Americans for Financial Reform Education Fund

This Week in Wall Street Reform | May 4 - 10

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Top Financial Services Republican Presses Regulators On Dodd-Frank Rollbacks | The Hill

The top Republican on the House Financial Services Committee on Friday pressed federal regulators for updates on their efforts to finalize rule rollbacks signed by President Trump in 2018.

Rep. Patrick McHenry (R-N.C.), asked the chiefs of five federal financial regulatory agencies for status updates on their implementation of a bipartisan law passed to loosen Dodd-Frank regulations.

Republicans have pressured the Federal Reserve Board, Consumer Financial Protection Bureau (CFPB), Securities and Exchange Commission (SEC), the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) to pick up the pace on implementing the 2018 law.

GOP lawmakers who've long been critical of Dodd-Frank had expressed frustration at the lengthy process of finalizing the 2018 law's changes to the sweeping reform law that had been signed by former President Obama in 2010.

Maxine Waters Has A Plan To Get What She Wants From Wall Street | Bloomberg
Maxine Waters hauled seven Wall Street bank chiefs to a hearing that had all the elements of a show trial: contrite executives, lecturing lawmakers and TV cameras to magnify every exchange. Civil rights activist Jesse Jackson even showed up.

Yet the theatrics were secondary to changes the House Financial Services Committee chairwoman won even before the hearing began -- Bank of America Corp. raised its minimum wage, Goldman Sachs Group Inc. set minority hiring goals and JPMorgan Chase & Co. vowed to stop financing private prisons. The policy wins show how Waters plans to wield power in a divided Congress as she oversees the banking industry and joins other Democrats in probing President Donald Trump's finances.

"They simply understand that it's a new day and a new way," Waters said of the executives in an interview. "I am the first African-American and first woman chair. They know that I have expectations." She said she doesn't want banks coming to her pushing deregulation. She wants to hear about what they're doing differently, whether it's a diversity program, a new product or some other innovation.

Waters Teaches How To Be A 'First' And Succeed In Congress | Associated Press
She's been called "Kerosene Maxine" and gaveled off the House floor for accusing Republican men of badgering women. She dismissed President Donald Trump and his allies as thugs and predicted his impeachment before he was sworn into office.

No one, Maxine Waters once observed, should be surprised by her. But after nearly three decades in Congress, the 80-year-old California lawmaker is in an eye-opening role as the highest-ranking African American woman in the country. She's wielding the gavel of the bank-regulating Financial Services Committee with the power to investigate Trump where some say it counts most: his business dealings.

The role makes Waters a model for many, but notably for the outspoken freshmen Democrats who have drawn as much scrutiny — and as many threats — for what they've said as for the barriers they are breaking. Waters, known by some of them as "Auntie Maxine," has been there. And her unique ascent offers lessons in how to balance activism with work and prudence.

CONSUMER FINANCE AND THE CFPB

Like It Or Not, Debt Collectors May Be Texting Or Emailing You Under New Rules | Los Angeles Times (David Lazarus)

The Consumer Financial Protection Bureau, under President Trump, already has moved to make life easier for payday lenders. It's expected any day now to do the same for debt collectors.

The bureau will unveil proposed rule changes that are likely to include explicit permission for debt collectors to contact people via text and email (and maybe social media).

The new rules also may provide greater latitude for bothering people by phone and limits on people's ability to challenge financial obligations.
In other words, more rights for debt collectors, fewer rights for consumers.

Trump Administration Wants To Allow Debt Collectors To Call 7 Times A Week And Text, Email As Much As They Want | Washington Post
For decades, debt collectors have relied on a limited set of communication tools: landlines and the U.S. mail. Now they are finding increasingly personal ways to reach the millions of Americans regulators say have been contacted by debt collectors. Some debt collectors worry that these contacts fall into a legal gray area because the Fair Debt Collection Practices Act was written 40 years ago and doesn't directly address digital communications.

The Consumer Financial Protection Bureau on Tuesday proposed rules that would give the industry the go-ahead to send consumers unlimited amounts of texts and emails, accelerating a trend the watchdog bureau says could be beneficial for everyone.

The proposal is a victory for debt collectors such as San Francisco-based TrueAccord. Instead of making a barrage of phone calls, TrueAccord sends out millions of emails and texts every month. Next, it hopes to contact delinquent consumers through chat programs such as WhatsApp.

Consumer groups that had called for the CFPB to limit the industry to three calls a week were unhappy with the proposed rules.

The cap applies to individual debts owed by the consumer, said Linda Jun, senior policy counsel at Americans for Financial Reform. Someone with more than one bill in collections could quickly be inundated, Jun said. "It could add up quickly," she said.

Ocasio-Cortez and Bernie Sanders Team Up On Bank Legislation | The Intercept
Alexandria Ocasio-Cortez will announce her first major bill today, in partnership with Vermont Sen. and presidential candidate Bernie Sanders. It's something Sanders has proposed for many years: a 15 percent interest-rate cap on all consumer loans, which would reduce what many Americans pay on their credit cards and effectively eliminate the payday loan industry.

The bill is called the Loan Shark Prevention Act, and it's only two pages long. It includes language that would prevent lenders from adding fees to "evade" the interest rate cap and sets penalties for violators, including a forfeiture of all interest on the illegal loans.

