balance sheet value of banks, indicating the market's assessment of banks' ability to overcome profitability challenges is not optimistic.

In a recent IMF Working Paper, we look into how bank profitability affects financial stability from both theoretical and empirical perspectives. We developed a theoretical model of the relationship between bank profitability and financial stability by exploring the role of non-interest income and retail-oriented business models. We then analyzed data from 431 publicly traded banks to examine the determinants of bank risks and profitability, and how the level and the source of bank profitability affect risks. In this regard, we analyzed not only the link between the level of bank profitability and financial stability, but also the deeper question of how the source of bank profitability affects financial stability.

How Will The Fed Fight The Next Recession? It's Trying To Figure That Out Right Now | New York Times (Neil Irwin)
When a recession threatens, the Federal Reserve has a trusty method for either preventing it or minimizing its damage: Cut interest rates — by a lot, if necessary.

But what happens when interest rates stay near record lows even in good times?

With the economic expansion on track to become the longest on record, one of the most important beneath-the-radar policy conversations in Washington will take place in the coming months. Fed officials are undertaking the most extensive rethinking of how they set monetary policy since they set a formal target for inflation seven years ago. The results will help determine how long it can keep the good times going and how effectively it will be able to fight the next downturn.

Sen. Catherine Cortez-Masto asks about regulatory independence in the Trump era
Sen. Catherine Cortez-Masto spars with a Bank Policy Institute lobbyist about regulatory independence and access

TAXES

Workers Barely Benefited From Trump's Sweeping Tax Cut, Investigation Shows | The Guardian
Big companies drove Donald Trump's tax cut law but refused to commit to any specific wage hikes for workers, despite repeated White House promises it would help employees, an investigation shows.

The 2017 Tax and Jobs Act – the Trump administration's one major piece of enacted legislation – did deliver the biggest corporate tax cut in US history, but ultimately workers benefited almost not at all.

This is one of the conclusions of a six-month investigation into the process that led to the tax cut by the Center for Public Integrity, a not-for-profit news agency based in Washington DC.

Apple Is Spending Even More Of Its Huge Tax Cut On Wall Street Stock Buybacks | Vox
Apple is turning more of its tax cut into stock buybacks.

The iPhone maker on Tuesday announcedthat it would repurchase an additional $75 billion of its own shares. The announcement comes less than a year after Apple revealed a $100 billion buyback in May 2018. The company on both occasions also said it would increase its dividend.

Apple, as it turns out, is also a major beneficiary of the Republican tax cut bill passed in December 2017. Its effective tax rate fell to about 18 percent in 2018, thanks in large part, according to its annual report, to the Tax Cuts and Jobs Act. Apple saved billions of dollars in taxes due to the legislation and was able to bring back some $250 billion in cash it had stashed overseas.

The Tax Break Was $260 Million. Benefit To The State Was Tiny: $155,520 | New York Times

It was called the Economic Opportunity Act, a measure intended to kick-start the sputtering post-recession economy in New Jersey, particularly in its struggling cities. The state would award lucrative tax breaks to businesses if they moved to New Jersey or remained in the state, creating and retaining jobs.

But before the bill was approved by the Legislature, a series of changes were made to its language in June 2013 that were intended to grant specific companies hundreds of millions of dollars in additionaltax breaks, with no public disclosure, according to interviews and documents obtained by The New York Times.

Many of the last-minute changes to drafts of the bill were made by a real estate lawyer, Kevin D. Sheehan, whose influential law firm has close ties to Democratic politicians and legislative leaders in New Jersey.

You Can't Tax The Rich Without The IRS | New York Times (Jesse Eisinger And Paul Kiel)
Slowly and quietly over the past eight years, the I.R.S. has been eviscerated. It's lost tens of thousands of employees. It has fewer auditors now than at any time since 1953. In real dollars, the agency's budget has dropped by almost $3 billion since 2010.

Businesses and the wealthy benefit the most from this state of affairs. The largest corporations in America used to be audited every year. That started to change when the cuts began, and today, the audit rate has fallen by half. It's a similar story for individuals making $10 million or more a year: With twice the chance of escaping I.R.S. scrutiny, the ultrarich are much less likely to lose at the game of audit roulette.

Fixing the problem will require more than increasing the I.R.S.'s budget (though that would certainly help). It's about having the right personnel with the right skills. Today, the wealthy and corporations have the I.R.S. outgunned. The ultra-affluent — with the help of legions of tax professionals — make domestic income disappear overseas or hide it in a pyramid of partnerships. It's like trying to take on a modern army while armed with spears and clubs.

