Americans for Financial Reform Education Fund

This Week in Wall Street Reform | May 18 - 24

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

GOP Goes To Bat For Big Banks In Risky Move To Boost Growth | Politico
Congressional Republicans, looking to boost the economy as an election year approaches, are pushing for a politically risky solution to help ward off a slowdown: rolling back regulations on the nation's booming banks.

The lawmakers are hounding President Donald Trump's appointees to step up their deregulation efforts to encourage more lending and keep the near-record expansion going, confident that they can withstand any blowback as memories of the 2008 financial crisis fade.

"I don't want to do anything that would be unsustainable," Sen. Thom Tillis (R-N.C.), said in an interview. "But we've heard from a number of experts either within the administration or in the financial services community that capital is not moving as quickly as it can."

Kevin McCarthy's Chief Of Staff To Join Private Equity Firm | Wall Street Journal

Barrett Karr, House Minority Leader Kevin McCarthy's chief of staff, will leave Capitol Hill in two weeks to join private-equity firm Silver Lake Partners.

Ms. Karr, who had served as the California Republican's top aide since January 2017, will be succeeded on an interim basis by longtime McCarthy aide James Min.

"Barrett's leadership and energy will be sorely missed, as she will leave behind a culture of optimism and empowerment within our office and our conference," Mr. McCarthy said in a statement.

CONSUMER FINANCE AND THE CFPB

There's Only One Way To Stop Predatory Lending | New York Times (Editorial Board)
Lenders long insisted that disparities did not prove discrimination, because the data did not include relevant information, such as credit scores and property values. They also fought fiercely to keep that information secret. The 2010 law stripped that shield, and the Trump administration lacks the power to restore it completely. That would require a new law. But regulators have a lot of room to weaken the current law.

Exempting smaller lenders would leave people in communities served by those lenders unable to assess their performance. It would also hamper assessment of aggregate lending patterns, particularly in rural areas. And the Trump administration could significantly reduce the value of the new data by tinkering with the details of the reporting requirements. A proposal to exempt loans to limited liability companies, for example, would shield a large chunk of the mortgage lending for multifamily housing.

The see-no-evil approach to mortgage lending is part of the administration's broader effort to prevent the Consumer Financial Protection Bureau from protecting consumers of financial products. Under the leadership of Mick Mulvaney, who has since become President Trump's acting chief of staff, the bureau suspended a crackdown on payday lending, walking away from a plan to hold the industry responsible for making affordable loans. One of Mr. Mulvaney's first decisions at the agency was to drop a lawsuit against an online payday lender that charged annualized interest rates of up to 950 percent on some loans.

25 Attorneys General Oppose CFPB's Payday Rule Revamp | American Banker
Attorneys general from 24 states and Washington, D.C., are opposing the Consumer Financial Protection Bureau's proposal to remove ability-to-repay requirements from the agency's payday lending rule.

In a comment letter Wednesday, the attorneys general, led by Washington, D.C., AG Karl Racine, said the bureau's proposal is inconsistent with the Dodd-Frank Act, ignores states' experience with payday and vehicle title lending, and undermines states' efforts to protect consumers.

"The bureau's proposal to jettison significant consumer protections adopted just 18 months ago is deeply flawed as a matter of law and policy," the attorneys general wrote. "The proposal rests on the bureau's embrace of several new and unjustified limits on its authority to identify acts and practices as unfair and abusive. These new limits are unduly restrictive and inconsistent with applicable law."

Cory Booker Wants Banks To Stop Charging So Many Overdraft Fees | Vox
Sen. Cory Booker (D-NJ) is bringing back legislation that takes aim at the big banks by severely curbing their use of overdraft fees.

These fees come up when people spend or withdraw more than their available checking account balance, and they've become a crucial source of revenue for financial institutions that have long targeted low-income customers who struggle the most to stay out of debt.

Under the Trump administration, the Consumer Financial Protection Bureau (CFPB) has taken an even more lax approach to enforcing limitations on such fees: As of last week, it's now considering overturning a rule that requires banks to obtain consumer consent before imposing overdraft penalties.

Vox was given an exclusive look at Booker and Sen. Sherrod Brown's (D-OH) recently reintroduced legislation, which was informed by a survey of several large banks. Their bill would push back against the expansion of overdraft fees, barring financial institutions from charging them on debit card transactions and ATM withdrawals. The legislation would also restrict the frequency of such charges on payments made by check.

Many Adults Would Struggle To Find $400, The Fed Finds | New York Times
Four in 10 American adults wouldn't be able to cover an unexpected $400 expense with cash, savings or a credit-card charge that could be quickly paid off, a new Federal Reserve survey finds.

About 27 percent of people surveyed would need to borrow or sell something to pay for such a bill, and 12 percent would not be able to cover it at all, according to the Fed's 2018 report on the economic well-being of households, which was released Thursday.

The share that could cover such an expense more easily has been climbing steadily and now stands at 61 percent, up from just half when the Fed started this annual survey in 2013. Still, the finding underlines the fact that many Americans remain on the edge financially even as this economic expansion is approaching record length and people have become more optimistic.

Consumers Push For Sanctions In Tribe-Linked Usury Case | Law360
Consumers accusing a tribe-linked online lender of issuing loans at unreasonably high interest rates urged a Virginia federal court Thursday to sanction the founder of a company connected to the lender, saying he has failed to comply with an order to turn over counsel documents.

U.S. District Judge Robert E. Payne ruled May 3 that Matt Martorello had waived his attorney-client privilege, ordering him to turn over documents and communications with his counsel that relate to the legality of Michigan-based Lac Vieux Desert Band of Lake Superior Chippewa Indians' business model and lending operations, and the restructuring of the lending businesses at issue.