According to Ocasio-Cortez's office, the freshman representative plans to suggest postal banking as a public option for consumer lending, though that is not in the legislation. A postal lending option would in theory minimize the impact on access to credit from the rate cap. Sanders endorsed postal banking during his 2016 presidential campaign.

Sanders, Ocasio-Cortez Want To Cap Credit Card Interest Rates At 15 Percent | Washington Post

Sen. Bernie Sanders and Rep. Alexandria Ocasio-Cortez will introduce legislation on Thursday to cap credit card interest rates at 15 percent, a steep reduction from current levels.

Sanders (I), the Vermont senator running for the Democratic nomination for president, told The Washington Post in an interview that a decade after taxpayers bailed out big banks, the industry is taking advantage of the public by charging exorbitant rates. "Wall Street today makes tens of billions from people at outrageous interest rates," he said.

Ocasio-Cortez (D-N.Y.) will introduce the House version of the bill. "There is no reason a person should pay more than 15% interest in the United States," she said on Twitter. "It's a debt trap for working people + it has to end."

Americans have more than $1 trillion in credit card debt, according to the Federal Reserve.

Court Rules CFPB Structure Constitutional In New Setback For Opponents | Politico Pro

A federal appeals court ruled today that the Consumer Financial Protection Bureau's leadership structure — a single director who can only be fired for cause — is constitutional, dealing a setback to opponents of the bureau who want it run by a bipartisan commission.

The three-judge panel of the Ninth Circuit Court of Appeals agreed with a 2018 majority decision in a DC appellate case finding that the structure is constitutional.

Today's case arose from a civil investigative demand — a kind of non-criminal subpoena — that the CFPB issued in 2017 to Seila Law LLC, which, in turn, argued that the bureau's structure violates the Constitution's separation of powers provision.

9th Circ's CFPB Ruling 'Adds Nothing New,' 5th Circ | Law360

A Mississippi check cashing and payday loan company pressed its challenge to the constitutionality of the Consumer Financial Protection Bureau before the Fifth Circuit on Wednesday, saying a recent Ninth Circuit ruling upholding the agency's structure "adds nothing new" on the subject.

All American Check Cashing Inc. has said in a Fifth Circuit appeal that it is unconstitutional for the CFPB to be set up with a single leader who can only be removed for cause. But on Monday, a three-judge panel of the Ninth Circuit rejected a similar argument in CFPB v. Seila Law LLC, holding that the agency's design is "constitutionally permissible."

In a letter to the Fifth Circuit dated Wednesday, All American cast aspersions on the usefulness of the sister circuit's ruling, saying it is little more than a retread of what the D.C. Circuit en banc majority said last year when affirming the agency's structure in PHH Corp. v. CFPB.

Letter: American Bankers Association And Consumer Bankers Association Write To CFPB Director Kathy Kraninger That Credit Unions Seek To Avoid Bank-Like Regulations

Reject CUNA Request For CFPB To Cede Authority To NCUA: Bankers | Credit Union Times

Two large banking trade groups are asking the CFPB to reject a CUNA request that the agency cede regulation of credit unions to the NCUA.

“Policymakers have reason to seriously question the appropriateness of the special treatment being sought by credit unions and their federal prudential regulatory authority, the National Credit Union Administration,” the American Bankers Association and the Consumer Bankers Association said in a letter to CFPB Director Kathy Kraninger on Friday.

Last month, CUNA President/CEO Jim Nussle asked Kraninger to transfer all enforcement and supervisory responsibilities for the largest credit unions to the NCUA.

He said that at the end of 2018, only 11 credit unions had assets of more than $10 billion—the threshold for CFPB authority. That follows a July 2017 letter from then-NCUA Chairman J. Mark McWatters to former CFPB Director Richard Cordray asking the director to cede examination and enforcement provisions of Dodd-Frank.

Gillibrand Bill Would Expand CFPB Data Collection To Spot Lending Discrimination | The Hill

Sen. Kirsten Gillibrand (D-N.Y.) announced Monday that she will introduce a bill to require broader data collection on thousands of loan and credit applications in a bid to crack down on lending discrimination.

Gillibrand, a 2020 Democratic presidential candidate, said that she would sponsor a proposal to drastically expand the amount of data reported to and analyzed by the Consumer Financial Protection Bureau (CFPB) from banks, lenders and credit card companies.

“People depend on credit to be able to buy a car, start a business, and get personal loans,” Gillibrand said in a statement.

“Access to fair credit is essential to establishing financial well-being, but if someone is discriminated against and can only get expensive terms for their loans, it becomes harder for them to get ahead in life.”

You’re Not Alone: CFPB Complaints On The Rise | US PIRG Education Fund

While the Consumer Financial Protection Bureau's new director entertains [removing](#) its consumer complaint database from public view, that website feature is proving its worth. The CFPB published a record 257,000 consumer complaints in 2018, according to a new report by U.S. PIRG Education Fund. That brings the total to nearly 1.2 million since the CFPB began collecting complaints in December 2011.

"For decades, people had nowhere to publicize their bad interactions with credit bureaus, mortgage companies and debt collectors," said David Rossini, chair of U.S. PIRG Education Fund's Consumer Protection program. "The ever-growing number of complaints filed with the CFPB show that the Bureau is doing what it was designed to do -- offer consumers a forum to bring these bad actors to light."

