This Week in Wall Street Reform | May 24 - 31

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CONSUMER FINANCE AND THE CFPB

Reading Between The Lines Of CFPB's Regulatory To-Do List | American Banker
The biggest news about the Consumer Financial Protection Bureau's rulemaking to-do list may not be the items topping the agenda — but what was left off of it.

The agency's recent spring rulemaking agenda includes significant items, including a new process for collecting small-business lending data as well as plans to update underwriting rules for loans backed by Fannie Mae and Freddie Mac.

But a year and a half after the Trump administration assumed leadership of the bureau, heralding a series of regulatory relief changes, some in the industry might have been expecting more from the latest report.

While the rulemaking agenda suggests some significant moves by the agency in the near future, it leaves out mention of other areas of interest, such as compensation standards for loan originators, a more complete revamp of the CFPB's "Qualified Mortgage" standard and additional industry requests to water down the Dodd-Frank Act.

CFPB Settles With Bsi Financial Services Over Numerous Mortgage Servicing Issues | HousingWire
The Consumer Financial Protection Bureau announced Wednesday that an investigation into the business practices of BSI Financial Services found that the Texas-based mortgage servicer violated multiple federal laws over several years.

According to the CFPB, BSI’s mortgage servicing practices violated the Consumer Financial Protection Act of 2010, the Real Estate Settlement Procedures Act, or the Truth in Lending Act at various points between 2012 and 2016.

A CFPB investigation found that BSI improperly handled mortgage servicing transfers, including failing to recognize that certain loans were already in loss mitigation proceedings, in the process of receiving a loan modification, or had already received a loan modification.

CFPB’s Kraninger Digs In Over Halt To Military Lending Exams | American Banker
Kathy Kraninger, the director of the Consumer Financial Protection Bureau, is in a standoff with Senate Democrats over the bureau’s refusal to examine financial firms for compliance with the Military Lending Act.

Kraninger is said to be unwilling to reverse a policy decision made in 2018 by Mick Mulvaney, her former boss who ran the CFPB on an acting basis, according to sources who have met with the CFPB on the issue. Both leaders have stuck to the claim that the agency lacks authority to conduct MLA exams.

The issue is further complicated by President Trump, who wants to be seen as standing up for the military even as Kraninger comes under pressure from military groups to protect service members from financial fraud and predatory lending.

Agencies Closer To Joint Policies On CRA, Small-Dollar Loans: FDIC Head | American Banker
Federal bank regulators could begin drafting changes both to the Community Reinvestment Act and small-dollar lending policies in a matter of days, Federal Deposit Insurance Corp. Chairman Jelena McWilliams said on Wednesday.

The prospect of regulators beginning to write a new CRA rule imminently is consistent with the projection by Comptroller of the Currency Joseph Otting that an initial proposal will be released sometime this summer.

Debt Collection Ready to Go High Tech Thanks to CFPB | Bloomberg Law
The debt collection industry could be on the cusp of a fintech revolution thanks in part to the Consumer Financial Protection Bureau.

Debt collection phone calls may soon give way to emails, texts and even social media direct messages if the CFPB moves forward with rules under the Fair Debt Collection Practices Act. Collections that utilize machine learning and artificial intelligence could follow under a separate CFPB proposal to create a regulatory sandbox program for financial innovation.

Consumer advocates are concerned that those developments could harm debtors and could even lead to more lawsuits against them. But there is little doubt that the ways debt collectors contact consumers is going to change dramatically.

The Economy Is Booming. So Is Financial Stress. | Bloomberg (Barry Ritholtz)
To determine changes in financial stress levels, the researchers looked at “the percentage of people within a ZIP Code that have reached at least 80 percent of their credit limit, that is, the maximum balance that they can hold on their bank-issued credit cards.” They compared that debt against measures of household assets, including median home prices, stocks and bonds across these two time periods.

Doing this produced a better read on distress levels than simply looking at the average for each ZIP Code.

The contrast between national and household results was fascinating. Looked at from a high-altitude perspective, the recovery appeared to the St. Louis Fed to be a broad one that slowed down a bit once interest rates started rising toward historically normal levels. But when the researchers zoomed in, they saw something different: an uneven, bifurcated economy still hobbled by the crisis.

Unevenly distributed levels of education and employment are frequently cited reasons that the recovery has been so lumpy. To those factors, the St. Louis Fed researchers suggest adding two more: assets (i.e., capital) and reliance on debt.

What Is Postal Banking? Progressive Banking System | Newsweek
In a Facebook live video earlier this month, Senator Bernie Sanders advocated for allowing the more than 31,000 post offices across the United States to offer basic banking services to underserved communities.

