This Week in Wall Street Reform | June 8 - 14

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Rewrite of Bank Rules Advances Slowly, Frustrating Republicans | Wall Street Journal

Trump-appointed regulators came into office saying they would pare back Wall Street's postcrisis rulebook. More than two years into the administration's tenure, most of the work remains unfinished, particularly for the biggest banks.

Daniel Tarullo, the Fed's regulatory point-person during the Obama administration, in May said postcrisis rules "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."

Warren Probes Freddie-Backed Loan to Kushner Family Firm | Politico Pro

Sen. Elizabeth Warren is calling on government-owned mortgage financier Freddie Mac to provide details on its reported backing of an $800 million loan to the real estate firm owned by White House adviser Jared Kushner's family.

The loan "raises serious questions about conflicts of interest and whether Kushner Companies may have received special treatment from Freddie, which is currently in government conservatorship," Warren (D-Mass.) and Sen. Tom Carper (D-Del.) wrote Thursday to Freddie CEO Donald Layton in a letter obtained by POLITICO.

Kushner Cos. obtained the loan from mortgage lender Berkadia to purchase more than 6,000 apartment units in Maryland and Virginia, according to a report in May by Bloomberg, which cited an unidentified person familiar with the matter. Freddie Mac guaranteed the loan, Bloomberg said.

CONSUMER FINANCE AND THE CFPB

Lawmaker Challenges Dimon Over JPMorgan Arbitration Plan | Bloomberg

U.S. Representative Katie Porter is butting heads with Jamie Dimon again.

The Democrat from California claims the bank's new policy of making credit-card customers use arbitration instead of the courts to resolve payment disputes violates her state's laws.

"Consumers and your bank should be able to choose arbitration to resolve a dispute but not be forced into such an arrangement merely by failing to wade through pages of disclosure," according to a copy of the letter sent Thursday to Dimon, JPMorgan's chief executive officer.

Watchdog Agency Must Pick a Side: Consumers or Scammers | The Hill (Linda Jun and Christine Hines)

Thanks to the work of the Consumer Financial Protection Bureau (CFPB), Shirley Banks of Greenville, Miss. received a $1,000 check in the mail in 2016.

Hundreds of thousands of other people got help from the CFPB, too. But today's leadership of this vital agency is demonstrating how government can abandon the goals Congress set out for it, and betray the people it should protect.

Kathleen Kraninger, who has helmed CFPB for a scant four months, is unfortunately already making a name for herself as someone willing to let the bad guys off the hook. She is a protégé of Mick Mulvaney, who spent much of 2018 doing his best to lay waste to the CFPB's work and structure as its acting director.

CFPB Celebrates Record of Consumer Protection — Except for the Whole Watchdog Thing | LA Times (David Lazarus)

Kathleen Kraninger marked her first six months as head of the Consumer Financial Protection Bureau this week, and the agency celebrated by releasing a scorecard of her accomplishments.

The listed achievements highlight Kraninger's stated goal of shifting the bureau to more of an educational role, rather than being at the forefront of holding businesses accountable for illegal or abusive practices.

They also illustrate what consumer advocates have been saying since President Trump took office: The Consumer Financial Protection Bureau is now barely in the consumer-protection game.

Top CFPB Official Pledges More Guidance, Targeted Enforcement | Politico Pro

Consumer Financial Protection Bureau Deputy Director Brian Johnson pledged today that the agency will provide more guidance to both consumers and the market about its approach to the law, the latest signal that the CFPB will make its enforcement more targeted.

"We've been charged with going after bad actors," Johnson said at an event at the libertarian Cato Institute, in his first major speech. "To the extent that we can provide guidance ex-ante so that people can conform their behavior to the requirements of the law, that means that we can focus our finite resources on going after those who really just don't have any interest in obeying the law."

Johnson's comments echoed the approach emphasized by both Director Kathy Kraninger and her predecessor, forming acting director Mick Mulvaney, who repeatedly said the bureau would no longer conduct "regulation by enforcement" and instead provide clear rules of the road to industry.

News Release: Consumer and Civil Rights Groups Send Letters to FDIC, OCC, and Fed Urging them to Prevent Bank Payday Loans

Predatory Lenders Want to Kill AB 539. Will Fat Checks to Key Senators Pay Off? | Sacramento Bee (Editorial Board)

How much greed is enough? That's the question legislators in Sacramento must ask the predatory loan industry – and themselves – when it comes to Assembly Bill 539.

AB 539 would bar the predatory lenders, like some payday loan companies, from imposing outrageous interest rates on people who borrow between $2,500 and $10,000. Currently, a person who takes a "high-cost installment loan" of over $2,500 can face triple-digit interest rates of 200 percent or more.

The Obama Administration had moved to crack down on predatory loans nationally, but the industry is enjoying a resurgence under the Trump Administration – and for good reason. A recent ProPublica investigation revealed how payday lenders, seeking to curry favor with Trump, "have poured a total of $1 million into the Trump Organization's coffers through the two annual conferences."