The report, You're Not Alone: CFPB Complaints on the Rise, is the 14th in an ongoing series based on analyses of the CFPB's Consumer Complaint Database by U.S. PIRG Education Fund. This is the first report in the series that analyzes all company, product, state and response data.

N.Y. Regulator's Suit To Stop Fintech Charter Gets Green Light | American Banker
A federal judge ruled Thursday that the New York State Department of Financial Services can proceed with its lawsuit seeking to invalidate a new federal bank charter for fintech firms.

Judge Victor Marrero of the U.S. District Court for the Southern District of New York denied a request by the Office of the Comptroller of the Currency to dismiss the case. The New York regulator claims the OCC went beyond its statutory authority when it began offering the special-purpose charter last July. A similar case brought by the Conference of State Bank Supervisors is pending.

Both the New York agency and the bank supervisor group argue that the OCC is misinterpreting the National Bank Act, which the federal regulator says gives it the power to charter fintech firms. Marrero suggested the state regulators' argument may have merit.

'This Is Getting Ridiculous.' Wells Fargo Customers Rant About Fresh Online Problems | Charlotte Observer
Wells Fargo customers fumed on Friday over trouble using their online accounts, the latest in a string of similar problems that have plagued the bank this year.

Wells, which houses its largest employment hub in Charlotte, apologized on Twitter to customers who had experienced problems making payments and transfers. The San Francisco-based bank did not disclose to a reporter what had caused the problem.

Customers attacked the bank on Twitter, pointing out that they have been affected this year by other online-banking problems at Wells.

Wells Fargo Botched A Fraud Inquiry. An Innocent Man Landed In Court. Put the Wells stories together| HuffPost

Jeff Edwards comes across almost like a caricature of a mild-mannered Christian do-gooder. Since 1989, he's been a pastor at the United Methodist Church of Parsippany, New Jersey, where he delivers sermons, teaches Bible study and directs Christmas plays for a congregation of about 200.

The church hosts a variety of community events, from weekly Alcoholics Anonymous and Magician's Club meetings to a semi-regular Clowns' Meeting — which is not an insult, but a gathering for face-painted entertainers. His sermons, published on the church's website, are a weekly homage to love, hope and community.

So it was a shock to everyone — including Edwards — when the New Jersey State Police posted his photograph as a wanted man last July, accusing him of cashing forged checks at the local Wells Fargo.

Tribes Urge Appeals Court To Reconsider Decision On Tribal Payday Loans | Law360
Officers of tribe-owned lending company Plain Green LLC urged the Second Circuit to reconsider its ruling that they don't have tribal immunity to a suit alleging they charged excessively high loan interest rates, saying that allowing state law claims against them marked an "unprecedented intrusion on tribal sovereignty."

In a Wednesday petition for panel rehearing and rehearing en banc, the Plain Green officers said that a circuit court panel made several errors in its April 24 decision holding that the immunity of the Chippewa Cree Tribe of the Rocky Boy's Reservation didn't extend to racketeering and consumer protection claims against the officers and that loan agreements meant to compel arbitration couldn't be enforced.

The court should have overturned a Vermont district judge's ruling that a federal Racketeer Influenced and Corrupt Organizations Act claim could go forward against the officials in their official capacities, as that ruling conflicts with other circuit courts by finding that government entities can be held liable under that law and by holding that it "provides a private cause of action" for seeking an injunction, the Plain Green officers said.

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

Americans Don't Save For Retirement Because They Don't Earn Enough Money | Barron's
Proposals for addressing this looming crisis usually fall into three categories. Some argue for greater personal responsibility, urging consumers to pare back their spending. Others push policy proposals to shore up Social Security and fix underfunded public-pension plans. A third group offers solutions that tinker around the edges of retirement plan policies, like setting higher default contribution amounts.

But America's retirement crisis wasn't created because of character flaws or personal irresponsibility. Nor can it realistically be fixed by technocratic fixes.

The ugly, unspoken truth is that many people are just not earning enough money. They barely have enough to cover their daily expenses; they don't have enough left over to be able to save.

In fact, the Federal Reserve reports that as of 2017, 41% of American households could not easily cover a $400 emergency expense.

Moreover, not enough people have access to retirement plans. As the Center for Retirement Research at Boston College has noted, accumulating retirement savings rests on a chain of questions: Are you working? Does your firm offer a plan? Are you eligible for your firm's plan? Finally, do you actually participate in that plan? If the answer to any of these questions is "no," you're out of luck.

SEC Commissioner Hester Pierce Says Reg BI Is Stronger Than Fiduciary Duty | Investment News

Members of the Securities and Exchange Commission have defended their agency's forthcoming final advice-reform rule in exchanges over the last couple days.

SEC commissioner Hester Peirce said the proposal to raise advice requirements for brokers will result in a standard for them that is stronger than the fiduciary duty investment advisers must meet.

"We have this new standard, which is something more than suitability," Ms. Peirce said at an Institute for Portfolio Alternatives conference in Washington on Tuesday. "When you lay it side-to-side against the fiduciary standard, I think one could argue that it's a stronger standard because it does require mitigation or elimination of conflicts in a way the fiduciary standard does not."

SEC Proposes To Roll Back Part Of Sarbanes-Oxley Accounting Rules | Politico Pro

The SEC on Thursday proposed repealing portions of accounting regulations enacted in the wake of the Enron and WorldCom scandals, a move intended to help small companies.