The proposal from Sanders, which he made while announcing the Loan Shark Prevention Act along with Representative Alexandria Ocasio-Cortez, is intended to benefit Americans without easy access to banks. Post offices would only provide basic financial services, rather than serving as full-stop financial institutions.

"The Postal Service already cashes Treasury checks and issues money orders. The USPS should fully exercise its existing statutory authority and implement pilot programs offering affordable financial services, including ATMs, paycheck cashing, bill payment and electronic money transfers in post offices," Sanders and Representative Alexandria Ocasio-Cortez said in a statement.

ENFORCEMENT

6th Circuit Offers Plaintiffs Second Chance in Fifth Third Loan Fees Lawsuit | Reuters
A federal appeals court has revived a proposed class action accusing Ohio-based Fifth Third Bank of breach of contract for advertising its short-term loans as having an annual interest rate of 120 percent when rates could actually reach as high as 3,650 percent.

U.S. District Judge Michael Barrett in Cincinnati had dismissed the lawsuit in 2015, saying the bank did not breach its contract because it unambiguously disclosed the way it calculated rates on the loans.

EXECUTIVE COMPENSATION

Don't Just Gawk At These Ratios. Punish Them! | American Prospect (Harold Meyerson)
Among the many fun features of last Sunday's New York Times was the Business section's annual survey of how much the CEOs of the 200 biggest companies made last year, along with how much their median employees made, and the consistently head-spinning ratios between those two numbers. Heading the list was old friend Elon Musk, whose take-home pay of nearly $2.3 billion came to 40,668 times what his median employee was able to pocket.

By my count, only nine CEOs made less than 100 times what their median employees made. Twenty, by contrast, made more than 1,000 times their median employee, including four who made more than 2,000 times, three who made more than 3,000 times, and Musk, dwarfing them all at his more than 40,000 times.

Of course, these ratios are almost all smaller than the actual ratio between CEOs and their median workers, a category that includes not just the employees whose pay is the basis for these calculations, but also the independent contractors—whether real or just deliberately misclassified employees—their companies employ, who invariably make less than employees and don't qualify for any benefits.

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

CFA / AFR Education Fund Fact Sheet: SEC's "Regulation Best Interest" Will Harm Vulnerable Investors

CFA Fact Sheet: The SEC's "Best Interest" Bait-And-Switch

Better Markets Fact Sheet: Fact Sheet On SEC's Proposed "Regulation Best Interest"

Wall Street Sees a Win in SEC Broker Crackdown on Conflicts | Bloomberg

Wall Street is finally getting tougher rules that crack down on industry conflicts of interest. Bankers are hardly sweating it.

The U.S. Securities and Exchange Commission is poised to approve new requirements next week for selling stocks, bonds and other assets after brokers fended off the government's attempts to restrict shady practices for almost a decade. But investor advocates are concerned the regulations fall short of what's needed to prevent firms from taking advantage of clients, a worry underscored by the industry's support of the SEC's effort.

Stockbrokers Face New Rules On Disclosing Conflicts Of Interests | 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.

SEC To Tackle Thorny Topic: How Much Advice Brokers Can Give Without Being An Advisor | Investment News
When it votes on a final investment advice reform package next week, the Securities and Exchange Commission will revisit an explosive issue: The extent to which brokers can provide advice without having to register as investment advisers.

When the four SEC members meet June 5, they'll decide whether to approve Regulation Best Interest and the disclosure document known as Form CRS. A new item on the agenda is labeled "interpretation of 'solely incidental.'"

That indicates the SEC will tackle language in the Investment Advisers Act of 1940 that exempts brokers from registering as investment advisers — and being fiduciaries — if the advice they provide is "solely incidental" to their work as brokers and if they receive no special compensation for those services.

A New Rule Won't Make Your Broker An Angel | Wall Street Journal (Jason Zweig)
Next week, the Securities and Exchange Commission is expected to approve a rule that will require brokers to act in the best interest of their customers—rather than their own wallets—when offering investment advice.

That's good, so far as it goes.

It probably won't go far enough, however. The new rule is also likely to lead many investors to drop their guard, in the misguided belief their brokers now can do no wrong. And it may create a marketing bonanza for brokers and investment advisers.

The SEC declined to comment in advance of next week's vote; the final provisions of the rule haven't yet been made public. As proposed last year, the rule would for the first time make it explicit that brokers must put their customers ahead of themselves. It would also expand disclosure of conflicts of interest.

Americans Are Doing A Poor Job At Saving For Retirement, According To The Federal Reserve | MarketWatch
Americans aren't saving enough for retirement and those who do save aren't sure what they're doing, the latest Federal Reserve data show.

