This Week in Wall Street Reform | June 9 – 15

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Deregulate-a-Palooza for Banks | The Progressive (Sarah Jaffe)
Donald Trump ran a faux-populist campaign for office, bashing Democrats for being too close to Wall Street. But in office, it's a different story. Alongside Congressional Republicans and a handful of Democrats, he's been busy deregulating the banks, dismantling consumer protections, and otherwise handing Wall Street a bunch of gifts—to say nothing of the tax cuts. I spoke with Alexis Goldstein of **Americans for Financial Reform** to explain why, when we're still living in the wake of 2008, deregulate-a-palooza is bipartisan policy—and how to stop it.

Big Banks' Regulatory Bonanza Not as Advertised | Wall St. Journal
In the early days of the Trump administration, expectations were high for sweeping financial deregulation that would be a boon to bankers. While much of that agenda has been realized, large banks have reason to be disappointed. This week marks the first anniversary of a U.S. Treasury Department report that laid out the administration's deregulatory vision for banks and credit unions. One year on, the biggest winners are small and mid-sized lenders, plus non-bank financial institutions that effectively compete with the largest lenders but under far less scrutiny, says Karen Petrou, analyst at Federal Financial Analytics...

[O]ther actions actually have cut against the biggest banks. Most notably, the Federal Reserve's proposed changes to the stress tests introduce a new capital buffer that may raise capital requirements on investment banks like Goldman Sachs and Morgan Stanley while making the process less predictable for all of the largest banks.

Regulator to face questions over unauthorized accounts in banking industry | LA Times
The nation's top bank regulator has found evidence that institutions other than Wells Fargo & Co. may have created accounts without customers' authorization — and a prominent Democrat wants the regulator to name names.

Ohio Sen. Sherrod Brown, the ranking Democrat on the Senate banking committee, said Tuesday he wants the Office of the Comptroller of the Currency to release more details of a review, spurred by Wells Fargo's accounts scandal, of sales practices at more than 40 large and mid-size banks.

Bank Regulator Says He Has 'Never Observed' Discrimination | Wall St. Journal
Joseph Otting, a career banker who leads the Office of the Comptroller of the Currency, appeared before the House Financial Services Committee for the first time since taking office about seven months ago. He oversees most large U.S. banks and is in part responsible for

watching over how those firms treat customers.

Rep. Michael Capuano (D., Mass.) told Mr. Otting he wanted to find out what the regulator believed in and asked him a question about homeownership. The lawmaker then repeatedly asked Mr. Otting if he believed discrimination exists in America…

“I have not personally observed that,” Mr. Otting said. He added: “I’m a big believer in minority inclusion. … There are many people who would say that Joseph Otting spent more time in the inner cities of America than most banking executives across the world.”

Trump sells regulatory favors to his donors | MarketWatch (Sam Berger & Ethan Gurwitz)
Less attention has been paid to the ways in which regulatory changes have been used to carve out special favors for politically connected corporations and donors, while hurting American families. But it’s proven a breeding ground for graft and corruption. Corruption in our politics has been a serious issue for some time, but Trump has made the problem that much worse with his singular focus on abusing government’s power to help his friends and hurt his enemies, all without caring about the effects of his actions on the broader public.

The Intra-Democratic War over Personnel Zeroes in on Chuck Schumer | Intercept (David Dayen & Ryan Grim)

CONSUMER FINANCE AND THE CFPB

Federal judge rejects CFPB's effort to halt payday rule | American Banker
U.S. District Judge Lee Yeakel on Tuesday denied the request by acting CFPB Director Mick Mulvaney that the court delay the payday rule's effective date, which is set for next year.

Mulvaney had sided with two industry trade groups — the Community Financial Services Association of America and Consumer Service Alliance of Texas — that sued the CFPB in April to invalidate the tough restrictions on small-dollar loan providers. The rule was written under former CFPB Director Richard Cordray…

“The consumer bureau, under the direction of Mick Mulvaney, should never have made this transparent attempt to destroy an important consumer protection around payday lending," four consumer groups — Public Citizen, the Center for Responsible Lending, the National Consumer Law Center, and **Americans for Financial Reform** Education Fund — said in a joint statement. "We’re heartened that a federal judge rejected Mulvaney’s attempt, in partnership with predatory payday lenders, to evade the requirements of the Administrative Procedure Act."

See joint statement on court ruling.

White House Confirms Mulvaney Deputy Is Pick to Lead Consumer Bureau | NY Times
Mick Mulvaney, the White House budget director and acting head of the Consumer Financial Protection Bureau, has picked a deputy at the budget office, Kathy Kraninger, to succeed him at the consumer watchdog agency, a White House spokeswoman confirmed on Saturday.

The choice of Ms. Kraninger, who oversees the preparation of the budgets for cabinet departments, generated immediate opposition, with critics pointing to her inexperience in consumer and financial services issues and her association with Mr. Mulvaney. She was selected over the objection of some White House officials, who argued that her nomination could founder.