In a 3-1 vote, the agency's commissioners proposed to roll back a piece of the 2002 Sarbanes-Oxley Act that requires companies to pay auditors to verify that the firms have adequate internal controls.

Under the proposal, companies with less than $100 million in revenue would not be required to obtain an attestation of their internal controls for financial reporting from an independent auditor.

SEC Mulls Rollback Of Internal Control Audit Requirements | Accounting Today

The Securities and Exchange Commission is proposing to limit the requirements under the Sarbanes-Oxley Act for audits of internal controls over financial reporting, making them apply to only the largest public companies.

The SEC said Thursday the proposed changes would reduce costs for certain lower-revenue companies by more appropriately tailoring the types of companies categorized as accelerated and large accelerated filers while maintaining effective investor protections (see Enron era accounting rules could be eased for small companies).

As a result of the proposed changes, smaller companies with less than $100 million in revenues wouldn't be required to obtain an attestation of their internal control over financial reporting, or ICFR, from an independent outside auditor. However, the proposed amendments wouldn't remove some of the other key protections from the Sarbanes-Oxley Act of 2002, such as independent audit committee requirements, CEO and CFO certifications of financial reports, or the requirement that companies continue to establish, maintain, and assess the effectiveness of their internal controls over financial reporting.

Another group, Americans for Financial Reform, criticized the proposal more directly. "Everyone who lived through the Enron debacle, the 2008 financial crisis, or high school math class knows that when it comes to complex calculations, it's good practice to have someone else check your work to confirm that you got it right," said AFR senior fellow Heather Slavkin in a statement. "Today, the Securities and Exchange Commission proposed to remove the requirement that outside auditors confirm the adequacy of small companies' internal controls to ensure accurate financial reports. This policy would remove critical protections that investors rely on to confirm the integrity of companies' financial reports, understand the value of their investments, and prevent fraud. We commend SEC Commissioner Robert Jackson for opposing this proposal and urge the Commission to reconsider its approach."

DERIVATIVES AND THE CFTC

CFTC To Propose Cross-Border Swaps Rules To Head Off Risks To U.S. | Politico Pro
The head of the Commodity Futures Trading Commission said today the agency will propose regulations for internationally traded swaps to fend off risks to the U.S. financial system.

In testimony before the Senate Appropriations Committee, CFTC Chairman Chris Giancarlo said he wants to propose regulations for non-U.S. central counterparties (CCPs). Giancarlo said he also wants a rule to address the registration and regulation of non-U.S. swap dealers and major swap participants.

"The proposal will address the risk that non-U.S. swap dealing activity poses to the United States," Giancarlo said. The proposed rules would apply to swap dealer activity that poses a "direct and significant risk to the U.S. financial system," he said.

Big Banks Push To Free Up $40 Billion From Postcrisis Restrictions | Wall Street Journal
The biggest U.S. banks are ramping up efforts to secure a long-sought regulatory reprieve that they believe will give them access to a nearly $40 billion pot of money tied up by restrictions put in place after the financial crisis.

Bank regulators, under pressure from the banks and Republican lawmakers, are considering easing rules that require large lenders to set aside cash as a cushion against the risk of certain derivatives trades going bad, according to people familiar with the matter.

JPMorgan Chase & Co., Goldman Sachs Group Inc. and other big banks have made easing the requirements a priority for years. Now, the firms' efforts are starting to bear fruit among Trump-appointed policy makers at agencies that had previously shunned such changes, the people said.

EXECUTIVE COMPENSATION

Private Equity Takes An Early Lead In 2019 Bonus Race | Financial News
Private equity managers are projected to win the 2019 bonus race, according to new analysis, with buyout firms' incentive pay set to rise as bankers' bonuses fall and fund managers' stay flat.

Alongside retail banks, private equity firms are the only group of financial companies forecast to increase spending on bonuses in 2019, according to Johnson Associates, the US pay consultancy.

Johnson Associates based its projections on performance in the first quarter of the year. Investment banks floundered during this period, particularly in equity underwriting and sales and trading. This is likely to affect bankers' pay for the year significantly, Johnson Associates said.

The consultancy forecasts bonuses will be down between 15% and 20% in equity trading, the same in underwriting, and between 10% and 15% in fixed income trading. But with a large backlog in mergers and acquisitions and initial public offering backlogs, bonuses in those areas could rise up to 5% this year.

MORTGAGES AND HOUSING

Read: Testimony Of Center For Responsible Lending's Nikitra Bailey On The Barriers To Homeownership For People Of Color

Investor Firm That Hiked Lot Rents At Iowa Mobile Home Parks Is Subject Of Complaints In Other States | Des Moines Register
In Indianola, for example, Havenpark Capital's largely low- or fixed-income customers are being charged $75 for returned checks.

Though Havenpark Capital is just three years old, it has racked up complaints related to its business practices with consumer protection officials and housing advocates in several states, Watchdog found.

Attorneys general in Michigan, Indiana, Ohio and Iowa all have fielded concerns from residents in Havenpark parks.

The Better Business Bureau gives the company an "F" rating after several complaints alleging overcharging.

VA Mortgage Lenders Hit With Federal Subpoena | Politico
Federal investigators have issued subpoenas to several mortgage lenders that make loans to military veterans, seeking information on delinquencies and payments.