More than a third of non-retired Americans say their savings is on track but one-quarter have no retirement savings or pension. But saving isn't the only problem — managing those assets is also an issue for Americans, according to the Report on the Economic Well-Being of U.S. Households in 2018 (but released this week). Six out of 10 Americans with a self-directed retirement account, such as a 401(k) or individual retirement account, aren't comfortable with handling the investments, and many struggled with financial literacy questions.

The Federal Reserve report surveyed more than 11,000 Americans. It's important to note that these responses are self-assessed, which means these non-retirees may be doing better or worse than they think. Industry experts say more non-biased research must be done regarding retirement, but any substantial study or survey helps paint a picture for how people are approaching or living in this next phase of their lives.

Commissioner's Exit Would Leave The SEC Without A Democrat | American Prospect (Jeff Hauser And David Segal)
Securities and Exchange Commissioner Robert Jackson might be leaving office in the coming months—well before he would be required to by law. The public was first made aware of this possibility when his name showed up on a list of people who would be teaching courses at NYU Law School this fall. Remarkably, Jackson has not issued a statement clarifying the situation and making it known if or when he plans to depart—and whether he might leave the SEC with just one, or even zero, Democratic commissioners.

MORTGAGES AND HOUSING

Letter To Regulators: Coalition Comment On Opportunity Zone Data Collection

Letter To Regulators: AFR Education Fund Comment On Opportunity Zone Data Collection

[First American Financial Corp. Leaked Hundreds Of Millions Of Title Insurance Records](#) | Krebson Security

The Web site for Fortune 500 real estate title insurance giant First American Financial Corp. [NYSE:FAF] leaked hundreds of millions of documents related to mortgage deals going back to 2003, until notified this week by KrebsOnSecurity. The digitized records — including bank account numbers and statements, mortgage and tax records, Social Security numbers, wire transaction receipts, and drivers license images — were available without authentication to anyone with a Web browser.

Santa Ana, Calif.-based First American is a leading provider of title insurance and settlement services to the real estate and mortgage industries. It employs some 18,000 people and brought in more than $5.7 billion in 2018.

Earlier this week, KrebsOnSecurity was contacted by a real estate developer in Washington state who said he'd had little luck getting a response from the company about what he found, which was that a portion of its Web site (firstam.com) was leaking tens if not hundreds of millions of records. He said anyone who knew the URL for a valid document at the Web site could view other documents just by modifying a single digit in the link.

DOJ Demands To See CoreLogic's MLS Data In Antitrust Probe | HousingWire

The Department of Justice recently sent a letter to CoreLogic requesting access to its MLS data regarding buyer broker compensation, a clear sign that the federal authorities are actively investigating allegations of antitrust violations among multiple listing service providers.

The DOJ's letter follows two class-action lawsuits recently filed against the National Association of Realtors and brokerages, including Realogy, HomeServices of America, RE/MAX and Keller Williams, that center around the practice of requiring that a buyer's broker be compensated in a home-sale transaction.

Both suits allege that NAR and the MLS providers conspired to drive up seller costs and reduce competition by requiring a home seller to pay compensation to the buyer's broker, even though their involvement in the transaction is minimal.

Mortgage Applications Fall Despite Low Rates As Trade War Fears Grow | USA Today

Americans aren't seeking mortgages in big numbers despite low borrowing costs and moderating price gains.

Mortgage applications fell 3.3% from last week despite mortgage rates that remained low, according to the Mortgage Bankers Association (MBA).

Applications to buy a home dipped 1%, the the third straight weekly decline, but they were still 7% higher than a year ago, when mortgage rates were higher. Applications to refinance a mortgage dropped 6%.

REITs Bet Big On The Mortgage Market | Wall Street Journal
Mortgage real-estate investment trusts were once small players in housing finance, but they've increased their mortgage-bond portfolios by almost 28% to $308 billion over the 12 months through March.

It was the largest stockpile in a half-dozen years, according to an analysis of 15 REITs by industry research group Inside Mortgage Finance. Annaly Capital Management Inc.NLY -0.22% and AGNC Investment Corp.AGNC -0.96% , the two biggest companies in the sector, accounted for the majority of the growth.

REITs often are publicly traded entities that invest in all types of real estate and pass most of their profits along to shareholders via dividends. They typically fund investments by raising capital in the equity and debt markets, including through short-term financing, and they use leverage to amplify their bets.

Administration Nears Plan To Return Fannie, Freddie To Private Ownership | Wall Street Journal
Trump administration officials are putting the finishing touches on a plan to return mortgage-finance giants Fannie Mae and Freddie Mac to private-shareholder ownership, people familiar with the matter said.

The proposal, coming more than a decade after the government seized the firms to save them from collapse, would seek to put the companies on a sounder financial footing and then release them from government control, if Congress doesn't enact a more fundamental overhaul, these people said.