ELECTIONS, MONEY, AND POLITICS

AFR Report: Wall Street Pumps $1.9 Billion Into Political Process In 2017-2018 Cycle

As Bank Profits Soar, Wall Street's Political Spending Hits New High | Washington Post
Wall Street banks and other parts of the financial sector spent close to $2 billion on lobbying and campaign contributions in the 2018 election cycle, a 36 percent jump from the last non-presidential campaign year, according to a new report released Tuesday.

Americans for Financial Reform, a left-leaning Wall Street watchdog, found banks and financial institutions dramatically increased their political spending as Congress debated, and then passed, legislation last year that rolled back several key industry regulations put into place by the Obama administration after the 2008 financial crisis.

The surge in Wall Street's political spending came as commercial banks saw record profits, in part because the Republican tax law of 2017 also lowered their overall tax burden. Wall Street spent more during the 2018 midterm elections than it ever has on a non-presidential campaign cycle, the report found.

First Look: AFR's Money In Politics Report | Politico Morning Money Newsletter
The financial services industry pumped at least $1.9 billion into campaign contributions and lobbying, or $2.5 million per day, during the 2017-18 election cycle, the highest ever for a midterm election, according to a new report by Americans for Financial Reform. Read the report, live at 6 a.m., here.

Wall Street Money Buys Silence On Big Bank Abuses | Inequality.org (Max Moran)
Several big Wall Street banks have been cited for lending discrimination. Yet, not long after Faroul's story was published, Congress approved a partial rollback of the landmark Dodd-Frank law passed after the 2008 financial crisis. One provision in that law, known as S. 2155, now makes it harder for journalists and law enforcement to even find out if discrimination occurs.

Why would Congress do such a thing? As always in politics, follow the money.
A new report from Americans for Financial Reform found that in the 2017-2018 electoral cycle, big banks and financial interests pumped almost $2 billion into American politics through campaign contributions and lobbying, and spent heavily to get S. 2155 passed into law. That means that the industry spent an average of $2.5 million per day trying to influence lawmakers. And it often works. Wall Street has succeeded in getting legislation that the public opposes, and fending off any action to rein in its abuses.

New Report Reaffirms Corrosive Effects Of Money In Electoral And Governing Systems | Democracy Initiative
Wall Street banks, firms, and other interests spent nearly $2 billion in lobbying and campaign contributions according to a new report by Americans for Financial Reform. It's no accident that the record breaking figure coincides with recent, heavily deregulating legislation and the Trump tax plan.

When reached for comment, DI partner Take On Wall Street's Campaign Director Porter McConnell said:

"Money in politics has thrown our democracy into crisis. Nowhere is this more apparent than in Wall Street purchasing financial deregulation from Congress—at the expense of white, Black and brown working families."

Report: Financial Sector Lobbying Is On The Rise In DC | Ozy
Wall Street banks and other financial firms are spending more money to influence Washington policymaking than before the 2008 financial crisis, according to a new report by

Americans for Financial Reform. The nonprofit coalition found the financial industry spent nearly $2 billion on lobbying during the 2017-2018 election cycle — 35 percent more than in the last non-presidential election. The National Association of Realtors and Bloomberg LP topped the list.

How was the money divided? Neither major party can claim the moral high ground, since Republicans received 53 percent and Democrats 47 percent of party-specific contributions.

Financial Institution Money Is Flowing To Washington Politicians At Record Highs | Forbes (Mayra Rodriguez-Valladares)
Americans for Financial Reform (AFR) announced today that the U.S. financial industry is spending even more money to influence decision making in Washington than it did before the 2007-2008 financial crisis. The AFR, a nonpartisan and nonprofit coalition of more than 200 civil rights, consumer, labor, business, investor, faith-based, and civic and community groups published "Wall Street Money in Washington" this morning. The spending, of almost $2 billion, in this cycle was the highest yet for a non-presidential year. It is over 35% higher than the last non-presidential election year and represents more than $2.5 million per day. spending almost $2 billion to influence decision-making in Washington.

Wall Street Democrats Are Absolutely Freaking Out About Their 2020 Candidates | New York Intelligencer
One night in early April, roughly 20 of the Democratic Party's highest-profile donors from the financial industry sat down over dinner to discuss how exactly they were feeling about the 2020 presidential race. For the most part, it wasn't great.