The investigation is being led by the Department of Veterans Affairs Office of Inspector General in cooperation with the U.S. attorney in the Eastern District of New York, according to four people with knowledge of the subpoenas.

At least eight lenders, and likely more, have been asked to turn over hundreds of files on VA home loans made between 2013 and 2017, according to two people with knowledge of the request.

Read: Predatory Lending And Abusive Mortgage Lending Practices — Testimony Of Wade Henderson | The Leadership Conference On Civil And Human Rights

PRIVATE FUNDS

Private Equity's Returns Questioned Again, This Time By Buffett | Bloomberg
Private equity firms, which are attracting record amounts of investor funds, have for years faced criticisms that they game their returns. Over the weekend, billionaire Warren Buffett joined the chorus.

The Berkshire Hathaway Inc. chairman and chief executive officer said firms make their performance appear better than it is. Firms will include money that's waiting to be deployed, such as funds sitting in Treasury bills, when charging management fees. But they'll exclude those funds when calculating the internal rate of return -- the performance measure in which most funds are judged, Buffett said.

"We have seen a number of proposals from private equity funds where the returns are really not calculated in a manner that I would regard as honest," Buffett, 88, said Saturday at Berkshire's annual shareholder meeting in Omaha, Nebraska. "It's not as good as it looks."

Watch: Buffett's Private Equity Shot Amplified By Moody's Critique | Bloomberg Markets: The Close

Harvard Piles Into Hedge Funds As New Chief Overhauls Endowment | Bloomberg
Harvard University's N.P. "Narv" Narvekar is doubling down on an investment that has fallen out of fashion: hedge funds.

Narvekar's bet on the sophisticated, high-cost brand of money manager marks the biggest since the university hired him in 2016 to turn around the lagging performance of its $39 billion endowment.

Over the two years ended in June, the largest fund in higher education almost doubled its investment in hedge funds, which now total $13 billion, university filings show. Harvard's hedge funds comprise a third of the endowment, compared with roughly a quarter at Yale and Princeton.

Private Equity Is Still Gunning For Mom And Pop Investors | Axios (Dan Primack)
SoftBank is considering an IPO for its $100 billion Vision Fund, which would require some regulatory jujitsu to avoid U.S. regulatory prohibitions on non-accredited investors buying into alternative investment funds.

My thought bubble: I'd guess that SoftBank's lawyers can work their way around the SEC, particularly given that the current rules seem to codify a distinction without a difference.

- Retail investors can already buy into special purpose acquisition companies, which act like concentrated buyout funds (albeit with slightly more shareholder protections). They also can invest in publicly-traded private equity firms, which are little more than a collection of opaque underlying funds.

Why Private Equity's Gender Diversity Efforts Are Not Enough | Private Equity News
Sharissa Jones appeared to have it all. At 30, she was already a partner at a renowned Manhattan-based private equity firm. She ran funds worth billions of dollars and served as a director on the boards of several portfolio companies. Yet, in 2007, Jones quit her stellar career for good after what she says was years of having to perform much better than male counterparts while suffering inappropriate behaviour ...

While some areas of the financial services sector have made limited progress on diversity issues in recent years, data suggests that private equity still has a gender problem. Half of women in the industry say they would consider leaving private equity, and nearly half also say they have seen little or no recent progress at their firms on addressing diversity, according to a recent survey from asset management consultancy MJ Hudson and investment bank Investec earlier this year.

Former Private Equity Execs Charged With Fraud | Institutional Investor
The Department of Justice has charged two former executives at private equity firm Southport Lane with a fraudulent investment scheme, unsealing the indictments six months after the Securities and Exchange Commission's complaint about their activities.

Andrew Scherr and Robert McGraw allegedly defrauded insurance companies by moving them to exchange cash and other easily traded assets for illiquid, overvalued securities that they created, the DOJ said in a May 2 statement. Scherr was the chief financial officer of Southport and McGraw was executive director of the now-defunct firm.

The Casino Where Private Equity Was Invented Has Been Sold | Bisnow
At £23M, its sale is not the biggest property deal in the world. But the Clermont Club casino in Berkeley Square in London could lay claim to being the most significant address in modern finance — it is where the concept of what is today called private equity investing was dreamed up by a group of British gambling buddies.

In 1962, gambler and members club owner John Aspinall opened the Clermont Club in the Grade I listed 44 Berkeley Square in Mayfair, a townhouse built in 1740. The private casino and members club was frequented by myriad members of the British aristocracy; the James Bond holy trinity of Ian Fleming, Roger Moore and Cubby Broccoli; and Lord Lucan, the British peer who disappeared after his family's nanny was murdered.

But it was also the social hub for a group of businessmen who changed the face of investing in finance and property, men who were drawn to the club by their taste for risk and the high-stakes games that took place there. The group and their influence is explored in the 2000 Adam Curtis documentary series "The Mayfair Set".

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Amid Student Debt Surge, A Debate Over Whether $1.5T Is A Crisis Or 'Peanuts' | Yahoo Finance
College graduates saddled with loans has become a major problem for the economy, and a political hot potato. So just how big is the problem, really?

It depends on who's asking the question—and who's answering it.

First, some hard, sobering numbers: More than $1.5 trillion of outstanding student debt is owed by borrowers today — the highest ever in history.