The cash infusions are a way of "reminding the president and the people close to him that they are among those who are generous to him with the profits that they earn from a business that's in severe danger of regulation unless the Trump administration acts," Americans for Financial Reform Executive Director Lisa Donner told ProPublica.

California Legislation to Limit Predatory Lending Excludes Three Lenders | California Globe

AB 536 attempts to limit the interest rates on these types of loans to 36 percent. However, three lenders, OneMain, Opportun, and Lendmark, listed as supporters of AB 539, also appear to be exempted from the bill merely because they already cap their interest at 36 percent. But these lenders understate their APRs through aggressive selling of add-on products, according to a recent Pew study. These add-on products are considered predatory because borrowers are unaware of how they impact the actual cost of the loan – a technicality left out of this bill.

McWilliams: Banking Agencies Debating Approach to Encouraging Small-Dollar Loans | Politico Pro

FDIC Chairman Jelena McWilliams today said regulators are trying to decide whether to put forward guidance or a formal regulation to encourage banks to offer small-dollar loans.

"If we do this by a rulemaking, it would have to be by its very nature more prescriptive," McWilliams told reporters on the sidelines of a Cato Institute conference. "If you tell [banks] there's only three ways to do this, will they do it?"

"If you do guidance, you can be less prescriptive and give them a little bit more of a framework without pinpointing the exact benchmarks," she added. "Is that a bad thing? That's open for discussion as well."

Wisconsin Tribal Lender Slammed With RICO, Usury Lawsuit | Law360

A proposed class of consumers asked the Judicial Panel on Multidistrict Litigation on Friday to combine eight lawsuits accusing Big Picture Loans LLC of taking advantage of the sovereign legal status granted to Native American tribes in order to charge unreasonably high interest rates on online loans.

Big Picture is charging illegal triple-digit interest rates on loans targeting vulnerable consumers while attempting to avoid usury laws by affiliating itself with a tribe, the proposed class alleges. The consumers say the payday lender employed a "rent-a-tribe" scheme, in which the lender is trying to shield itself from state and federal law through tribal immunity.

They also requested to transfer the cases to the U.S. District Court for the Eastern District of Virginia, where they would join three other similar but more advanced cases, in order to better coordinate litigation against the online lender.

Amazon Launches a Credit Card for the ‘Underbanked’ With Bad Credit | CNBC

Amazon is finding a way to get its rewards credit card in the hands of more people.

The e-commerce giant partnered with publicly traded bank Synchrony Financial to launch “Amazon Credit Builder” — a program that lends to shoppers with no credit history or bad credit, who would otherwise be exempt from Amazon’s loyalty cards.

“There’s always going to be people that we can’t give credit to — this is a large population that we weren’t able to reach,” Tom Quindlen, Synchrony executive vice president and CEO of the bank’s retail card operation, told CNBC in a phone interview. “It’s a new segment of the market.”

The card has the same perks, like 5% cash back on purchases, that come with the popular Amazon Store card, which Synchrony also powers. These rewards cards incentivize shoppers to use Amazon instead of an alternative and helps drive loyalty within its customer base, Quindlen said. Banks such as J.P. Morgan have also bet on rewards cards that would theoretically make customers spend more and in turn bring in more interest and returns.

As Consumer Protections Dwindle, Schools Push Financial Literacy | The American Prospect

The movement mirrors a similarly vigorous push in Washington to promote financial literacy. In just 2019, Congress introduced at least six pieces of legislation to promote financial education — ranging from a House resolution to "support the goals and ideals of Financial Literacy Month" (which falls in April) to a Senate bill that competitively awards grants to school districts that teach financial literacy.

The push has gained even more momentum thanks to Kathy Kraninger, the new head of the Consumer Financial Protection Bureau. She announced in April that her federal agency will focus less on enforcement action and more on education.

But critics counter that nothing would make financial institutions happier than placing the onus of responsibility on individual consumers. Indeed, some of the most enthusiastic backers of financial literacy come from the financial services industry itself—with banks, investment firms, and insurance companies eager to sponsor trainings and school curricula, even as they lobby hard against regulation for their own businesses.

Read: Elizabeth Warren Writes To Regulators About Policing Racial Bias In FinTech Algorithms

Senate Dems Want Answers On Fintech Algorithm Bias | Law 360

U.S. Sens. Elizabeth Warren, D-Mass., and Doug Jones, D-Ala., have sent a letter to the nation's top financial regulators asking how they plan to combat potential ethnic bias embedded in financial technology algorithms, according to a Wednesday announcement.

The senators said their letter, which was sent Monday, was inspired by a paper written last year by a team of University of California, Berkeley researchers. That paper found fintech algorithms may be more likely to approve minorities for mortgages than human loan officers, but are just as likely to overcharge them as their flesh-and-blood counterparts.

DERIVATIVES AND THE CFTC

Hedge Fund Secrets Shared With Regulators May Be At Risk | Bloomberg

Confidential market information collected from hedge funds and brokers by the main U.S. derivatives regulator is vulnerable to hacking because of the agency's outdated computer systems, according to an internal watchdog.