The consumers said Martorello was required to produce these documents by May 14, and instead of complying with the order he filed a motion for reconsideration, also on Thursday. Martorello has not provided a reason for why he has not produced the documents, and the failure to turn them over will harm their case as they will not be able to properly prepare for depositions or develop their trial strategy, the consumers said.

To Reform Credit Card Industry, Start With Credit Scoring System | Washington Post (Aaron Klein and Lisa Servon)
Our current system decides who gets credit and at what price using algorithms that analyze a person's credit history and calculate a credit score. FICO, the most common credit score, employs a range between 300 and 850. There is no universally accepted definition of what constitutes a prime or subprime credit score but, generally, people with scores above about 680 are rewarded with cheap credit and high borrowing limits. Those classified as either near-prime or subprime, whose scores largely fall below 680, have a tougher time accessing and paying for credit.

The apparent objectivity of the algorithm masks a whole host of issues. A peek behind the credit-scoring curtain reveals that, as in "The Wizard of Oz," there are humans feeding imperfect information into the machine. You could be the most creditworthy person on the planet, but if you lack a credit history, are a young adult or a recent immigrant, or had financial hardship in the past five years, your score will be low. Credit reports are rife with errors: One out of 5 Americans has a material error on their score. Inequity is baked into a system that takes a narrow view of creditworthiness.

CFPB's Assistant Enforcement Chief Resigns | American Banker
Kristen Donoghue, the assistant director for enforcement at the Consumer Financial Protection Bureau, has resigned, sources said.

Donoghue was one of the few remaining senior enforcement managers hired by former Director Richard Cordray. She joined the CFPB in 2011 and early on worked alongside now-Sen. Elizabeth Warren, D-Mass., who first proposed and helped established the agency.

Donoghue's resignation comes less than a week after Eric Blankenstein — the CFPB's policy director for supervision, enforcement and fair lending — also resigned.

Cara Petersen, the principal deputy to the assistant director for enforcement, was named acting director of enforcement, according to sources familiar with the matter. Jeff Ehrlich, the current deputy enforcement director, will become principal deputy for enforcement.

Banking While Black: Bay Area Man Humiliated By Wells Fargo Over Check-Cashing, Lawsuit Claims | Mercury News

Retired cable car operator Daniel Knight walked into a Wells Fargo bank in Antioch with two checks to cash. He wasn't a customer of the bank, but the check writer was, and Knight had several times cashed checks from the same man at Wells Fargo after showing the required two pieces of identification, he says.

What allegedly happened next led to humiliation for Knight, and a lawsuit claiming the bank discriminated against him because he's black.

Wells Fargo said it takes seriously the lawsuit's allegations, and opposes any kind of discrimination. "We believe that Mr. Knight does not accurately describe the events that transpired and look forward to defending this matter in court," said Wells Fargo spokesman Ruben Pulido.

News Release: **Civil And Consumer Rights Advocates Applaud House Passage Of Consumers First Act**

Letter To Regulators: **Coalition Letter In Support Of The Green Amendment To The Consumers First Act Restoring The CFPB Arbitration Rule**

Maloney Celebrates 10th Anniversary of CARD Act With Consumer Groups | Rep. Carolyn Maloney Press Office
Ahead of tomorrow's 10 year anniversary of the signing of the 2009 Credit Card Accountability, Responsibility, and Disclosure Act (CARD Act), Congresswoman Carolyn B. Maloney (D-NY), author of the bill and Chair of the House Financial Services Subcommittee Investor Protection, Entrepreneurship, and Capital Markets, marked the occasion with various consumer groups including Americans for Financial Reform (AFR), USPIRG, Center for Responsible Lending, and Consumer Federation of America.

Rep. Maloney's CARD Act, signed into law by President Obama in a Rose Garden signing ceremony, has saved consumers an estimated $12 billion a year, which translates into total savings of more than $100 billion over the past decade.

ENFORCEMENT

U.S. Fines Billions For Wall Street Fraud. Nearly Half The Time It Doesn't Collect. | Wall Street Journal
Wall Street watchdogs often tout the fines they levy on alleged wrongdoers. Yet much of that money is never collected.

The Securities and Exchange Commission over the five years ending in 2018 took in 55% of the $20 billion in enforcement fines set through settlements or court judgments, according to agency statistics. During the prior five years, from 2009 through 2013, the SEC collected on 60% of $14.6 billion.

And in 2018, the commission collected just 28% of almost $4 billion. That rate—the lowest in a decade—was due in part to an unusual $1.7 billion settlement with the Brazilian oil company Petrobras that may never require payment to the SEC.

The SEC has struggled for years to get defendants to pay more of their fines, although some are almost certain to avoid payment forever. That includes people who went to prison on related criminal charges, or people behind Ponzi schemes who spent the funds they took from defrauded investors.

EXECUTIVE COMPENSATION

JPMorgan Shareholders Approve Executive Pay, Fewer Votes Than Last Year | Reuters
JPMorgan Chase & Co said on Tuesday that only 72% of shareholder votes approved its executive compensation packages, marking unusual opposition to pay for the bank's top leaders.

About 93% supported JPMorgan's executive pay last year.

JPMorgan Chase also said all of its directors were elected, and that a shareholder proposal that the bank report annually on its global gender pay gap was voted down, according to preliminary tallies.

CEOs Get $800,000 Pay Raise, Leaving Workers Further Behind | Associated Press
Did you get a 7% raise last year? Congratulations, yours was in line with what CEOs at the biggest companies got. But for chief executives, that 7% was roughly $800,000.

Pay for CEOs at S&P 500 companies rose to a median of $12 million last year, including salary, stock and other compensation, according to data analyzed by Equilar for The Associated Press. The eight-figure packages continue to rise as companies tie more of their CEOs' pay to their stock prices, which are still near record levels, and as profits hit an all-time high last year due to lower tax bills and a still-growing economy.