The plan is being developed by the Treasury Department in consultation with a regulator of the companies, the Federal Housing Finance Agency. It could change as it advances through the Trump administration, works its way through the White House and ultimately is submitted to the president for his approval as early as June, the people said.

PRIVATE FUNDS

Did Steve Mnuchin Help His College Roommate Steal $2 Billion? | Vanity Fair (Bess Levin)
Treasury Secretary Steven Mnuchin, also known as the resident Trump administration footstool, has not had a great week. On Tuesday, The Washington Post reported that, according to an I.R.S. draft memo, he's in violation of the law by not turning over Trump's tax returns. Several days prior, we learned that his father is brought to literal tears at the thought of him working for Donald Trump. And on Thursday, he found himself in the crosshairs of Senator Elizabeth Warren and Representative Alexandria Ocasio-Cortez who are demanding he cough up some answers re: allegedly helping his college roommate pocket billions while bankrupting a company that once employed thousands of Americans.

Eddie Lampert Sues Sears Estate, Demanding Trial And $130 Million | Bloomberg

The bitter fight over the deal that bought Sears Holdings Corp. out of bankruptcy shows no sign of cooling off.

Transform Holdco LLC, the unit of Eddie Lampert's ESL Investments Inc. that acquired the stores and assets of the bankrupt retailer for over $5 billion in January, is suing the Sears estate for failing to deliver "hundreds of millions of dollars of assets" called for by the sales agreement.

Lampert's Transform is accusing the Sears estate, a bankrupt shell entity that is winding down under court supervision, of multiple wrongs including breaking the agreement by holding on to the chain's headquarters in Illinois. The estate is also intentionally delaying payments to vendors and trying to shift $166 million in accounts payable costs, according to the Transform complaint filed on Saturday.

Private Equity Drove Two Canadians Crazy. At BlackRock, They're Trying To Fix It. | Institutional Investor

BlackRock's new private equity fund is nearing its first purchase of a company, with a chance it could do something unusual in the industry: Never sell it.

It's sure to be a highly scrutinized deal, coming as the firm seeks billions of dollars for the pool of capital, which is designed to push the evolution of the buyout industry.

"We're under exclusivity for one transaction right now," says André Bourbonnais, the head of BlackRock's long-term private capital team, known as LTPC. The fund, which aims to raise $10 billion to $12 billion, may complete the deal within weeks.

BlackRock formed the LTPC fund to hold companies for "up to forever," structuring it with input from cornerstone investors to create a better alignment of interests than in traditional private equity, according to Mark Wiseman, chairman of BlackRock's alternative-investment unit and global head of active equities. That means lower fees, no pressure to sell companies, and investing in multibillion-dollar deals that BlackRock considers less risky.

Bain Capital Is Raising A $1 Billion Tech Fund For Buyouts And Late-Stage Investments | CNBC

Bain Capital, the 35-year-old private equity firm known for takeovers of companies like Varsity Brands and the now bankrupt Toys R Us, is raising $1 billion for a new technology fund that will be used for buyouts and late-stage minority investments, according to people familiar with the matter.

The new fund — Bain Capital Tech Opportunities — will target $50 million to $200 million equity investments, primarily in enterprise software and cybersecurity, said the people, who asked not to be named because the plans are private. The fund will also look to acquire smaller companies, the people said.

Private equity firms have become a major part of the technology M&A market in recent years, with firms like Thoma Bravo and Vista Equity raising large funds to swipe up subscription software companies with stock prices that are lagging behind their peers. The strategy paid off last year for Vista, which sold marketing automation company Marketo to Adobe for $4.75 billion, two years after buying the business for $1.8 billion.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Cancel Student Debt, Boost The Economy | Medium (Alexis Goldstein)
The Department of Education has long had the legal authority to cancel loans when schools break the law — a regulation known as "Borrower Defense to Repayment" has been in place since the mid-1990s. The Obama Administration, following a flood of applications from former students of the now bankrupt Corinthian Colleges, Inc and advocacy by the Debt Collective, updated these regulations in 2016. Trump Education Secretary Betsy DeVos has been doing her best to not only flout this authority by freezing the debt cancellation owed to students whose schools broke the law. But she also has tried to make it impossible for students to get debt cancellation in the future. Her efforts have thus far failed, thanks to the work of the Project on Predatory Student Lending at Harvard Law, Public Citizen, and 19 state Attorneys General. The group sued to block DeVos's illegal attempt to delay the 2016 Borrower Defense update, and they won.