Meanwhile, with 11.5% in serious delinquency, the average borrower is struggling with thousands of dollars in student debt. The overhang has forced cash-strapped borrowers to put off major milestones like starting a family and owning a home — which many economists say is a drag on economic growth.

SYSTEMIC RISK

Big Banks Seeks To Liberate Billions Of Dollars In Funds | Wall Street Journal
Big banks have complained for years about a key feature of the Dodd-Frank overhaul requiring them to keep billions of dollars of cash in reserve. Some are trying to find a way around it.

Commercial banks including Wells Fargo & Co. have been dangling higher rates over the past year to attract deposits from Fannie Mae , FNMA -0.81% Freddie Mac and other government-backed lenders, according to industry executives. The goal is to replace one type of funding banks use to manage their daily finances, overnight loans, with another, deposits.

The two are functionally the same—money is wired to the bank at night and leaves in the morning—but they are treated differently in Washington. Regulators give more credit for deposits, which are thought to have more staying power than overnight loans, when determining whether a bank has enough stable funding to stay afloat under stress. Replacing loans with deposits improves, on paper, a bank's financial health. The banks could then take cash that they previously would have had to hold aside to meet regulatory standards, and put it to more profitable uses.

Federal Reserve Warns As Risky Corporate Debt Exceeds Peak Crisis Level | New York Times
Companies with large amounts of debt are borrowing more money at a breakneck pace, prompting the Federal Reserve to flag the trend as one potential risk in the financial system. Loans to companies with large amounts of outstanding debt — known as leveraged lending — grew by 20 percent in 2018 to $1.1 trillion, according to the Fed's twice-annual Financial Stability Report. The share of new, large loans going to the comparatively risky borrowers now exceeds peak levels reached previously in 2007 and 2014.

Defaults on these loans remain low, but the Fed warned that could change if the economy faltered.

Risks associated with leveraged loans have "intensified, as a greater proportion are to borrowers with lower credit ratings and already high levels of debt," according to the Fed report, released Monday. "Any weakening of economic activity could boost default rates and lead to credit-related contractions to employment and investment among these businesses."

The SEC Tells Senator Elizabeth Warren That It Is Monitoring CLO Markets | Forbes (Mayra Rodriguez-Valladares)
Last week, I wrote advocating that Secretary of the Treasury Steven Mnuchin, as head of the Financial Stability Oversight Council (FSOC), request more transparency about leveraged lending and collateralized loan obligations (CLOs) from banks and non-banks. I stated that Senator Elizabeth Warren had sent a letter in November to bank and financial regulators with a number of important questions about banks' exposures to leveraged loans. She had requested answers by December 11th. Today I learned, that thus far, only the Securities and Exchange Commission (SEC) has responded to Senator Warren.

To the question, 'Do you have concerns about the CLO market for leveraged loans?' SEC Chairman Jay Clayton responded on January 31, 2019 to Senator Warren that he asked his staff, including the Division of Economic and Risk Analysis and the Officer of Credit Ratings "several months ago to begin reviewing these markets in more detail. In particular, I asked staff to closely monitor these markets with two issues in mind: first, the general question of whether there were elements of these markets that could have systemic or other spill-over effects in our capital markets and in particular, undetected potential effects; and second, the more specific question of whether these markets, and in particular CLOs, were structured in a way, such that changes in ratings of the securities could trigger substantial selling into markets (e.g., below investment grade markets) that historically have less liquidity.”

Wells Fargo Creates Unit To Satisfy Regulatory Demands | American Banker
Wells Fargo has created an operations unit designed to focus exclusively on meeting demands of regulators who have expressed dissatisfaction with the bank's progress after a series of scandals.
Derek Flowers, the bank's chief credit and market risk officer, will lead the newly formed strategic execution and operations group, acting CEO C. Allen Parker said in an internal memo issued Wednesday. Flowers, a 21-year veteran of Wells Fargo, currently oversees all credit risk throughout the bank's lending activities and provides oversight of all company and line-of-business credit policies.
“I am pleased to announce the formation of the strategic execution and operations group that will be focused on executing against our regulatory priorities and, in that connection, strengthening and driving the implementation of certain business and risk-management processes,” Parker wrote in the memo.

Read: House Financial Services Committee Chair Maxine Waters Urges Scrutiny Of SunTrust/BB&T Merger In Letter To Fed Chair Jerome Powell and FDIC Chair Jelena McWilliams

One Way Colorado Banking Is Changing Is Fewer Actual Banks | Denver Post
U.S. banks are growing larger in size and fewer in number, and that consolidation trend is expected to only accelerate in the years ahead.

“The system is going to shrink and shrink dramatically,” Jon Bresler, a managing director at the private equity firm EJF Capital, told attendees at the D.A. Davidson Financial Institutions Conference on Monday at the Omni Interlocken Broomfield.

How dramatically? There were 5,406 institutions in the country with federal deposit insurance at the end of last year, according to the FDIC. Bresler expects that number to be cut in half over the next five to 10 years.

That culling will be done with the blessing of regulators, who would prefer to see weak links and non-competitive players go into the hands of stronger buyers rather than fail in the next downturn.

As Jamie Dimon Says Lehman Won’t Happen Again, IMF Analysis Points To Next Global Financial Crisis | ValueWalk
Nearly one month after JPMorgan Chase chief executive Jamie Dimon told Congress that another Lehman-style market crash is not a concern, the International Monetary Fund has a different message. Global debt levels are elevated to extreme levels and the IMF is warning about a coming global financial crisis.