Convened by two veterans of liberal fund-raising — investors Steven Rattner and Blair Effron — the group had no hard-and-fast agenda except to share notes on the overflowing field of candidates. The crowd of Democratic heavyweights, including Clinton-administration Treasury secretary and Goldman Sachs and Citi alum Robert Rubin, former ambassador to France Jane Hartley, and venture capitalist Deven Parekh, knew most of the contenders well. But coming to some kind of consensus, picking a plausible candidate they felt they could all live with and throw their considerable money behind — that was a far-fetched proposition.

"There's tremendous fear," said one banker who was there. The candidates who had long cultivated relationships with Wall Street — such as Cory Booker and Kirsten Gillibrand — were struggling to gain traction and had grown more hostile to finance as their party had, too. Joe Biden, leading in early polls, had a comforting history in the Obama White House and a reputation as an Establishment Democrat but had never, until a few months ago, maintained any meaningful relationship with Wall Street, hadn't even announced his candidacy yet, and struck many bankers as a dubious bet to beat Donald Trump. Nearly everyone else in the field, the financiers felt, was being pulled leftward by Bernie Sanders(the preposterously well-funded contender they considered too crazy to even imagine in the White House) and Elizabeth Warren (less crazy, Democrats on Wall Street think, and way more competent). "She would torture them," one banker told me. "Warren strikes fear in their hearts," explained a New York executive close to banking leaders from both parties — so much fear that such investors often speak of the U.S. senator from Massachusetts, a former law professor and consumer advocate, as a co-front-runner with Sanders. “How do we come up with an alternative?” asked one person at the dinner.

OTHER TOPICS

Wells Fargo — Thousands Of Tainted Accounts Found As Bank Struggles To Change Culture | Capitol Forum
Wells Fargo (WFC) is investigating several thousand cases of tainted customer accounts that have come to light long after the bank was rocked by a fake accounts scandal in 2016, according to sources who are working to detect flawed accounts.

Some of the suspect accounts were created before Wells Fargo was engulfed in scandal, but a bulk of the accounts are newer—created in 2017 and 2018 after the bank disavowed the sales goals and incentives that spurred employees to create the fakes.

Many of the flaws in the accounts could be explained by sloppy or careless work by some bank employees rather than a deliberate attempt to deceive, the sources said.

Exclusive: Wells Fargo Taps Headhunter Spencer Stuart To Find New CEO | Reuters
Wells Fargo & Co’s board has retained executive search firm Spencer Stuart to hunt for a new chief executive, ideally a woman who can tackle its regulatory and public perception issues, two people familiar with the matter said.

Wells Fargo’s ambition to become the only major U.S. bank with a female CEO underscores the need to restore its image with a wide range of constituents, including customers, shareholders, regulators and politicians, after it became mired in a scandal in 2016 for opening potentially millions of unauthorized accounts.

Former CEO Tim Sloan left abruptly last month, becoming the second CEO to leave the bank in the scandal’s fallout.

Former Barclays Trader Claims Bank Fired Him For Misconduct After Whistleblowing | Reuters
Barclays allegedly pressured a former senior trader in the United States to ignore internal risk controls and then forced him out when he raised complaints, according to a public court document seen by Reuters, the latest in a string of allegations about the British bank’s handling of whistleblowers.

Brian La Belle, the bank’s former head of commercial real estate trading, alleged his bosses compelled him to perform trades and contact clients in August and December 2017 while he was on mandatory leave, contrary to regulations.

He also alleges in the court filing that managers called him to complain that he had raised concerns in emails about being made to work during ‘block leave’, a period of absence required by regulators to ensure bosses can detect rogue trading and other potential misconduct.

Bank CEOs Quiet On M&A Ambitions As Expectations Build | Yahoo Finance
Under the shadow of the largest bank merger since the financial crisis, large regional banks CEOs dodged questions on their interest in pursuing similar mergers in this quarter's earnings calls.

At the same time, they didn't explicitly rule out interest in M&A. Banks with between $50 billion and $250 billion have been closely watched ever since the February announcement that southeastern powerhouses BB&T (BBT) and SunTrust (STI) were teaming up to build the sixth largest U.S. bank.

We Are (Still) The 99 Percent | Vox
Calls to break up the big banks and bring back Glass-Steagall, a Depression-era law that separated commercial and investment banking but was repealed in 1999, have roots in Occupy as well.