While far from sufficient, some former students at predatory for-profits have managed to have their debts cancelled, through the tireless work of student borrowers, an organization known as the Debt Collective, advocates, lawmakers, and state Attorneys General. As of the end of 2018, $534 millionin federal loans had been cancelled for 47,942 claims, largely to former students of the disgraced Corinthian Colleges Inc, which faced charges ofpredatory lending, false job placement statistics, deceptive marketing, securities fraud, and the unlawful use of military seals in advertisements.

CFPB Tweet Offers 'Negligent or Worse' Student-Loan Advice, Advocates Say | MarketWatch
The government's consumer watchdog circulated student loan advice that advocates say is bad for consumers.

The Consumer Financial Protection Bureau posted a tweet Tuesday highlighting forbearance, an option borrowers struggling to repay their student loans can use to pause their payments. "If you're having a hard time paying your student loans, you may qualify for loan forbearance," the tweet read.

Experts generally advise borrowers consider forbearance only as a short-term last resort. When borrowers use forbearance, their payments pause, but interest continues to accrue on their debt and capitalizes — the unpaid interest on a debt is added to its principal — once the borrower exits forbearance.

As a result, borrowers often see their debts balloon. What's more, borrowers in forbearance are not earning credit towards having their debt discharged under Public Service Loan Forgiveness or other programs.

[Why Black Student Loan Borrowers Fall Behind More On Payments] | Ozy
Black college graduates owe $7,400 more on average than their White peers when they earn their bachelor's degrees, according to an analysis by the Brookings Institution, a Washington, D.C.-based think tank. But according to a recent Federal Reserve report, that's not the only racial gap.

Some 28 percent of Black individuals ages 18 to 29 who took out loans to pay for their education have fallen behind on payments, compared with just 7 percent of Whites, the Fed found in its annual Report on the Economic Well-Being of U.S. Households. Some 15 percent of Hispanic borrowers were struggling with payments.

The findings are based on a survey of 11,000 adults in 2018. They show that student loan difficulties are more acute among those who attended for-profit institutions rather than public and nonprofit colleges. First-generation students were twice as likely to struggle with payments as those who have a parent who went to university. The share of Black student loan holders who are up to date on payments was lower than the previous year's report — despite the continued improvement in the U.S. economy.

[A Degree May Be Necessary In America, But Maybe Not Sufficient] | Bloomberg
In the U.S., a college degree has usually meant financial security. But increased competition and overwhelming student debt are making that outcome less of a given.

In recent years, more Americans have completed college degrees -- lowering their rarity in the workplace, and eroding the wage premium they can command. That -- along with the high cost -- has spurred a feeling among many graduates that the qualification wasn't worth the time, effort or money.

Americans with a bachelor's degree earned less in real terms last year than in 1990, according to New York Fed data. That's likely contributed to one of the findings from the Federal Reserve Board's sixth annual survey of household economics: Just two-thirds of those graduates believe their investment in education paid off.

SYSTEMIC RISK

[Quarles: Financial Stability Shouldn't Be A Primary Goal Of Monetary Policy] | Politico Pro
Federal Reserve regulatory chief Randal Quarles today said monetary policy decisions should be made primarily based on what will lead to price stability and maximum employment, rather than on reining in financial stability risks.

In a speech at a Fed research conference in Washington, Quarles acknowledged that it's complicated to consider whether interest rate policy should be used to promote financial stability.

But “while there is evidence that financial vulnerabilities have the potential to translate into macroeconomic risks, a general consensus has emerged that monetary policy should be guided primarily by the outlook for unemployment and inflation and not by the state of financial vulnerabilities,” he said.

Our Best Plan To Avoid A Recession? Simple, Boring Banks | WBUR (Rich Barlow)
But Morrison's victory also reflected an economic miracle that would bolster any incumbent: His nation hasn't had a recession for 28 years. (For perspective, the current American expansion will become our longest-ever boom this summer, at a runtish-by-comparison 10 years.) The global financial collapse a decade ago barely grazed Australians, in large measure because banks — culprits in our Great Recession — are more smartly regulated there than here.

The U.S. is one of the few countries in the world mustering such a regulatory posse. Therein lies a teachable moment. The Democratic presidential candidates have formed a veritable Justice League to combat big banking, firing reform suggestions like lasers. But nobody talks of taking a wrecking ball to our byzantine batch of institutional watchdogs over the financial sector, and imitating the Aussie way, which boils down to two words:

Simple and boring.

In Australia, the New York Times recently reported, “There is a single powerful regulator, rather than a patchwork of them as in the United States,” where the Federal Reserve, Comptroller of the Currency, Federal Deposit Insurance Corp., the Consumer Financial Protection Bureau and the Securities and Exchange Commission all get a piece of the action. The U.S. is one of the few countries in the world mustering such a regulatory posse.