The Commodity Futures Trading Commission needs to correct "numerous weaknesses" in the way it manages and stores data, the inspector general's office said in an audit report released late last week. The review also said the CFTC needs to rebuild or replace a key, but antiquated, database of confidential trading positions that it uses to police futures and options markets.

Such programs “remain in use because they are considered irreplaceable mission-critical systems with highly sensitive data,” the IG’s office said in the report, parts of which were blacked out because of security concerns. “We believe this may result in a larger risk factor and tempting target for exfiltration.”

CFTC Postpones Contentious ‘Position Limits’ Rulemaking Again | Politico Pro

The Commodity Futures Trading Commission has once again postponed its long-running effort to write a rule aimed at curbing speculation in energy commodities.

In a statement to POLITICO, CFTC spokesperson Erica Elliott Richardson said that despite staff work on the so-called position limits rule proposal over the past year, "it may not be possible to present the proposal to the Commission until early autumn 2019" after Chairman Chris Giancarlo departs from the derivatives regulator.

Previous iterations of position limits drafts have sought to cap excessive speculation in certain derivatives tied to physical commodities while at the same time allowing companies to use the contracts for other commercial purposes.

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

Letter to Regulators: New Jersey Investor Protection Rule Would Fill Regulatory Void

Reg BI is a Gift to ‘Wolves of Wall Street,’ says Tech CEO | Financial Planning

As Wall Street applauds the passage of the Regulation Best Interest standard, chiefs of a number of digital financial services firms are voicing concerns about the stringency of the SEC standard and the impact it may have on the future of wealth management technology.

The rule, which passed by a margin of three-to-one last week, will soon dictate how advisory firms offer investment services and, in turn, how wealthtech firms build out new technologies. But it seems to have fallen well short of its goals of increased transparency, protection for individual investors and greater, cheaper access to investment advice, critics say.

“Unfortunately, this misleadingly titled rule may best serve the marketing interests of large financial corporations to the detriment of individual investors,” said Betterment CEO Jon Stein, in an email. “It is a gift of sheep’s clothing to the wolves of Wall Street."

New Rules for Financial Advisers Protect Wall Street — Not You | MarketWatch

“Self-regulation” is the worst kind of oxymoron. Letting the energy industry write pollution laws and food producers write sanitary rules is just nonsense. Only in Washington would that be called “efficient.”

The technical term for this problem is regulatory capture, a fancy way of saying the true cop on the beat has been sent home for the night. That’s what we just got from the U.S.

Securities and Exchange Commission (SEC), the supposed regulator of Wall Street, on financial adviser behavior. The result is something called “Regulation Best Interest” or Reg BI. I’ll quote the Consumer Federation of America’s Barbara Roper directly here:

“The SEC is throwing ‘Mr. and Ms. 401(k)’ under the bus,” Roper says.

Rounds, Tillis Ask SEC to Stop Stock Market Trading Pilot | Politico Pro

Two Senate Republicans are pressing the Securities and Exchange Commission to stop its pilot program aimed at limiting rebate fees that stock exchanges pay to traders, escalating one of the most contentious disputes facing the agency.

In a letter to SEC Chairman Jay Clayton, Sens. Thom Tillis (R-N.C.) and Mike Rounds (R-S.D.) raised concerns about the "transaction fee pilot," which was adopted in December.

The pilot will start a test that replaces the "maker-taker" payment model that exchanges routinely use. In the model, exchanges offer fees and rebates to traders to entice them to increase trading at their venues. The pilot would test capping fees at various rates — as well as banning the fees altogether to measure which one works best.

PRIVATE FUNDS

Intel Gets Supreme Court Review of 401(k) Private Equity Case | Bloomberg Law

Intel Corp. convinced the U.S. Supreme Court to hear a case by an employee challenging the alternative investments, including hedge funds and private equity, in the company’s 401(k) plan.

The dispute asks when the clock starts running on the deadline to file a lawsuit under the Employee Retirement Income Security Act. In reviving the case against Intel, the Ninth Circuit adopted an employee-friendly approach that would allow more ERISA lawsuits to move forward.

Private Equity Firm Buying Shutterfly For $1.74 Billion | ABC News

Private equity firm Apollo Global Management is buying online photo publishing company Shutterfly for $51 per share.

Apollo will pay $1.74 billion for the 20-year-old company, which became popular offering its users prints and photobooks of their favorite shots. But demand for that type of service has declined as people opt to share photos online through Facebook and other social networks.

Pro Rata: Top Of The Morning | Axios

Private equity is again under fire for bankrupting a longtime retailer and stiffing its employees.

- At issue this time is Shopko, a Wisconsin-based discount chain that was acquired by Sun Capital Partners in 2005 for around $1.1 billion. In January it filed for Chapter 11 bankruptcy protection and later opted to liquidate after failing to find a buyer.