Alexis Goldstein, now at progressive nonprofit group Americans for Financial Reform, told me that when she first brought up Glass-Steagall at an Occupy event, many people there didn't know what it was. She started holding teach-ins about the law and eventually became part of a group called Occupy the SEC. That group sent a more than 300-page comment letter to the Securities and Exchange Commission on the Volcker rule, a regulation included in the Dodd-Frank financial reform bill that bars banks from conducting certain investment activities.

"The media ate it up, because they were like, 'Oh my God, Occupy Wall Street can read!'" Goldstein recalled. Occupy's comments were cited more than 200 times in the footnotes of the final rule.

Reform Capitalism Or Face Revolution, Billionaires Are Told At Milken Conference | Los Angeles Times
The atmosphere of incongruity that pervaded this week's annual Milken Institute Global Conference was practically palpable.

The gathering of billionaires, hedge fund managers and other financial industry professionals who converged on the Beverly Hilton hotel largely had a particular end in mind: how to increase their alpha, which, not to get too complicated, means improving their investment returns.

But while the 5,000 attendees could go to sessions on the state of capital markets, listen to the chairwoman of the International Monetary Fund and strike up conversations with some of the world's most savvy investors, it all had to go down with a rather large dose of bitter medicine.

If the barricades have not been erected in the streets, they were told several times over, they could soon be unless there is reform of the American economic system.

Transcript: Chris Hayes Asks Elizabeth Warren About Her Day-One Priorities If Elected President | All In With Chris Hayes

HAYES: There are two big sort of domestic policy proposals your campaign has unveiled. You`ve got a variety of positions, but this and the wealth tax. And this is a question I`ve been asking every candidate, you - let`s say you get elected and let`s say by some sort of political miracle frankly that the Democrats have both the House and the Senate maybe even by a healthy margin in the Senate, what`s your first big domestic legislation, the first big bill that President Warren moves?

WARREN: Anti-corruption, the problem we`ve got in Washington right now is that money is influencing basically every decision that goes on. So whatever brings you to the table to say I care about what`s happening in Washington, whether it`s climate change that`s baring down on us, whether or not it`s student loan debt that you can`t pay, whether or not it`s housing that`s unaffordable, whether or not it`s childcare, whether or not it`s a criminal justice system that works great for those who are running private prisons but not for people who`s lives are being destroyed, whether it`s prescription drugs, I guarantee you every one of those crosses through the intersection of the influence of money.

And when you`ve got a government that`s working great for the rich and the powerful and not working for anyone else, it`s corruption and we need to call it out. So I`ve put together - it`s a big bill because it`s a big problem - but it has the features we need to just beat back some of the influence of money.

Why The Wealth Gap Hits Families The Hardest | New York Times

What does economic inequality really look like?

Income alone doesn’t give a complete picture. Income inequality describes the gap between a six-figure salary and minimum wage. But the more alarming gap occurs in wealth — a household’s total assets minus debts. To understand how inequality is playing out in the United States, we need to look more closely at the wealth gap.

In a recent paper, we examined wealth among families with children and among the elderly. We focused on children and the elderly because they are considered the most vulnerable in our society and because so much social policy is geared to help them. According to our research, wealth inequality is much worse among families with children, and the gap has widened greatly over the past two decades, with consequences that may cascade through generations.

Chase Tried To Motivate Customers With Lower Bank Balances. It Backfired Badly. | USA Today

It started with a hypothetical conversation between a customer and their bank account, with the customer wondering why their balance was so low.

The bank account "responded" with several tips, such as "make coffee at home," "eat the food that's already in the fridge," and "you don't need a cab, it's only three blocks."

The fake conversation ends with the customer saying "I guess we'll never know," followed by the bank account's response: "Seriously?"

The backlash was swift, with many users quick to call out Chase for taking money during the 2008 financial crisis.

Sit Down Avengers. Federal Reserve Saves The World In New Propaganda Comic | Yahoo Finance

The Federal Reserve released its latest educational comic book this week. “The Story of Monetary Policy” shows a world stabilized by a central bank through the eyes of an alien visitor who doesn’t understand things like “maximum employment.”

The New York Fed, who publishes the comic books, places itself as the all-important factor in things like “stable prices” and “modern interest rates.”

A local on the planet Novus takes an alien from a distant planet on a tour of the local economy. She explains that the place recently created a central bank to help with everything.