Increasingly the IMF is being called to bail out troubled economies and the need is growing to never before witnessed levels. The IMF released its spring 2019 economic analysis noting that if unsustainable debt and risky market behavior are not brought under control, we could see another global financial crisis

The Big Mistake The Federal Reserve Is Making Right Now | Washington Post (Steven Pearlstein)
Which of these two developments strike you as a bigger risk to economy?

A. An annual inflation rate of only 1.6 percent instead of the target of 2 percent; or

B. A stock market levitating at record levels as a result of artificially low interest rates, record levels of corporate indebtedness and stock buybacks, an orgy of richly priced mergers and initial public offerings and a trillion-dollar federal budget deficit at a time of full employment?

If you answered B, then — congratulations! — you pass the 10-second sanity test offered by the Society of American Economic Historians.

If you answered A, then you might want to apply for one of the two still-open seats on the Federal Reserve Board, where you will feel right at home with other policymakers who appear to have learned nothing from the past four recessions.

TAXES

How Loopholes Help Trump And Other Real Estate Moguls Avoid Taxes | New York Times
Depreciation is just the start for real estate moguls.

Favorable treatment for commercial real estate occurs at multiple levels, including income and property taxes as well as more complicated structures that allow savvy families to pass real estate worth hundreds of millions to heirs tax-free. There are myriad benefits, all legal, created specifically for commercial real estate.

In the 2017 tax overhaul, the deductions for real estate taxes and mortgage interest on a home were severely curtailed. Not so for commercial real estate. The taxes a property incurs are fully deductible as business expense.

The overhaul also allowed real estate companies to take a special deduction for qualified business income meant as an incentive for companies with a large number of employees. During the tax bill's negotiations in Congress, an exemption was added for real estate. Instead of considering employees for the deduction, real estate companies could use a different calculation based on their assets.

ELECTIONS, MONEY, AND POLITICS

Dems Overseeing Finance Industry Take Money From Group Supporting Racist Auto Lending | American Prospect

Buying a car is a significant purchase for many Americans and should be a fair and transparent transaction, free of discrimination," said House Financial Services Committee Chair Maxine Waters at a recent hearing on discrimination in the automobile loan and insurance industries. "Unfortunately, this is not the case for persons of color."

"I'm not sure where I start with this," said Representative Joyce Beatty, who is chair of the Subcommittee on Diversity and Inclusion. Speaking about inaccuracies of a race identification method based on name and location, she said, "It works two ways because it could also not only hurt African Americans but benefit folks who might not be a minority that live in a minority neighborhood."

But earlier this year, Waters, Beatty, and six other Democratic members of the Financial Services Committee appeared at fundraisers for their campaigns attended by representatives of the political action committee of the American Financial Services Association (AFSA), an industry trade group that last year hailed, and directly lobbied on, a Republican resolution repealing a Consumer Financial Protection Bureau (CFPB) guidance that sought to cut down on racist auto lending practices.

The Democratic Counter-Revolution Has A Self-Appointed Leader: Josh Gottheimer | The Intercept

But Gottheimer is showing no signs of receding into the background. In the first quarter of 2019, he raised an astounding $830,000, almost none of it from small donors, giving him some $5 million cash on hand. Aside from the campaign cash he rakes in from the pro-Israel and pro-Saudi lobbies, he cultivates Wall Street openly. The tendency was on unusually obsequious display at an April Financial Services Committee hearing, where the CEOs of America's major banks testified, including JPMorgan's Jamie Dimon, Bank of America's Brian Moynihan, Goldman Sachs's David Solomon, Morgan Stanley's James Gorman, and Citigroup CEO Michael Corbat.

At the hearing, titled "Holding Megabanks Accountable," Waters, the committee chair, showed a rotating series of slides highlighting anti-social bank practices. When it was Gottheimer's turn to question the bankers, he borderline apologized to them.

"Thank you all for being here today and for your work and for what you do for New Jersey. I'm very grateful. I wish we had also put up slides earlier today that looked more like this. One about how many jobs your firms have created, or slides showing how many entrepreneurs and small- and minority-owned businesses have been supported by your institutions. Or slides showing how many pensions and 401ks and homes and other finances you've helped people secure. Your firms currently employ more than a million people. You've doubled your small-business loans in the last decade from $44 billion to $86 billion, including supporting small businesses in my district to the tune of $471 million. Making the dream of homeownership possible, your firms have originated $1.8 billion in home mortgages in my district alone and I'm grateful. Unfortunately, there's no slide up there about that either."

His questioning was no less fawning: “Mr. Dimon, can you describe some of the work that your firm has done in the small-business lending arena and how those loans are helping to facilitate small-business growth?”

The 20-Year Fight Between Joe Biden And Elizabeth Warren Over Bankruptcy, Explained | Vox (Matthew Yglesias)
To Warren, bankruptcy is fundamentally about bad luck rather than irresponsible behavior. The changes were mostly unnecessary additional burdens for struggling families that would enrich powerful special interests. Supporters of the changes, like Biden, believed that too many people were filing for bankruptcy — often people with more ability to repay their debts — a problem that was costly not just to creditors but to ordinary nonbankrupt consumers.