- Shopko employed around 14,000 people at the time of bankruptcy, operating 360 stores in 26 states.

Shopko Workers Are Latest Demanding PE Firms Pay Up After Retailer Fails | Bloomberg

Employees of bankrupt department-store chain Shopko Stores Inc. are demanding the company's private equity sponsor provide severance to workers impacted by its liquidation, according to a statement released Friday.

Shopko employees -- organizing through the labor non-profit United for Respect -- released an open letter to Sun Capital Partners Inc. executives Marc Leder and Rodger Krouse on Friday to make their appeal.

"Many of us have been left jobless and struggling to survive without severance for our years of service, and we are writing to you to demand accountability for Sun Capital's actions," read the letter, which asked that executives set up a fund for employees affected by the closures of the chain's 350-plus stores.

Shopko Employees Left Jobless After Latest PE Retail Shelling | PitchBook

When retail department store chain Shopko filed for Chapter 11 in January, it didn't generate the same level of attention that Toys R Us did when it shuttered its operations in 2018.

But like with Toys R Us, employees of the soon-to-be-defunct company made public their issues with their private equity owners. And late last week, about 700 Shopko employees reportedly wrote an open letter with nonprofit labor union United for Respect to former Shopko owner Sun Capital Partners. The gist: They want the private equity firm to set up a fund for workers who lost their jobs after the company announced in March that it would close its remaining stores. The Wisconsin-based retailer is expected to shutter its final locations by June 23.

The strategy worked to a degree for former Toys R Us employees, which received a $20 million compensation fund from former owners Bain Capital and KKR last November to make up for unpaid severance. The workers were seeking $75 million, but creditors Angelo Gordon and Solus Alternative Investment declined to contribute to the vehicle after opting to liquidate operations.

Private Equity Managers Are Increasingly Turning To Loans Instead Of Investors | Institutional Investor

Use of subscription credit lines — short-term loans used to fund deals — has more than tripled among private equity funds, according to a new report from alternatives data firm Preqin.

According to Preqin, 47 percent of private equity funds launched in 2010 and later have utilized subscription credit facilities. By comparison, just 13 percent of funds launched before 2010 used the short-term financing tool.

Subscription credit lines are typically used by fund general partners in order to delay calling in committed capital from their limited partners, or investors. It's a practice that critics such as Oaktree Capital Group co-chairman Howard Marks and the Institutional Limited Partner's Association have warned could artificially inflate performance figures.

Greed, Mismanagement And Private Equity: How Iconic LGBTQ Magazine "Out" Almost Died | Vice News

With the World Pride celebration in New York looming later this month, a slow-moving disaster at Out magazine, a glossy title that has chronicled queer culture for more than a quarter-century, came to a head last week.

The timing, one senior staffer groused, "is the ultimate fucking irony."

The immediate crisis that threatened Out — and left people throughout parent company Pride Media worried it could go bust — has apparently been averted for now. Top brass say an eleventh-hour capital infusion will allow them to finally make back payments to contributors, vendors, and partners totaling several hundred thousand dollars.

But the turmoil that led to this point has left a trail of disillusionment in its wake. Out's reputation has been tarnished among the community of freelancers that produce many aspects of the magazine. Top brass' unkept promises bred distrust among employees past and present. The situation pushed some staffers still at the iconic LGBTQ publication to polish their resumes. Phillip Picardi, the Conde Nast-bred wunderkind brought on last year to be Out's editor-in-chief, had even threatened to leave if the payments weren't made, according to three people at Pride Media.

MORTGAGES AND HOUSING

HUD Declares FHA is No Longer Backing DACA Mortgages | HousingWire

After months and months of uncertainty about whether the Federal Housing Administration is backing mortgages for Deferred Action for Childhood Arrivals recipients or not, the Department of Housing and Urban Development has finally given an official answer. And that answer is no.

In a letter sent this week to Rep. Pete Aguilar, D-CA, HUD Assistant Secretary for Congressional and Intergovernmental Relations Len Wolfson stated definitively that Dreamers are not eligible for FHA mortgages.

"Determination of citizenship and immigration status is not the responsibility of HUD and the Department relies on other government agencies for this information," Wolfson said in the letter to Aguilar (which was reported first by Buzzfeed).

FHA Is Increasing Lending To Risky Borrowers | HousingWire

Citing rising risks among the mortgages it is backing, the Federal Housing Administration earlier this year announced that it was changing some of its lending rules to increase the prevalence of manual underwriting.

The idea behind the change is to look more closely at the FHA loans that are being originated in the market to try to lessen the risk facing the FHA's flagship insurance fund.

And it seems like those changes may be more than warranted because new data released Friday by the FHA shows that the agency appears to be loosening its lending standards and backing loans for increasingly riskier borrowers.

Calabria Warns Of Risks Posed By Nonbank Lenders | Politico Pro

Federal Housing Finance Agency Director Mark Calabria sounded the alarm about nonbank institutions' growing share of the mortgage market Thursday as he pledged to develop better counterparty risk standards at Fannie Mae and Freddie Mac.