Pay for typical workers at these companies isn't rising nearly as quickly. The median increase was 3% last year, less than half the growth for the top bosses. Median means half were larger, and half were smaller.

It's Never Been Easier To Be A C.E.O. And The Pay Keeps Rising | New York Times (Peter Eavis)
This is not a difficult time to be a chief executive.

The solid economy has bolstered companies' sales, and President Trump's corporate tax cuts have juiced profits. A huge increase in stock buybacks has lifted share prices.

Despite all the structural forces aiding companies' bottom lines and stock prices, boards continue to act as if C.E.O.s have unique powers to deliver better returns — and have gone to great lengths to compensate them. The most prominent example: Tesla approved a pay package to Elon Musk valued at as much as $2.3 billion. It's not just the highest sum for last year; it's the biggest ever, according to compensation experts. (More on Mr. Musk below.)

Something about this feels inevitable. Every year, Equilar, an executive compensation consulting firm, conducts a survey for The New York Times of the 200 highest-paid chief executives in America. And nearly every year, C.E.O.s already earning huge sums get even bigger payouts. In 2018, our analysis shows, they did particularly well: The median boss received compensation of $18.6 million — a raise of $1.1 million, or 6.3 percent, from the year prior.

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

The House Has Found Bipartisan Agreement On Reform To Retirement Accounts. Be Afraid. | The Intercept

Section 204 gives a safe harbor to 401(k) plan sponsors who select so-called "lifetime income" products, another word for annuities, to appear among offerings to workers. This would mean that, if an employer picks an annuity provider and it goes out of business or rips off workers, they would not be able to sue the employer afterwards. That could incentivize companies to find fly-by-night annuity providers that give good deals to the companies for business, making their money by ripping off the firm's workers before filing for bankruptcy.

The lack of a safe harbor has been the primary hurdle to getting annuities into 401(k) offerings, said J. Mark Iwry, former senior adviser at the Treasury Department during the Obama years. "It's the single most frequently mentioned obstacle by plan sponsors," said Iwry, who is now a nonresident senior fellow at the Brookings Institution.

Annuities come in many flavors and types; in general, they provide a stream of monthly payments to retirees after they pay into them. Any financial institution can sell an annuity, but the primary sellers are life insurance companies. Some annuities, like fixed-income products, are relatively tame, though they often have high fees for the insurers. Others are variable-income products with opaque terms that confuse buyers into purchasing them and don't pay off as promised.

DOL Sets Date To Propose New Fiduciary Rule | Investment News

The Department of Labor will propose a new fiduciary rule in December, the opening salvo in what will likely prove to be another contentious battle to overhaul investment advice standards in retirement accounts.

Labor Secretary Alexander Acosta had previously indicated the agency would revive the fiduciary rule, an Obama-era measure that was overturned in court last year, but hadn't supplied a time line. The DOL solidified its December goal in its spring regulatory agenda.

Mr. Acosta said the DOL is working with the Securities and Exchange Commission as the SEC completes its advice reform package. The new DOL rule likely would be contoured to the SEC's final regulations, which are expected to be released by this summer.

Broker Sales Practices To Face Limits | Wall Street Journal
Stockbrokers will soon have to disclose more about conflicts of interest that can bias investment advice under a government plan favored by Wall Street.

The Securities and Exchange Commission plans to vote on a final rule on June 5, the agency said on Thursday. It is expected to adopt a plan that is similar to a proposal it issued in April 2018, according to a person familiar with the matter.

The SEC's effort follows the industry's defeat of a controversial and stricter plan put forward under the Obama administration. It represents the culmination of a long battle between the financial industry and the government over the myriad and sometimes opaque ways that brokers are paid for selling products. The brokerage industry has mostly supported the SEC's effort. That earlier rule, known as the fiduciary rule, was overturned in the courts.

MORTGAGES AND HOUSING

U.S. Private Equity Moves Into Trailer Parks | Financial Times (Rana Foroohar)
Housing is a human necessity. It's also a tradeable asset. Those two facts were at the core of the 2008 subprime mortgage crisis. They are also at the heart of a disturbing trend: the financial exploitation of one of the last remaining areas of affordable housing in the US, mobile homes.

Large private equity funds such as The Carlyle Group, Blackstone and Apollo, as well as other major institutional investors such as the Pennsylvania Public School Employees' Retirement System (PSERS) and the Singaporean sovereign wealth fund, GIC, have gone long on trailer parks. Institutional investors accounted for 17 per cent of the $4bn in sector transactions in 2018, up from 9 per cent of $1.2bn transactions in 2013.

In America, trailer parks are a fragmented, "mom and pop" business, making them ripe targets for consolidation. They are also a shorthand for "poor" — most people who live in them are part of households earning less than $50,000 a year. Some 22m individuals live in trailer parks; roughly 1 in 15 Americans. Most own their trailers, which depreciate just like cars, but rent the land underneath them, since traditional mortgages on such properties aren't available.

Calabria Vows Big Changes At Fannie-Freddie, Declaring 'Status Quo Is Over' | Politico Pro
Federal Housing Finance Agency Director Mark Calabria on Monday laid out his agenda for overhauling the housing finance system in his first major speech since taking over the agency five weeks ago.

Fannie Mae and Freddie Mac, the government-sponsored enterprises behind about half the nation's mortgages, "will look much different at the end of my five-year term than they do today," Calabria told mortgage industry professionals at a conference here.

"The status quo is over," he said. "And my arrival at FHFA should be seen as the opening bell for change."