Sources: McWatters Out of the Race to Lead CFPB | Credit Union Times

George Mason's Zywicki Emerges as Leading Pick for CFPB | National Law Journal

Issa, McWatters Said to Be Top CFPB Candidates | Bloomberg
Issa tamps down rumors of consumer bureau nomination | The Hill

What's in a Name? Consumer Bureau to Find Out | NY Times
Unknown to most is that the Consumer Financial Protection Bureau is actually the Bureau of Consumer Financial Protection, at least according to Title X of the Dodd Frank law, which created the agency.

Mr. Mulvaney has insisted on changing its nomenclature to reflect the agency's statutory name and has had new signs installed in the lobby of the bureau. Over the past few days, workers have engaged in a small, organizational swap of letters and the C.F.P.B. offices now bear the abbreviation B.C.F.P.

The CFPB is now the BCFP? | San Diego Union-Tribune
Mick Mulvaney, the current interim head of the Consumer Financial Protection Bureau, changed the name of the agency to the Bureau of Consumer Financial Protection back in April… Lisa Donner, the executive director for the consumer advocacy group **Americans for Financial Reform**, told the Associated Press that this seemingly benign name rearranging signals a change in the agency's top priority: consumers.

"Doing that signals you want to take the emphasis away from serving consumers — which unfortunately is what Mulvaney's been doing in many ways — and put it on 'this is a bureaucracy,'" Donner told the AP.

CFPB Goes Back to the Drawing Board on Payday Rule | American Banker
As a practical matter, there is not much doubt that the CFPB will be able to get an extension to the payday lending rule's compliance date, lawyers said. Under Cordray, the bureau extended the effective compliance dates of its remittance rule and prepaid rule.

"They could find policy reasons to cite to support such a proposal," said Richard Horn, a founder of Garris Horn PLLC in Tucson, Ariz., and a former CFPB special counsel and special adviser.

Others questioned why Mulvaney had taken so long to start the process of changing the compliance date.

"Go follow what the law is," said Joe Lynyak, a partner at Dorsey & Whitney. "If Mulvaney intends to rescind the payday rule, the clear path is the Administrative Procedure Act, but he hasn't issued a notice of proposed rulemaking, which is, frankly, not that difficult."

CFPB’s Acting Director Is Acting Up: Mulvaney Joins Payday Industry to Fight Regulation | Pasadena & San Gabriel Journal

Payday Loan Scammer Gets 10 Years For $220M Scheme | Law360
A Manhattan federal judge sentenced a convicted loan shark to 10 years in prison Tuesday for a decadelong payday lending scam, rejecting the 73-year-old defendant’s effort to blame the brother of a fellow convict for convincing him to set up the businesses.

U.S. District Judge Edgardo Ramos also ordered Richard Moseley Sr. to forfeit $49 million of proceeds from his companies, which took in $220 million over a decade until 2014 by siphoning money from the accounts of financially vulnerable clientele.

In 2006, Moseley established business entities in the Caribbean on the theory that he could avoid liability for ripping off U.S. borrowers, prosecutors said during his trial. But in actuality, all of Moseley's lending business was conducted at his corporate office in Kansas City, Missouri, prosecutors said.

Moseley, who was arrested in 2016, was convicted by a jury in November of six criminal counts, including racketeering, wire fraud and aggravated identity theft. Federal prosecutors said Moseley charged usurious interest of more than 700 percent and exorbitant fees and signed people up for loans they didn’t authorize.

Banks + small-dollar credit doesn't add up | American Banker (Dennis Shaul)
The Office of the Comptroller of Currency recently released a bulletin encouraging national banks and federal savings associations to offer short-term, small-dollar installment loans — and many industry observers believe that this will mark a new era in small-dollar lending. I am, however, skeptical that banks and similar lenders will actually offer this vital form of credit to the millions of consumers who need it, because the truth is, banks largely find loans of a few hundred dollars unprofitable and unsustainable due to the high cost and risk of offering these products.

The Community Financial Services Association of America, which represents the small-dollar lending industry, has always welcomed competition in this market. We fully believe that competition is a win for consumer choice as it helps spur innovation, which in turn improves products and services while reducing costs…

If banks truly could serve the small-dollar loan customers profitably, they would. Instead, they have in large part abandoned certain communities, leaving them underbanked or unbanked and writing them off as poor prospects. Such consumers tend to keep small account balances and are unlikely to gravitate toward more profitable bank products.

Hiding Complaints About Wall St. Benefits Mulvaney Donor | Law360 (Pamela Foohey and Amy Schmitz)
The database is not simply another Yelp or “gripe site.” Instead, the CFPB takes steps to confirm that there is a commercial relationship between the complaining consumer and the company. And it offers a way for companies to validate complaints. The database also allows people to monitor the CFPB’s efforts to hold companies accountable for illegal practices and enforce fairness in the marketplace.