Nonbank institutions, which are subject to less regulation than banks, account for about 60 percent of the mortgages sold to one of the government guarantee programs, he noted, up from 30 percent in 2013.

"From a risk perspective, there are some key differences between banks and nonbanks that we need to address," said Calabria at an industry conference held by Ginnie Mae in Washington.

Ocwen All But Drops Ocwen Name, Will Operate As PHH Mortgage And Liberty Home Equity Solutions | HousingWire

Ocwen Financial announced Monday that it has hit two milestones enabling the company to officially service loans through its two primary brands: PHH Mortgage for forward servicing and lending, and Liberty Home Equity Solutions for reverse lending and servicing.

Ocwen said it completed the final phase of transferring approximately one million loans from REALServicing to Black Knight LoanSphere, a move it announced it was making back in 2017 after a lawsuit with the Consumer Financial Protection Bureau revealed a host of issues – and quoted Ocwen's head of servicing describing REALServicing as "ridiculous" and a "train wreck."

Landmark Deal Reached On Rent Protections For Tenants In N.Y. | New York Times

Newly empowered Democratic leaders in Albany announced a landmark agreement on Tuesday to strengthen New York's rent laws and tenant protections, seeking to address concern about housing costs that is helping drive the debate over inequality across the nation.

The changes would abolish rules that let building owners deregulate apartments, close a series of loopholes that permit them to raise rents and allow some tenant protections to expand statewide.

The deal was a significant blow to the real estate industry, which contended that the measures would lead to the deterioration of the condition of New York City's housing. The industry had long been one of the most powerful lobbies in Albany, but it suffered a loss of influence after its Republican allies surrendered control of the State Senate in the November elections.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Twitter: Reps Question Ex-Navient VP and NCLC Attorney on Navient's Role in Student Loan Crisis

DeVos' Student Aid Chief Quits Foundation Board Following Conflicts Of Interest | Politico

The Education Department appointee who oversees the government's $1.5 trillion student loan portfolio on Tuesday stepped down from the board of an organization that owns some of that debt, after POLITICO asked about a potential conflict of interest.

Mark Brown, a retired major general in the U.S. Air Force, in March was selected by Education Secretary Betsy DeVos to be the new head of the department's Office of Federal Student Aid. Until Tuesday, he also served as an unpaid member of the board of directors of KnowledgeWorks, a non-profit foundation that holds about $30 million in federally guaranteed student loans.

Several ethics experts said that arrangement raised concerns about a potential conflict of interest because Brown's unit is responsible for regulating and overseeing student loans backed by the government, including those that are owned by KnowledgeWorks.

DeVos, Unions Drive Democratic Candidates to Back Away from Charter Schools | NBC

In 2009, a newly-elected President Barack Obama called on lawmakers to remove limits on charter schools, saying it "isn't good for our children, our economy, or our country" to hinder their growth. Ten years later, Sen. Bernie Sanders, I-Vt., announced an almost mirror-image position: A national moratorium on federal funding for charter schools pending an audit, and a ban on for-profit charter schools.

"Charter schools are led by unaccountable, private bodies, and their growth has drained funding from the public school system," his campaign said in a press release.

He's hardly alone. At an education event in Iowa on Saturday, in South Bend, Indiana, Mayor Pete Buttigieg sounded a skeptical note about charter schools. Several candidates, including former Vice President Joe Biden and Sen. Elizabeth Warren, D-Mass., have also criticized for-profit charters, a narrower status that the National Alliance for Public Charter Schools claims applies to only 12 percent of schools. The dominant stance in the field, however, has been indifference.

Betsy DeVos, Meet Ralph from Comcast | Republic Report

Ralph, a Comcast technician, just spent two hours at my house working really hard and fixing my cable after another Comcast tech yesterday broke it while trying to upgrade my services. He's an intelligent, diligent young man who clearly takes pride in doing a good job.

Before leaving, Ralph told me he dreamed of being an audio engineer, attended the now-defunct Art Institute of Washington, DC from 2007-2011, never got the classes he was promised when he enrolled, was pushed by school administrators into high-interest private loans in addition to his federal loans, and now owes over $100,000 for an associates degree that did nothing for his career. Ralph said with such interest rates on the private loans, he is simply not paying down the principle.

Executives and investors like Todd Nelson, John McKernan, Ed West, Mark McEachen, and Jeffrey Leeds, who got rich off EDMC, the company that previously owned the Art Institutes, should have to meet face to face with people like Ralph, along with members of each of their families, to discuss higher education. For that matter, I'd like Betsy DeVos, Diane Jones, Virginia Foxx, Steve Gunderson, Mitt Romney, and other protectors of predatory colleges to be there, along with their families.

Report: Student Loan Debt Thwarts Do-Over For Many Bankruptcy Filers | Diverse Education

Millions of Americans have filed Chapter 7 bankruptcy to eliminate crippling debt and get a fresh financial start, but nowadays it isn't unusual for people to come out of the process still owing much of their debt in the form of student loans, according to a report issued Tuesday by LendEDU.