Why Would The Trump Administration Weaken A Rule That Could Prevent Another Financial Crisis? | Washington Post (Editorial Board)
A KEY objective of the Dodd-Frank financial regulation law was to equip government to anticipate, and control, threats to the banking system such as the one posed by overheated subprime mortgage lending before the crisis of 2008. One such tool is the designation of systemically important financial institutions, whether banks or non-banks (such as insurance companies), as big enough to shake the system if they fail. The Trump administration’s proposal to adjust that rule in such a way as to effectively exclude non-banks has drawn fire from former officials, including several who feel that they’ve learned a lesson from having failed to anticipate the 2008 collapse . On May 13, former treasury secretaries Timothy F. Geithner and Jack Lew, plus former Federal Reserve chairs Ben S. Bernanke and Janet L. Yellen, warned Fed Chair Jerome H. Powell and Treasury Secretary Steven Mnuchin that “these amendments amount to a substantial weakening of the post-crisis reforms.”

The admonition comes at a time of explosive growth in high-risk corporate debt known as leveraged loans, which some, including Bank of England governor Mark Carney, have analogized to subprime mortgages. Ms. Yellen has expressed worry that defaults on leveraged loans could exacerbate the next recession. At just under $1.1 trillion outstanding, leveraged loans expanded 20.1 percent in 2018, almost twice as fast as bank lending and faster than any other segment of the $31 trillion in household and corporate debt, according to the Federal Reserve. What's more, by several measures, expansion is increasingly occurring among the riskiest borrowers. In part, this was a response to previous deregulation under the Trump administration, as The Post's Damian Paletta has reported. And the ultimate source of the leveraged lending is precisely the non-bank sector, whose supervision would now be further relaxed.

Regulators, Investors Zero In On Corporate Debt Market | Wall Street Journal
A decadelong rise in corporate borrowing is prompting new scrutiny about how debt markets might hold up in an economic downturn.

While few worry that the corporate debt market is in imminent danger, both regulators and investors are grappling with how stress could ripple through it. In a speech last week, Federal Reserve Chairman Jerome Powell ticked through a number of topics of concern, including the near record-level of business debt as a share of the economy; the increase in debt at the bottom end of the investment-grade ratings scale; and the rapid disappearance of protections for lenders to higher-risk companies.

As of the end of last year, the ratio of business debt to U.S. gross domestic product had reached 73.1%, according to Federal Reserve data, just short of the high of 73.7% set in 2009. Meanwhile, the amount of triple-B rate U.S. corporate debt—the lowest category of investment grade credit—has more than doubled since the crisis.

Does Greed Drive Deutsche Bank And Other Banks Not To File Suspicious Activity Reports? | Forbes (Mayra Rodriguez-Valladares)
The more information comes out in dribs and drabs about and from Deutsche Bank, I remain convinced that something is truly rotten there. But is that the only bank that has these operational risk management problems?

David Enrich of the New York Times, wrote recently that reportedly, five current and former Deutsche Bank, anti-money-laundering professionals found in 2016 and 2017 that multiple transactions involving legal entities controlled by Donald Trump and his son-in-law, Jared Kushner, set off alerts in a computer system designed to detect illicit activity. These alerts reportedly led compliance staff members to review the transactions and to report suspicious activity reports (SARs) to senior managers that they believed should be sent to the Financial Crimes Enforcement Network (FinCEN), a US Treasury Department that polices financial crimes.

Next Downturn Could See A 'Radicalization' Of The Policies Used During The Financial Crisis | CNBC
Policymakers pulled out all the stops to fix the financial crisis, but they may have to get even more extreme when the next downturn hits.

Future crises could see a "radicalization" of the types of measures taken to jolt the economy out of its last malaise, according to an analysis by AB Bernstein that looks both at the waning effectiveness of current attempts and the shape future efforts will take.

Essentially, the view is that next time around policymakers will go even further. That means the use of “Modern Monetary Theory” — in which even more government debt is used to spur growth — along with negative interest rates and the possible step of distributing “helicopter money” or direct cash from central banks like the Federal Reserve.

Collectively, the actions are a far more ambitious version of what Bernstein’s experts call the “compulsive stimulus model” that has used debt growth and asset bubbles to drive cyclical growth at a time when the long-term trend for the U.S. economy is below-trend compared to historical norms.

Stocks Close Lower on Wall Street as Bond-Yield Inversion Stokes Recession Fears | LA Times
Another round of selling gripped Wall Street on Wednesday as nervous investors fled healthcare, technology and other high-risk stocks in favor of the safety of bonds.

The broad selloff, which lost some momentum in the last hour of trading, keeps the market on track for its fourth consecutive weekly loss and its first monthly drop this year.