'An Oreo?:' Carson Clashes With Freshman Congresswoman | Politico
Housing and Urban Development Secretary Ben Carson tussled awkwardly with freshman Rep. Katie Porter (D-Calif.) at a hearing on Tuesday over HUD real estate owned — or REO — homes, at one point asking if she was referring to an "Oreo."

REO homes are acquired by HUD after a foreclosure on a Federal Housing Agency-insured mortgage, and Porter said foreclosure rates for such properties were higher than for homes not backed by the FHA.

She asked Carson to "explain the disparity in REO rates — do you know what an REO is?" "An Oreo?" Carson responded.

"No, not an Oreo. An R-E-O. R-E-O," Porter said, prompting Carson to offer, "real estate?"

Separated By Design: How Some Of America's Richest Towns Fight Affordable Housing | ProPublica and Connecticut Mirror
The commission's discussion was couched in what some would regard as code words and never directly addressed race or income. Chip Stephens, a Republican planning and zoning commissioner, voted against the plan, declaring, “To me, it's too much density. It's putting too much in a little area. To me, this is ghettoizing Westport.”

Now under construction, these two-bedroom duplexes and single-family homes have a price tag of $1.2 million, the going rate for a home in this swanky village just outside Bridgeport and Norwalk.

“We spent hundreds of thousands of dollars to get this through. Would I do this all over again? No. Probably not,” said the developer, Johnny Schwartz, of Able Construction.

Welcome to Connecticut, a state with more separate — and unequal — housing than nearly everywhere else in the country.

This separation is by design.

America's Cities Are Unlivable. Blame Wealthy Liberals. | New York Times (Farhad Manjoo)
To live in California at this time is to experience every day the cryptic phrase that George W. Bush once used to describe the invasion of Iraq: “Catastrophic success.” The economy here is booming, but no one feels especially good about it. When the cost of living is taken into

account, billionaire-brimming California ranks as the most poverty-stricken state, with a fifth of the population struggling to get by. Since 2010, migration out of California has surged.

The basic problem is the steady collapse of livability. Across my home state, traffic and transportation is a developing-world nightmare. Child care and education seem impossible for all but the wealthiest. The problems of affordable housing and homelessness have surpassed all superlatives — what was a crisis is now an emergency that feels like a dystopian showcase of American inequality.

Just look at San Francisco, Nancy Pelosi's city. One of every 11,600 residents is a billionaire, and the annual household income necessary to buy a median-priced home now tops $320,000. Yet the streets there are a plague of garbage and needles and feces, and every morning brings fresh horror stories from a "Black Mirror" hellscape: Homeless veterans are surviving on an economy of trash from billionaires' mansions. Wealthy homeowners are crowdfunding a legal effort arguing that a proposed homeless shelter is an environmental hazard. A public-school teacher suffering from cancer is forced to pay for her own substitute.

PRIVATE FUNDS

Read: Senator Warren, Representative Ocasio-Cortez Send Letter To Treasury Secretary Mnuchin About Association With Sears Mismanagement And Financialization

Elizabeth Warren And Alexandria Ocasio-Cortez Target Treasury Secretary Steven Mnuchin Over Sears Bankruptcy | CNBC
Presidential candidate Sen. Elizabeth Warren, D-Mass., and Rep. Alexandria Ocasio-Cortez, D-N.Y., are targeting Treasury Secretary Steven Mnuchin, raising questions about his time on Sears Holdings' board of directors and his relationship with the troubled company's former CEO, Eddie Lampert.

Mnuchin, who was Lampert's roommate at Yale University, was on the Sears board until December 2016, after President-elect Donald Trump picked him to join the incoming Cabinet.

Under Lampert, who led Sears from 2013 to 2018, the company closed more than 3,500 stores, shed some of its most valuable assets, including Lands' End, and laid off thousands. Sears filed for bankruptcy in October. Lampert bought Sears through an affiliate of his hedge fund ESL Investments, saving it from total liquidation.

Watch: Alexandria Ocasio-Cortez And Elizabeth Warren Put Steve Mnuchin On Blast | The Young Turks

Read: The Private Equity Negotiation Myth | Yale Journal On Regulation

Private Markets Are Booming. Mom-And-Pop Investors Are Missing Out. | Barron's

The companies we now refer to as "unicorns"—private tech companies valued above $1 billion—might seem downright ordinary in the future.

Some of this year's biggest initial public offerings have been from those so-called unicorns, which actually didn't end up raising that much cash in their offerings. Lyft (ticker: LYFT) netted just $2.4 billion of cash in its [$20 billion IPO]. Uber Technologies (UBER) raised $8.4 billion from its [public-market valuation of $82 billion.]

Instead, their IPOs were primarily a transfer from private investors to public markets. That will become a more common phenomenon, if [Bank of America] Merrill Lynch's predictions are right.

That would leave a growing share of the market mostly out of reach for mom-and-pop investors—unless they invest in funds that buy private equity or debt. But many of those fund managers can only sell to sophisticated or institutional investors, and aren't allowed to take cash from smaller individual investors.

"Many retail investors don't have access to the same private or alternative markets given regulatory restrictions," writes Bank of America in a May 21 note. "Over time, this trend can limit investor returns and retirement savings."

Do You Know Which Nations Own Your Data? The U.S. Government Doesn't | Bloomberg (Joshua Kirschenbaum and David Murray)
The U.S. has always welcomed foreign capital – much to our economic benefit. But there is a hidden danger in the way we do business, and it's growing.

Washington knows shockingly little about foreign money flowing through the financial system, especially via private fund structures like hedge funds, venture capital and private equity, allowing foreign actors to make opaque investments that pose national security risks. Because the U.S. doesn't track these flows effectively, we don't know who owns government-issued debt, let alone who holds the trillions in outstanding corporate stocks and bonds or even which foreign actors invest directly in U.S. businesses.