Warren drew two conclusions from the experience. First, she came to believe that the American economy requires a major structural overhaul to prevent the pressures that lead so many families to file for bankruptcy protection in the first place. Second, she concluded the American political system is broken, shaped too heavily by powerful business interests.

Biden, by contrast, saw the bill as an admittedly imperfect but fundamentally sound compromise that he improved by participating in crafting it. By cutting down on bankruptcies, the legislation helped not just credit card companies but also consumers who benefit from lower interest rates. The legislation contained provisions intended to protect low-income households and in part thanks to Biden’s work made some other changes that are favorable to the interests of divorced women and their children.

The Warren-Biden clash is also a window into a disagreement about the meaning of the current moment in Democratic Party politics. Warren wants to challenge a system she saw as fundamentally corrupt long before Trump arose, while Biden pitches a return to normalcy and the kind of politics in which compromise, horse trading, and home state interests are just part of the game.

OTHER TOPICS

Paul Winfree Under Consideration For Federal Reserve | Wall Street Journal
President Trump’s next nominee to the Federal Reserve board may be one of his former domestic policy aides who now oversees economic policy studies at the conservative Heritage Foundation.

Paul Winfree, who was deputy director of the White House Domestic Policy Council, is under consideration for one of the two open positions on the Federal Reserve Board, White House officials said.

Mr. Winfree confirmed that he has been contacted by the White House about the potential nomination and has expressed interest in the job.
White House officials cautioned that consideration of Mr. Winfree was still in the early stages. There have been no clear alternatives for Fed board nominees since former restaurant executive Herman Cain and conservative commentator Stephen Moore withdrew

their names from consideration in recent weeks in the face of resistance from some Republican senators.

Watch: Panic: The Untold Story Of The 2008 Crisis | Vice News

The Sabotage Years | New York Times (Paul Krugman)
You see, Donald Trump's attempt to install Stephen Moore at the Fed failed for the wrong reason. Moore fell short because he turns out to be a loathsome individual. But he should have been rejected out of hand simply on the basis of his economic views. Not only was he wrong, again and again, during the financial crisis and its aftermath; not only did he refuse to admit error, or learn anything from his mistakes; but he turned on a dime as soon as Trump was in office, showing himself to be a purely political animal. He demanded higher interest rates when unemployment was above 9 percent; now he's demanding lower rates with unemployment below 4 percent.

But as I said, that's not why Moore fell short — because his whole party has followed the same path. Mike Pence, who demanded higher rates in the deeply depressed economy of 2010, wants lower rates now. No Republicans in Congress seem to have criticized Moore for his policy views, as opposed to his misogyny. Aside from Harvard's Greg Mankiw, not one prominent Republican economist stepped up to oppose Moore, even though he clearly was engaged precisely in the kind of politicization of monetary policy Taylor and Ryan claimed to see in 2010.

Forget Socialism. The U.S. Needs Responsible Capitalism. | Fortune (David Wells)
During the last four decades, the U.S. has experienced a form of capitalism that has led to growing economic inequality and increasing dissatisfaction with our capitalist system—a discontent highlighted by prominent politicians like presidential candidate Sen. Bernie Sanders and Rep. Alexandria Ocasio-Cortez who embrace tenets of democratic socialism. As economist Joseph Stiglitz recently warned, "[T]he American economy is failing its citizens. Some 90% have seen their incomes stagnate or decline in the past 30 years."
Ever since Nobel laureate economist Milton Friedman wrote his 1970 article, "The Social Responsibility of Business is to Increase its Profits," a debate has raged between financial advocates of shareholder primacy and business leaders who believe business must serve all its stakeholders. Beginning in the 1980s, short-term shareholders gained the upper hand as hedge funds, activist investors, and private equity firms pushed management teams to increase debt, cut costs to the bone, and forego long-term investments in order to return more cash to shareholders. The social contract of employment frayed, as even long-term employees realized they could be fired at any time, losing their pensions and health care. Overleveraging in the financial system resulted in the 2008 financial crisis, triggering the recession that followed, which greatly exacerbated income inequality.

As a result, public confidence in capitalism has continued to decrease.

Fortunately, the tide is turning now toward a new model: responsible capitalism. Responsible capitalism recognizes that companies have a clear purpose to serve society, their customers, and their employees as well as their investors. When they do so, they create the most sustainable long-term value for their shareholders. In the past decade, practitioners of responsible capitalism—like former PepsiCo CEO Indra Nooyi and former Unilever CEO Paul Polman—have flourished.

The Economic Question Voters Should Ask Themselves | The Atlantic (Edward Kleinbard)

Many journalists, campaign operatives, and activists lately have framed debates around these issues as a struggle between “capitalism” and “socialism.” But these words have no meaning for most voters. We are not a nation of political theorists or economists; we are ahistorical and poorly read. We can no more discuss the views of Karl Marx and their continued relevance today than we can chat about quantum mechanics with a kangaroo.

Voters need a simple organizing principle for evaluating all the economic policy proposals, arguments, and counterarguments that blossom at campaign time. In this way, they might see past some of the rhetorical tricks and misleading phrases to understand better what they really want from the political process.

I propose that voters should ask themselves a simple question: Are markets friendly? Do they exist today to serve society’s best interests, or are they currently a hostile force? If voters believe the latter—as, I’ll explain, I think they should—they ought to support candidates who back more government intervention, and vice versa.