The latest market slide comes as investors worry that the trade war between the U.S. and China will derail global economic and corporate profit growth as it drags on with no sign of a resolution.

Lower bond yields are typically a sign that traders feel uneasy about long-term growth prospects and would rather put their money into safer holdings, driving up their price but lowering their rate of return.

TAXES

The Not So Secret Reason The Wealthiest Pay The Most In Income Taxes | Forbes (Erik Sherman)
On the wealth side, rich people got more, particularly through the big economic collapse just over a decade ago when the Federal Reserve dropped interest rates, which put cheap money into the hands of the wealthy who used it to make more wealth. Those in lower economic groups most of their wealthy in the value of their homes, which dropped like rocks.

But the new Fed report also discusses income. A quarter of all households brought in less than $25,000; 37% made less than $40,000 and 38% made more than $75,000. If you go through Figure 2 under family income distribution, 45% of households made less than $50,000 a year. Another 15% make between $50,000 and $74,999. For anyone who's been relatively comfortable, this isn't a lot of money.

The bottom half of households face major challenges. They don't make much. Forty percent couldn't cover an unexpected $400 expense with cash. There's too little money spread over too many people. Of course they aren't paying a lot in income taxes because they don't make enough.

That's the utter insanity of only pointing to tax payments. It's another example of shifting discussions away from a major problem faced by so many millions and, instead, trying to make it look as if they somehow get a good deal and to turn the wealthy into victims. And none of that is true.

GOP Tax Law Doing Little For The Economy, Less For Workers: Congressional Study | HuffPost
The sweeping tax law Republicans enacted in late 2017 is definitely not paying for itself and has not significantly boosted the economy or increased wages, the non-partisan Congressional Research Service said in a report.

But in line with what critics cautioned, the measure triggered a wave of corporate stock buybacks that benefited investors more than anybody else, according to the new study.

“While evidence does indicate significant repurchases of shares, either from tax cuts or repatriated revenues, relatively little was directed to paying worker bonuses, which had been announced by some firms,” CRS economic policy experts Jane Gravelle and Donald Marples wrote in their report.

ELECTIONS, MONEY, AND POLITICS

Transportation Secretary Still Owns Stock She Planned To Divest | Wall Street Journal
Transportation Secretary Elaine Chao has retained shares in a construction-materials company more than a year after the date she promised to relinquish them, federal disclosure forms show.

Shares of the company, Vulcan Materials Co. , the country’s largest supplier of the crushed stone, sand and gravel used in road-paving and building, have risen nearly 13% since April 2018, the month in which Ms. Chao said she would be cashed out of the stock, netting her a more than $40,000 gain, corporate and government filings show.

The shares, now worth nearly $400,000, were paid out to Ms. Chao in April 2018, as deferred compensation for the roughly two years she served on Vulcan’s board of directors before being confirmed as secretary of transportation, the company said.

OTHER TOPICS

FDIC: Q1 Bank Profits Boosted By Higher Interest Income | Politico Pro
Bank profits jumped 8.7 percent in the first quarter of 2019 compared with the previous year, as lenders reap the benefits of higher interest rates, the Federal Deposit Insurance Corp. announced today.

The industry brought in near record-high earnings of $60.7 billion, with net interest income growing by $7.9 billion, or 6 percent, according to the FDIC's latest quarterly report.

Loan growth slowed slightly in the first quarter, expanding at an annual pace of 4.1 percent, compared with 4.4 percent the previous quarter. Loans to businesses grew by 1.7 percent, but consumer loans such as credit card balances fell by 2.1 percent.

Wall Street's Sheriff Opens Investigation Of First American Data Breach | HousingWire
New York's top financial watchdog, sometimes called "the sheriff of Wall Street," has turned its attention to First American's security breach that exposed millions of records to anyone with a web browser.

The New York State Department of Financial Services sent a letter to First American on Tuesday asking for information about the security failure, including what steps are being taken to fix it and how many people in New York State were affected, according to The New York Times.

First American blocked access to the application on Friday after cybersecurity expert Brian Krebs revealed the breach that exposed more than 885 million documents, many related to real estate transactions going back to 2003. As an example, Krebs posted a document he got from the site that contained an Arizona home seller's Social Security number, mobile phone number, address and other private information that Krebs redacted. Krebs said the breach also exposed digital bank account statements, tax records, and images from drivers licenses in states across the nation.

The Real Reason Trump Is Having So Much Trouble Finding People For The Federal Reserve | Washington Post (Matt O'Brien)
President Trump has had a hard time finding people to fill the Federal Reserve's two empty spots, because he's looking for something that doesn't exist: loyal Republicans who like low interest rates.