While public attention has focused on the hacking and disinformation Russia deployed during the 2016 election, financial activity continues to be an integral part of Moscow's covert influence strategy. But the U.S. can secure its financial perimeter. Protecting national security demands financial transparency and an end to anonymous companies, anonymous investment and unsupervised money flows.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

The Morehouse Debt Cancellation And The Growing Black Student Debt Crisis | Vox
These pressures are even more pronounced for black students. An oft-cited 2017 analysis from the liberal Center for American Progress found that black students are significantly more likely than white or Latino students to take out student loans. The analysis also noted

that black students are more likely to default on a federal student loan within 12 years of starting college, and that by the time they default, these students owe more than the cost of their initial loan.

A Brookings Institution analysis published in 2018 found that black college graduates with bachelor's degrees default on their loans at five times the rate of white graduates (21 percent to 4 percent), and that a black college grad is more likely than a white college dropout to default on their loan.

While this is an issue for black students broadly, largely fueled by students attending two-year and for-profit colleges, research has shown that black HBCU students are especially vulnerable to student debt. An April 2019 report from the Wall Street Journal noted that the median HBCU alumni held roughly $29,000 in student debt by the time they graduated. That's 32 percent higher than the median for students from other four-year schools.

We Are Applauding The "Gift" Of An Affordable Education. Something Has Gone Wrong. | New York Times (Editorial Board)
Now history is repeating itself. A new generation of plutocrats has amassed great fortunes, in part because the federal government has minimized the burden of taxation. Americans once again are reduced to applauding acts of philanthropy necessitated by failures of policy.

Robert Smith, a wealthy financier, announced on Sunday during graduation ceremonies at Morehouse College that he would repay the student loans taken by the 396 men in this year's graduating class. The promise, which may cost Mr. Smith up to $40 million, was an act of generosity gratefully received by the new graduates of the historically black, all-male Atlanta college.

But their gratitude underscores the reality that hundreds of thousands of other members of the class of 2019 will be carrying unrelieved burdens of debt as they begin their adult lives.

SYSTEMIC RISK

Former Fed Heavyweight Blasts Trump-era Financial Deregulation | Washington Post Finance 202
President Barack Obama's financial regulatory czar is ringing the alarm over his successors' push to roll back post-crisis restrictions on big banks, moves he says could exacerbate the next major meltdown.

Daniel Tarullo, the Federal Reserve governor who spent eight years following the 2008-2009 crisis rewriting the Wall Street rule book, in a Monday speech denounced what he called the Trump era's "low-intensity deregulation" of the financial industry. He defined the phenomenon as a pileup of small tweaks to the existing regime, all ignored by the public, that taken together will undermine a system intended to prevent another devastating recession. After the current regulators have "moved on," he said, "somewhere down the line, someone else will suffer that damage. In all likelihood, it will once again be the most vulnerable of households and businesses."

The speech, delivered at Americans for Financial Reform in Washington, amounted to a rare rebuke of Tarullo's successors from the man the Wall Street Journal once called "the most powerful man in banking," and Wall Streeters themselves nicknamed "the Wizard of Oz" for his quiet power over their industry.

Read Tarullo's full speech here. The program of the event is here.

Small Changes To Stress Testing Could Have Big Impact On Risk, Tarullo Says | American Banker
Former Federal Reserve Gov. Daniel Tarullo broke his silence over several of the central bank's recent proposals to revamp regulations put in place in the wake of the financial crisis, saying incremental reductions in capital and other changes could reduce the financial system's resiliency.

Speaking at a conference sponsored by Americans for Financial Reform Tuesday, Tarullo — who is currently serving as a visiting professor at the Harvard Law School — acknowledged that the regulatory apparatus he helped establish after the financial crisis was far from perfect. But the changes that the Fed has proposed since his departure signal a reduction in regulatory constraints without any complementary changes that would ensure the banking system's resilience in the face of stress, he said.

"I don't at all think that the state of regulation when I left the Fed ... was the best it can be," Tarullo said. "But we had made considerable progress enhancing the resiliency of these largest banks, and at least putting a sizeable dent in the Too Big to Fail concern. Unfortunately, I feel that a good bit of that progress could be endangered by a kind of low-intensity deregulation, consisting of an accumulation of non-headline-grabbing changes and an opaque relaxation of supervisory rigor."

Wall Street Rules' Chief Architect Thinks The Fed Is Blowing It | Bloomberg
The "alpha dog" regulator who spearheaded Washington's effort to write new rules for Wall Street after the 2008 financial crisis said his successors are making a mess of the road map he left for them.

Former Federal Reserve Governor Daniel Tarullo, speaking at an event in Washington on Tuesday, said the agency is engaging in "low-intensity deregulation" that is sometimes easy to miss even as it weakens the banking system's resiliency. He cited the Fed's changes to stress testing -- backing off some key requirements while making the process more transparent -- as a prime example of steps to undermine the proposals he laid out as he left the central bank in 2017.

Last year, the Fed proposed integrating Wall Street's everyday capital demands with each bank's stress-test results, an idea Tarullo had worked on as far back as 2016. But he told an audience at the Americans for Financial Reform event that the agency's intent -- "buried in a footnote" -- to discard leverage limits from the new calculations "could result in effectively lowered capital requirements for some of the biggest banks."

The Weakening Of Big Bank Regulations Under Trump Are The Seeds Of The Next Financial Crisis | Forbes (Mayra Rodriguez-Valladares)
Based on working with banks and bank regulators for three decades, what keeps me up at night now? 19 consecutive quarters of rising household debt! American households now hold mortgage, auto loan, student, and credit card debt of $13.7 trillion which is $1 trillion about the 2008 peak. This level of indebtedness is the equivalent of about 68% GDP as opposed to an equivalent of 86% in 2008. Yet, we are so indebted at every level, that is, municipal, national level, corporate, commercial real estate, and at a household level. The more money banks lend especially at this late stage in the credit cycle, the more they increase their operational risk exposure. They let go of their underwriting standards, and they ignore controls.