Based on anonymized data from 1,083 bankruptcy cases across the nation supplied by Upsolve, a nonprofit that helps low-income people file for Chapter 7 bankruptcy free of charge, 32 percent of filers had student loan debt.

Among those one in three consumers, student loans on average comprised 49 percent of their total debt, which left them with about half of their debt because student loan debt is almost impossible to discharge in bankruptcy.

Democrats Push for Tougher Oversight on Student Loan Market | The Hill

Democratic lawmakers at a House hearing on Tuesday pushed for tougher oversight of companies handling student loans.

The hearing before the House Financial Services Subcommittee on Oversight and Investigations addressed what critics say is predatory behavior within the $1.5 trillion student loan servicing market.

Democrats pushed for Congress to impose responsibilities so that loan servicers must provide better advice to student borrowers. Under current Department of Education rules, federal student loan servicers are not legally obligated to inform borrowers which loan repayment plans are most beneficial for them.

Warren Bill Would Wipe Out Nearly All Student Debt In Us | The Hill

Sen. Elizabeth Warren (D-Mass.) on Thursday announced a bill that would forgive billions of dollars in outstanding student loans and wipe out almost all student debt held in the U.S.

Warren's bill would forgive up to $50,000 in student loan debt for anyone with a total household income below $100,000. Debtors with between $100,000 and $250,000 in total household income would have less of their debt eliminated the closer they are to the upper limit on eligibility for forgiveness.

SYSTEMIC RISK

Letter To Regulators: Comment on Bank Ownership of Unsecured G-SIB Debt | Americans For Financial Reform

US Regulators Ill Prepared for Next Downturn | Financial Times

Central bankers have been warning that rising levels of corporate debt pose risks to the financial system because they could amplify a downturn. Some private-sector investors whisper that the downturn is on the horizon and could be ugly. They cite a witches' brew of leverage, too much money chasing too few deals and the growing trade war.

The US faces an additional risk — unless we address a crucial mistake that was made in the aftermath of the 2008 crisis, the next downturn could have a calamitous impact.

Risky Borrowing is Making a Comeback, But Banks Are On the Sideline | New York Times

A decade after reckless home lending nearly destroyed the financial system, the business of making risky loans is back.

This time the money is bypassing the traditional, and heavily regulated, banking system and flowing through a growing network of businesses that stepped in to provide loans to parts of the economy that banks abandoned after 2008.

It's called shadow banking, and it is a key source of the credit that drives the American economy. With almost $15 trillion in assets, the shadow-banking sector in the United States is roughly the same size as the entire banking system of Britain, the world's fifth-largest economy.

Regulators Alarmed by Risky Loans, But Don't Know Who Holds Them | Bloomberg

The steady drumbeat of warnings over the surge in risky corporate borrowing is growing louder and louder. Time and again, regulators in the U.S. and Europe have pointed to the hazards of businesses taking on too much debt.

At issue is the $1.3 trillion leveraged lending market, composed of high-yield loans from firms with some of the weakest finances. While Federal Reserve and European Central Bank officials have drawn attention to these heavily indebted companies and the deteriorating standards of loans bundled into securities called CLOs, most regulators are careful to say a repeat of 2008 is unlikely because investors, rather than the banks they oversee, hold most of the debt.

[Those Burgers and Tacos Are Actually Backing Bonds](#) | Bloomberg

Wendy's. Domino's. Dunkin'.

Jimmy John's. Taco Bell. Sonic.

Applebee's. IHOP. Five Guys. Arby's.

Chances are most Americans know at least some of these restaurant chains, if not all of them. Combined, they have more than 60,000 stores with hundreds of thousands of workers at their franchisees. They all have an operating history that spans more than three decades.

What's perhaps less well known is that they've been something of pioneers on Wall Street. Together, they and others like them back the overwhelming majority of esoteric asset-backed securities known as "whole business securitizations," which have quietly become a large and growing part of the structured-finance market. They ring of the kind of alchemy that contributed to the financial crisis, but they are likely to remain popular with yield-hungry investors.

Democrats Are Right to Keep Pressing for Leveraged Loan and CRA Data | Forbes (Mayra Rodriguez-Valladares)

Democrats are right to keep pushing for more information and data about leveraged loans and collaterialized loan obligations(CLOs). Tuesday's hearing was a very good start to what is likely to be a lengthy fact finding mission. Leveraged loan and CLO markets are very opaque. In order to figure out how much banks are holding in these two financial products, you have to look at each bank's financial statements or regulatory call reports. And to figure out the risk weighting of their securitizations, such as CLOs, you have to analyze banks' Basel III Pillar III disclosures. Even harder is to find how much insurance companies, pensions, university endowments, business development companies, private equity, and other non-banks are holding in leveraged loans and CLOs. And granular data for how exposed banks are to those non-banks is practically impossible to find.