Now it is true, as the New York Times's Ross Douthat points out, that there are a handful of right-leaning economists who have consistently bucked the party line (or at least what it was during the Obama years) that lower rates will only set off a 1970s-style Great Inflation. Instead, they have quite accurately pointed out that the far greater risk is that higher rates will send us back into a 1930s-style Great Depression. The very fact that they've been willing to follow the evidence, though, and not what was in the party's best interests — such as, say, crippling the economy ahead of Barack Obama's reelection — probably makes them suspect as far as Trump is concerned. After all, he's already appointed a few people just like this whom he now wants to fire, because of, yes, how independent-minded they've been. Specifically, they thought that the economy had improved enough last year that they could start raising rates a little bit faster.

The problem, then, is that loyal Republicans didn't want low interest rates, and Republicans who did weren't loyal.

Florida Banking Regulator Should Resign, CFO Jimmy Patronis Says | Tampa Bay Times

Florida's top banking regulator should resign after facing accusations of harassment and inappropriate behavior, Chief Financial Officer Jimmy Patronis said Wednesday.

Patronis said that after meeting with an inspector general investigating the accusations, he's now asking Office of Financial Regulation Commissioner Ronald Rubin to resign.

"If I could remove Mr. Rubin from office myself, I would," Patronis said in a statement. "But, this is a Cabinet-appointed position that would require Cabinet action. It should not come to that."

But Patronis stopped short of calling for an emergency Cabinet meeting to discuss Rubin's situation. Attorney General Ashley Moody asked for an emergency meeting soon after Rubin was placed on leave earlier this month, but none of the other three Cabinet members endorsed the idea.

Rubin remains suspended while an inspector general investigates claims of sexual harassment and inappropriate behavior against him by employees at the office, which regulates banks, check-cashing stores and payday loan shops.

'Generation Jobless' Looks Back On How Financial Crisis Has Shaped Careers | Wall Street Journal
A decade ago, many college graduates struggled to join a recession-wracked workforce and were quickly dubbed Generation Jobless. Looking back, some, like Mr. Dodge, now see benefits to entering the workforce in a down market. They say the weak economy provided unexpected career twists and forced them to sharpen their skills. Others, though, say their first decade in the working world was marked by low wages, disappointment and a feeling of being left behind.

Cynthia Roberts, now 31, graduated in 2009 with about $65,000 in student loans and a degree in new-media marketing from the Rochester Institute of Technology. She hoped for a career in advertising.

In the past decade, Ms. Roberts has worked at a bowling alley and music venue in New York, as a gate agent for Delta Air Lines Inc. in Providence, R.I., and as manager of a high-end salon in Boston. In her 20s, she lived at times with an aunt and her mother. In 2015, Ms. Roberts got hired for $14 an hour as a leasing agent for a Massachusetts property-management company and has worked her way up to a salaried position as a community director, overseeing one of its largest apartment complexes.

Ms. Roberts hasn't made payments on her student loans, which now total $82,000 because of interest costs and additional loans.

Corporate Preemption Is Making It Harder For Cities To Protect Workers | CityLab
At issue are forced arbitration clauses that require employees (and consumers) to waive their rights to class-action lawsuits. Such contracts are becoming increasingly ubiquitous: According to a new report from the Center for Popular Democracy, Economic Policy Institute,

and National Employment Law Project, forced arbitration will apply to more than 80 percent of the non-union private-sector workforce by 2024.

“The right to be paid a livable minimum wage, to take meal and rest breaks, to safe workplaces, and to equal earning and promotion opportunities regardless of race, gender, ethnicity, or other social category—all of these important rights are at risk of being hollowed out by underenforcement,” the report reads.

Forced arbitration also represents a kind of corporate preemption of local and state law. From Albuquerque to Tacoma, more than 40 cities and counties have passed a higher minimum wage than state law requires. Some two dozen municipalities have local paid sick leave laws on the books. And in at least a dozen cities and counties, worker protections cover “safe” days—paid time off for victims of domestic violence.

Fed Hopeful Shelton Questions Value Of Bank’s Dual Mandate | Bloomberg
Judy Shelton, a conservative economist being considered by the White House for a spot on the Federal Reserve’s Board of Governors, isn’t convinced the goals set for it by Congress are relevant for the U.S. central bank.

“I would probably be highly skeptical of those,” she said in an interviewwith Bloomberg Wednesday, referring to the mandate in the Federal Reserve Act that calls on the Fed to pursue maximum employment, stable prices and moderate long-term interest rates. “Those are such nebulous objectives.”

Currently U.S. executive director for the European Bank for Reconstruction and Development, she specifically questioned the employment mandate. “I don’t know that that is really the Fed’s job,” she said.