Unfortunately, leveraged lending guidance has mostly been ignored since 2013. This has now led to a market of about $1.2 trillion. Banks are still the largest originators of leveraged loans and hold at least 50% of the collateralized loans, where the majority of leveraged loans get packaged into. Banks and non-banks are incredibly interconnected. Do not get complacent with this idea that banks are fine if leveraged loans implode.

Commercial real estate lending also has me concerned, because the credit quality of those loans has been deteriorating. This should not be a surprise given how adversely the retail and agriculture sectors have been hit.

Read: Systemic Risk Council Urges U.S. Treasury Not To Marginalize Power To Designate Non-Bank Lenders As Systemically Important

Powell Says He Sees 'Moderate' Risk From Corporate Debt | Associated Press
Federal Reserve Chairman Jerome Powell said Monday that the central bank is closely monitoring a sharp rise in corporate debt but currently does not see the types of threats that triggered the 2008 financial crisis.

In remarks to a banking conference in Fernandina Beach, Florida, Powell said views about riskier corporate debt — known as leveraged lending — range from "this is a rerun of the subprime mortgage crisis" to "nothing to worry about here."

He said his view lies somewhere in the middle. The risks currently are "moderate," Powell said.

His comments followed a Fed report earlier this month that showed riskier corporate debt had grown by 20% in 2018 to $1.1 trillion, prompting the attention of regulators.

The Danger Zones Of Leveraged Loans | Axios

Driving the news: The Federal Reserve and others, including Janet Yellen, have been worrying a lot about the rise in leveraged lending. High-risk, junk-rated loans to deeply indebted corporate borrowers now total well over $1 trillion, and already lawsuits have started flying after loans have gone bad. But unlike Greenspan's derivatives, leveraged loans are well-understood and held by institutions that understand their risks.

- Nobody's kidding themselves that these loans are safe. Defaults are priced in, with credit spreads already above their 20-year average, per the Fed.
- The biggest loan investors are banks and insurance companies, and the risk is dispersed enough that even significant financial losses on these loans would not cause a broader systemic risk. Elsewhere, CLOs comprise a very small part of most investors' asset allocation.
- $1 trillion is a lot of money, but it's small in comparison to the combined capitalizations of the Big Tech stocks. Investors in Facebook, Apple, Amazon, Netflix and Alphabet lost a total of $650 billion in the fourth quarter of 2018, with no systemic spillovers.

The US Banking System Is Flush With Cash But May Have A Problem | Reuters
Major U.S. banks stashed $1.2 trillion with the Fed as of January, even though they estimate they only need $700 billion in reserves, the central bank said here on Thursday, based on survey data covering much of the market.

Yet specific banks sometimes need more reserves than they have, pushing them to borrow. Strong demand for that funding could push the Fed's target federal funds rate up more than it wants, undermining its credibility.

Big banks required to meet strict liquidity requirements have been holding more reserves than regional banks that do not, Fed research here? earlier this year has found.

Bank Bailouts Propped Up The Financial System. But We Should Never Repeat Them. | Washington Post (Sheila Bair)
A decade after the massive government bailouts for Wall Street, some of the financial intelligentsia in New York and Washington no longer seem to view them as a bad thing. Rather than distasteful taxpayer handouts to reckless financial institutions, a new narrative holds that the extreme moves of 2008 and 2009 were heroic firefighting measures that the government should be ready to redeploy if the financial sector implodes again.

Bankers and Wall Street titans, for whom this argument carries obvious benefits, aren't the only ones making it, either. Even some leading economists are expressing sympathy for this view. But the main proponents of this idea are former treasury secretaries Hank Paulson and Timothy Geithner, and former Federal Reserve Board chair Ben Bernanke, key architects of the government's response to the financial meltdown. They recently co-authored a book to advance the point.

But let's be candid: While these massive bailouts were intended to help the real economy, they worked primarily to the benefit of Wall Street. They may have kept the financial system sputtering along, but the rationale — that bailing out the financial sector would help everyone else — didn't materialize. Rather than making big bailouts the norm, we should work to make sure that they never happen again. This was a terrible idea — a feat we should never repeat.

OCC Highlights Potential Risks For Banks Partnering With Fintechs | Politico Pro
The Office of the Comptroller of the Currency today urged banks to fully understand the risks of outsourcing critical operations to financial technology companies, as more lenders look to partner with fintechs.

"Innovation can enhance a bank's ability to compete by introducing new ways to meet customer product and service needs, improve operating efficiencies, and increase revenue," the agency said in its semiannual report on risks in the banking system.

"Changing business models or offering new products and services can, however, elevate strategic risk when pursued without appropriate corporate governance and risk management," it added.

TAXES

Donald Trump Pledges To Finally Roll Back The Carried Interest Loophole | Pitchbook
President Donald Trump is trying to fix the carried interest tax loophole. Again.

In an interview Sunday with Fox News, the commander in chief voiced his displeasure with the carried interest tax provision that allows a majority of private equity and hedge fund investors to have their profits be taxed at the capital gains rate of around 20%, rather than the ordinary income tax rate, which can be as much as 37%.

"I hated it," he said when asked about the capital gains provision.

"I would like to do it," he said of closing the loophole. "I will do it."