Climate Change Poses Major Risks to Financial Markets, Regulator Warns | New York Times

A top financial regulator is opening a public effort to highlight the risk that climate change poses to the nation's financial markets, setting up a clash with a president who has mocked global warming and whose administration has sought to suppress climate science.

Rostin Behnam, who sits on the federal government's five-member Commodities Futures Trading Commission, a powerful agency overseeing major financial markets including grain futures, oil trading and complex derivatives, said in an interview on Monday that the financial risks from climate change were comparable to those posed by the mortgage meltdown that triggered the 2008 financial crisis.

How an Obama Fed Appointee is Scuttling Wall Street's Bid to Ease Rules | Reuters

As a U.S. Federal Reserve governor, Lael Brainard gets only one vote on proposals that come before the central bank's board. Over the past year, she has used it to combat the Trump administration's efforts to ease rules for Wall Street.

Brainard has broken ranks six times with other governors, voting against measures that she says would unnecessarily weaken regulations put in place after the 2007-2009 financial crisis. She told Yahoo Finance last week that she was concerned "we may be whittling away at that core resilience of our financial system."

A review of her votes and speeches, and interviews with eight people familiar with the workings of the Fed show that even though Brainard has been the lone dissenting voice, she has wielded outsized influence due to the Fed's long-held practice of arriving at decisions by consensus.

TAXES

American Taxpayers Paid Over $90 Billion More Under Trump Tax Law | Yahoo Finance

Despite the majority of Americans receiving a tax cut, the IRS pulled in an additional $93 billion for 2018 from taxpayers on individual income taxes than it did for 2017, according to new data from the IRS. This is in part thanks to the Treasury Department processing 1.5% more individual returns for 2018 than 2017.

After the passage of Tax Cuts and Jobs Act (TCJA), the IRS encouraged taxpayers to update their withholdings, but few did. More than halfway through 2018, after the law took effect, the Government Accountability Office (GAO) warned that more Americans would owe money to the IRS under the new law while those receiving refunds would decrease. In the end, many Americans saw modest increases in their paychecks throughout the year, but didn't notice.

Instead, as people filed, many bemoaned getting smaller-than-anticipated refunds or even being hit with a "surprise" tax bill.

The Man Who Liberated the Republican Party | American Prospect (Paul Waldman)

Amid the daily horrors emanating from the White House, one symbolically important one may have missed your notice. Donald Trump recently decided to bestow the Presidential Medal of Freedom on Arthur Laffer, perhaps the single most discredited economist in America. Here's how the proclamation described him:

"Arthur B. Laffer, the 'Father of Supply-Side Economics,' is one of the most influential economists in American history. He is renowned for his economic theory, the 'Laffer Curve,' which establishes the strong incentive effects of lower tax rates that spur investment, production, jobs, wages, economic growth, and tax compliance."

That's basically true, if you define "renowned" as "notorious" and "establishes" as "misleadingly asserts." But about Laffer's influence there is no doubt. For his service to the Republican Party, he certainly deserves any award the GOP can offer. Because what he really gave them was the ability to govern in a completely different way from what they or anyone else had imagined was possible. Laffer told Republicans, though it took them a little time to figure out the implications, that they were free to act without constraint. It was gloriously liberating, and its consequences reverberate to this day.

GOP Leader Concedes Tax Cuts May Not Pay for Themselves as 2019 Deficit Grows | Washington Post

Rep. Kevin Brady (R-Tex.), a lead architect of the GOP tax bill, suggested Tuesday the tax cuts may not fully pay for themselves, contradicting a promise Republicans made repeatedly while pushing the law in late 2017.

Pressed about what portion of the tax cuts were fully paid for, Brady said it was "hard to know."

"We will know in year 8, 9 or 10 what revenues it brought in to the government over time. So it's way too early to tell," said Brady at the Peterson Foundation's annual Fiscal Summit in Washington D.C.

The federal government's deficit typically shrinks during strong economic times, but the deficit is up nearly 40 percent so far this fiscal year, according to the latest Congressional Budget Office report released Friday.

Liberal Group Launching Bus Tour to Push for Increasing Taxes On the Rich | The Hill

The liberal group Tax March announced on Tuesday that it is launching a bus tour to take aim at the Republican 2017 tax-cut law and to urge politicians and activists to push for policies that increase taxes on the rich.

Tax March's "2019 Tax the Rich Bus Tour" will begin in Miami on June 26, right before the first Democratic presidential debate, and end in Detroit on July 30, ahead of the second debate.

The group said that the tour will include events in 19 states and the District of Columbia.

Most Millionaires Support Tax on Wealth Above $50 Million, CNBC Survey Says | CNBC

A majority of millionaires support Sen. Elizabeth Warren's proposed tax on large wealth, according to a new survey.

Fully 60% of millionaires support Warren's plan for taxing the wealth of those who have more than $50 million in assets, according to the CNBC Millionaire survey. The wealth tax is different from an income tax, since it taxes a family's total holdings every year rather than their income.