News Release: AFR And Take On Wall Street Applaud Inclusive Prosperity Act

Letter To Congress: Letter From 30 Groups In Support Of The Inclusive Prosperity Act Of 2019

Congresswoman Barbara Lee And Sen. Bernie Sanders Introduce Inclusive Prosperity Act To Curb Wall Street Greed | San Francisco Bay View
Today, Rep. Barbara Lee, D-Calif., and Sen, Bernie Sanders, I-Vt., introduced the Inclusive Prosperity Act along with Sen. Kirsten Gillibrand, D-N.Y., and more than a dozen House Democrats.

The legislation imposes a tax of a fraction of a percent on the trades of stocks, bonds and derivatives. This tax on Wall Street speculation, also known as a financial transaction tax, is estimated to generate up to $2.4 trillion in public revenue from wealthy investors over 10 years. An added benefit of the proposed tax is deterring the high-frequency trading that increases the instability of the financial sector and produces no economic value.

Wall Street enjoys record-breaking profits despite its role in triggering the financial crisis of 2008. The top 400 richest Americans now own more wealth than 150 million Americans – 60 percent of the country. Meanwhile, a typical middle-class family in America has seen its net worth decline by 30 percent from 2007 to 2016. More than 1,000 economists have endorsed a tax on financial speculation, and40 countries currently impose the tax, including Britain, which first instituted the tax on stock trades in 1694.

TurboTax Uses A "Military Discount" To Trick Troops Into Paying To File Their Taxes | ProPublica

In patriotism-drenched promotions, press releases and tweets, TurboTax promotes special deals for military service members, promising to help them file their taxes online for free or at a discount.

Yet some service members who've filed by going to the TurboTax Military landing page told ProPublica they were charged as much as $150 — even though, under a deal with the government, service members making under $66,000 are supposed to be able to file on TurboTax for free.

Liz Zimmerman is a mother of two teenage daughters and a toddler who lives with her husband, a Navy chief petty officer, in Bettendorf, Iowa, just across the river from the Rock Island military facility. When Zimmerman went to do her taxes this year, she Googled "tax preparation military free" and, she recalled in an interview, TurboTax was the first link that popped up, promising "free military taxes." She clicked and came to the site emblazoned with miniature American flags.

Meet The Fixers Pitting States Against Each Other To Win Tax Breaks For New Factories | Wall Street Journal

Georgia rolls out a red carpet for them at the Masters Golf Tournament. Kentucky gets them tickets to the Kentucky Derby. Arkansas takes them on a private duck hunt with the governor. Utah recently arranged a private ski trip with an Olympic medalist.

Such is the life of site selectors—consultants who jet around the country helping corporations decide where to build new headquarters, factories or expansion projects, often pitting communities against each other in multistate bidding wars to maximize tax breaks, grants, land deals and other incentives.

As communities across America race to win such marquee projects, these middlemen have quietly become some of the most powerful consultants in corporate America.

ELECTIONS, MONEY, AND POLITICS

Democrats Cozy Up to Wall Street While Shunning Corporate Cash | Bloomberg

In February, Pete Buttigieg stepped into the Manhattan office of Wall Street veteran Charles Myers to talk politics over deli sandwiches. Citigroup Inc. Managing Director Yann Coatanlem hosted a fundraiser in March for Kamala Harris at his Fifth Avenue apartment, where she shook the paw of the banker's labradoodle. Three days later, former Goldman Sachs Group Inc. partner Bruce Heyman raised more than $100,000 for Amy Klobuchar at his home in Chicago. He's planning an event for Joe Biden this fall.

The mayor of South Bend, Ind., the senators from California and Minnesota, and the ex-vice president are among the Democratic presidential candidates disavowing corporate cash, lobbyist checks, or the super PAC system. They're trying to outdo each other with promises to finance their campaigns with grassroots contributions. But while they play down the role of money and influence, longtime Wall Street donors who have both say little has changed. "I've talked to about half of them, and I have not run into a single one who said, 'Hey, you worked at Goldman Sachs, I can't take your money,' " says Heyman, who helped elect Barack Obama by collecting checks from friends, and later became his ambassador to Canada. "I've not heard that—ever."

Wall Street has long been a deep well from which presidential candidates draw hundreds of millions of dollars for advertising, travel, and staff. As the presidential race gears up, almost the entire Democratic field is hitting up the industry's donors, according to money manager Marc Lasry, who says he's already met with about 10 Democrats. "At the end of the day, candidates need money," says Lasry, who was a bundler for Hillary Clinton in 2016, runs Avenue Capital Group, and co-owns the Milwaukee Bucks.

Rep. Josh Gottheimer Is A Really, Really Terrible Boss, Former Staffers Say | The Intercept

The more extreme outbursts are often followed by quasi-apologies. One in particular, during his first year in Congress in 2017, stood out. After multiple staffers quit or threatened to quit, he agreed to do a conference call with his staff to apologize for his general behavior. Except, on the call, he never quite apologized, instead telling his aides that they should be proud of the work the office was doing. That was fine enough, but it was the specific work he identified that had staffers shaking their heads: Take deep pride, he said, in how much money we're raising. Nobody in his congressional office had gotten into politics to break fundraising records — as Gottheimer does routinely — and they simply stared at each other in disbelief. Raising money, several aides said, appeared to be the only thing Gottheimer genuinely cared about. In the first three months of 2019, he raised an astounding $830,000.

Most of the former aides I talked to brought up, unprompted, the coverage of how Sen. Amy Klobuchar, D-Minn., treats her own staff, saying that it all felt familiar — the shouting, the emotional manipulation, the chucking of office supplies, even down to what had become his catchphrases: "Are you out of your fucking mind?" and "Are you high?"

OTHER TOPICS

'They Were Conned:' How Reckless Loans Devastated A Generation Of Taxi Drivers | New York Times

The phone call that ruined Mohammed Hoque's life came in April 2014 as he began another long day driving a New York City taxi, a job he had held since emigrating from Bangladesh nine years earlier.

The call came from a prominent businessman who was selling a medallion, the coveted city permit that allows a driver to own a yellow cab instead of working for someone else. If Mr. Hoque gave him $50,000 that day, he promised to arrange a loan for the purchase.

After years chafing under bosses he hated, Mr. Hoque thought his dreams of wealth and independence were coming true. He emptied his bank account, borrowed from friends and hurried to the man's office in Astoria, Queens. Mr. Hoque handed over a check and received a stack of papers. He signed his name and left, eager to tell his wife.

Mr. Hoque made about $30,000 that year. He had no idea, he said later, that he had just signed a contract that required him to pay $1.7 million.

Who Is Derek Kan? White House Is Considering Him For Fed Reserve Board | Fortune
The White House is considering Derek Kan, an undersecretary at the Department of Transportation, for one of two open seats on the Federal Reserve Board, according to two people familiar with the matter.

Kan, who has been a senior adviser to Transportation Secretary Elaine Chao since 2017, has served on the board of directors for Amtrak and was previously general manager of ride-hailing company Lyft Inc. He earned his MBA from Stanford University and studied economic history at the London School of Economics, according to a profile on the Department of Transportation website.President Donald Trump has struggled to find candidates for the Fed that are acceptable to the senators who vote to confirm them. Trump has named four people for the two open seats on the board of governors. None of them has made it through the Senate, raising questions about the White House vetting process for his picks.

According to the Transportation Department, Kan coordinates budget and policy development for Chao. Earlier in his career, he was an adviser to Senate Republican Leader Mitch McConnell and was chief economist for the Senate Republican Policy Committee.

Trump Fed Nominee Backs Policies That Would Crash The Economy | Forbes
Take his latest pick, Judy Shelton, chosen after the attempted appointment of Stephen Moore collapsed following footage of him making incredibly misogynistic and racist comments.

Shelton's views on interest policy and currencies aren't just arcane, destructive and out of the mainstream. They also run directly counter to Trump's own calls for the Fed not to raise interest rates and, most recently, for them to reduce borrowing costs to boost growth and help the administration achieve its elusive 3% growth target.

And they contradict Trump's nationalist approach to economic relations by calling for a new international treaty on currencies that would essentially take drag the world economy back into some kind of gold standard, effectively shoving it totally needlessly into deep depression.

Deutsche Bank Saw Suspicious Activity In Trump And Kushner Accounts | New York Times
Real estate developers like Mr. Trump and Mr. Kushner sometimes do large, all-cash deals, including with people outside the United States, any of which can prompt anti-money laundering reviews. The red flags raised by employees do not necessarily mean the transactions were improper. Banks sometimes opt not to file suspicious activity reports if they conclude their employees' concerns are unwarranted.

But former Deutsche Bank employees said the decision not to report the Trump and Kushner transactions reflected the bank's generally lax approach to money laundering laws. The employees — most of whom spoke on the condition of anonymity to preserve their ability to work in the industry — said it was part of a pattern of the bank's executives rejecting valid reports to protect relationships with lucrative clients.

"You present them with everything, and you give them a recommendation, and nothing happens," said Tammy McFadden, a former Deutsche Bank anti-money laundering specialist who reviewed some of the transactions. "It's the D.B. way. They are prone to discounting everything."

Once Dismissive Of Fintechs, Traditional Lenders Now Feeling The Bite | American Banker
A few years ago, many credit card and bank executives were relatively dismissive about competition from online lenders like Lending Club and Prosper, saying they were not affecting their card portfolios because their volumes weren't high enough to make a difference.

Fast-forward to this week at Card Forum, and bankers and card executives are now singing a different tune, arguing that fintechs a force to be reckoned with.

Wayne Best, chief economist at Visa, said that unsecured installment lending picked up in 2018 — and much of that was due to fintechs.

"In 2010, fintechs were about 1% of the total," he said. "In 2018, it was close to 40%. This has to have an impact."

'Playing Catch-Up In The Game Of Life:' Millennials Approach Middle-Age In Crisis | Wall Street Journal
American millennials are approaching middle age in worse financial shape than every living generation ahead of them, lagging behind baby boomers and Generation X despite a decade of economic growth and falling unemployment.

Hobbled by the financial crisis and recession that struck as they began their working life, Americans born between 1981 and 1996 have failed to match every other generation of young adults born since the Great Depression. They have less wealth, less property, lower marriage rates and fewer children, according to new data that compare generations at similar ages.

Even with record levels of education, the troubles of millennials have delayed traditional adult milestones in ways expected to alter the nation's demographic and economic contours through the end of the century.

JP Morgan Cuts Ties With OxyContin Maker Purdue Pharma | CNBC
J.P. Morgan Chase has ended its relationship with Purdue Pharma over its alleged role in the U.S. opioid crisis, a person familiar with the matter told CNBC on Thursday.

J.P. Morgan, the largest U.S. bank by assets, becomes the most high-profile corporation known to have disassociated itself from the OxyContin maker, forcing Purdue to look for other banks to manage its bills and cash. Reuters first reported the move Thursday.

Purdue, owned by the wealthy Sackler family, faces thousands of lawsuits claiming that the company marketed addictive painkillers while underplaying the risks of abuse and overdose.

Watch: How The Dankse Bank Money Laundering Scheme Involving $230 Billion Unraveled | 60 Minutes

Podcast: What Andrew Carnegie's Philanthropy Can Teach Us About Today's Superrich | Future Perfect
White argues, as do many, that there are profound parallels between the first Gilded Age and the current moment, from exploding inequality to rising corporate power to racist backlashes against immigrants and black Americans.

On the premiere of season two of the Future Perfect podcast, White explains there's also a parallel in how the wealthy of that era, and the current era, responded to these crises.