Polls show that a majority of Americans also back a wealth tax. But the support from millionaires, some of whom would presumably pay the tax, shows that some millionaires are willing to accept higher taxes amidst growing concern over inequality and soaring fortunes of the rich.

While 88% of Democrats support the wealth tax, 62% of independents support it along with 36% of Republicans. Even the upper tier of millionaires, those worth more than $5 million, support a wealth tax, with two-thirds in favor.

ELECTIONS, MONEY, AND POLITICS

Koch Brothers Float Possibility of Backing Congressional Democrats in 2020 Primaries | Center For Responsive Politics

Americans for Prosperity (AFP), the Koch brothers-backed political organization that has spent tens of millions of dollars supporting Republican candidates in the last several election cycles, says it is open to supporting candidates of any political party, according to an internal memo from AFP CEO Emily Seidel obtained by CNBC.

Since its founding in 2004, AFP has been known as one of the most influential conservative organizations in the U.S. During the 2018 midterm cycle, the group — and its super PAC, AFP Action — spent a combined $15.3 million on independent expenditures aiding Republican candidates. AFP also engages in other forms of advocacy, including significant local organizing and issue ads, which do not have to be disclosed to the FEC.

Over the last two decades, the Koch network's major groups — AFP and Freedom Partners — have cumulatively spent about $120 million in independent expenditures supporting Republican candidates or opposing Democratic candidates, according to OpenSecrets data. They have not spent a single dollar supporting Democratic candidates during that time.

Booker Criticizes Wall Street Despite History of Taking Big Bank Dollars | Washington Free Beacon

Sen. Cory Booker (D., N.J.), who is running in a crowded field of presidential candidates, was critical of Wall Street during a new interview, despite taking tens of thousands of dollars from Wall Street banks.

While Booker has pledged to run his presidential campaign the "right way" by refusing donations from corporate political action committees and federal lobbyists, he has a history of taking money from the corporate PACs of Wall Street banks. During his 2014 campaign, he received $5,000 from Goldman Sachs' PAC, $7,000 from Morgan Stanley's PAC, and $10,000 from JPMorgan Chase & Co's PAC. Individuals from those same three banks would donate over $200,000 to Booker's campaign that same year, according to the Center for Responsive Politics.

In These Times, a progressive magazine, reported back in April that Booker started rejecting corporate PAC money in February 2018, but noted he was still receiving many donations from individuals at big banks in the finance industry, including Goldman Sachs, Morgan Stanley, and Prudential Financial.

OTHER TOPICS

Goldman Women in 14-Year Discrimination Fight Resist Arbitration | Bloomberg

Women suing Goldman Sachs Group Inc. in one of the era's biggest Wall Street gender-discrimination lawsuits asked a federal judge this week to stop the bank from forcing more than 1,000 of them into arbitration.

Lawyers for the group argue that Goldman has waited too many years to now try to push them out of open court and into the closed-off system of arbitration. They cite their case's 755 docket entries, 376 discovery requests, 100 letters to the court, 44 motions, 33 days of depositions and 20 expert reports. Goldman said in a separate filing that arbitration is standard on Wall Street.

The Latest Potential Fed Pick, a Former Trump Campaign Adviser, Says it Would be 'Superficial' for Her to Say Whether the Central Bank is Independent | Business Insider

Potential Federal Reserve nominee Judy Shelton, a former adviser to the Trump campaign and transition team, sees some grey area when it comes to the independence of the central bank.

When asked by Markets Insider whether the central bank was currently an independent institution, Shelton said it would be "superficial" to answer yes or no. She pointed to administrative operations between the Federal Reserve and the Treasury Department, calling the agencies "fiscally incestuous."

The Gray Market: How an Artist-Run Bank Reveals the Extent of the Art Market's Debt Dependency (and Other Insights) | Artnet News

The idea central to Bank Job, Edelstyn and Powell's latest project, is debt. Since 2017, they have been printing and selling artworks in the form of an alternative currency out of a former bank in London's Walthamstow suburb. The effort is both a protest of predatory lending and a means of combating it. The duo splits the sales proceeds, donating half to a quartet of local nonprofits and using the rest to buy bundles of payday-loan debts resold by banks at a deep discount below their face value.

Watch: CNBC's Full Interview with President Trump

Could Public Banks Help Cities Keep Their Money Away From Wall Street? | New York Times

When a ballot measure that would've allowed Los Angeles to start its own public bank was rejected by the city's voters last year, even proponents of the idea acknowledged that it was a little far out.

Get one of the nation's largest cities to take the billions of dollars it deposits in big commercial banks and instead park that money in a financial institution that would invest it back into things like affordable housing? It sounded like a progressive pipe dream.

But, as supporters have said, the seed was planted. And now, amid rising anger at the state's gaping economic inequality, the idea has gotten new momentum with an assembly bill that's making its way through the State Legislature.

The bill, A.B. 857, would create a process for local governments to start their own public banks, if they choose to.