For example, when PayPal Inc. was caught illegally signing people up for its online credit product, the CFPB filed an enforcement action against it. PayPal ultimately agreed to pay $25 million to consumers. When PayPal continued this illegal practice despite the fine, consumers complained to the CFPB. Along with seeking to hold PayPal responsible to them individually, they told the CFPB to take additional action based on the complaints against PayPal people read in the database.

Companies also benefit from the public database. The database provides important feedback to companies about concerns people have with their products and services. It also helps prevent unscrupulous competitors from undercutting legitimate companies, because all companies know that consumers might call them out for using underhanded tactics. Additionally, policymakers and others leverage the complaint data to analyze trends and identify problems in the marketplace. In short, the public database fosters transparency and improves the marketplace for consumer financial products and services.

Senior Democrats to Mulvaney: Stop 'starving' CFPB of consumer data | American Banker
Sens. Elizabeth Warren, D-Mass., and Mark Warner, D-Va., submitted a letter to the agency Monday as part of a comment period for public input on whether to change the CFPB's rulemaking process. The lawmakers emphasized that the agency should maintain data collection as part of its rulemaking process, while also warning that Mulvaney has been pulling back on gathering data "without any justification."

"The CFPB has used this authority to responsibly collect data while protecting individual privacy, to produce ground-breaking reports, and ultimately to write new rules that protect consumers and crack down on consumer scams," the two senators wrote. "Starving the CFPB of data, as Mr. Mulvaney has been doing, undermines the CFPB."

House committee approves spending bill that would boost IRS funding | The Hill
The House Appropriations Committee on Wednesday approved a $23.4 billion financial services spending bill that includes a boost to IRS funding… The bill would provide funding for fiscal 2019 for a number of agencies, including the IRS, the Securities and Exchange Commission (SEC), the Federal Communications Commission, and the federal judiciary.

The bill would reduce funding for the SEC by $201 million compared to this year, but that decrease relates to a one-time cost in 2018 concerning lease renewals. It also would subject the Consumer Financial Protection Bureau to annual appropriations starting in fiscal 2020, which has long been a priority of Republicans.

CFPB Acting Chief Asks Staff to Cut Budget by 20% | Wall St. Journal
The Consumer Financial Protection Bureau's acting head has asked his staff to draw up plans that would cut the agency's fiscal 2019 spending to 2015 levels, the latest attempt by Mick Mulvaney to reduce the bureau's scope. "I've asked them to run through the experiment of reducing spending by 20%," to under $490 million, for the year ending next September, Mr. Mulvaney told reporters Tuesday. "We'll be focusing almost exclusively on non-personnel spending," he added, saying the CFPB could cut "tens of millions of dollars in the travel budget alone." Earlier this year, Mr. Mulvaney asked the Federal Reserve, which funds the CFPB, for

$0 in the January-March quarter. The acting chief said the bureau would instead draw down its reserve fund, which he described as too big. He asked for $98.5 million the following quarter, adding in his request that “the bureau should be funded through congressional appropriations.”

Trump-Controlled CFPB Issues First Fine Since Wells Fargo | Wall St. Journal
The Consumer Financial Protection Bureau on Wednesday fined a debt collector $5 million, the first fine levied by the bureau since the record $1 billion penalty imposed against Wells Fargo WFC +0.05% & Co. in April. The CFPB said South Carolina-based Security Group Inc. made “improper in-person and telephonic collection attempts” and had been “physically preventing consumers from leaving their homes and visiting and calling consumers’ places of work.” The regulator has slowed the pace of enforcement actions since Mick Mulvaney, who also serves as the White House budget chief, took over as acting head in November. Under former chief Richard Cordray, an Obama appointee, the CFPB issued dozens of enforcement actions annually, including 15 in the last six months of his tenure.

Dunning at the Drive-Thru | Credit Slips (Adam Levitin)
We now know just how badly a firm has to behave to get in trouble with the Mulvaney CFPB:.. [I]t sounds as if the debt collectors drove up to drive-thru windows at a fast food restaurants where the consumers worked and dunned them through the drive-thru window. I imagine it went something like this: "Where my money, ya lousy deadbeat? Oh, and can I have an Extra Value Meal #2 with a large Coke, please?"

So now we know: under the Mulvaney CFPB, there's no dunning at the drive-thru. And debtor's kids seem to be off-limits too, at least the young ones. It's good to know that there are still some lines that can't be crossed.

Bank regulator: Review after Wells Fargo scandal failed to find industry-wide fraud | The Hill
A top U.S. bank regulator on Wednesday said his agency did not find widespread openings of unauthorized accounts at major U.S. banks in a review spurred by Wells Fargo’s fraudulent sales practices. Comptroller of the Currency Joseph Otting told lawmakers Wednesday he found no “pervasive or systemic issues” at the largest U.S. banks after reviewing roughly 500 million savings, checking, credit and insurance accounts and policies.

More than 50 Tell the BCFP What They Think of the Rulemaking Process | InsideARM

Santander Consumer Lending Practices Draw Fire From AFL-CIO | Bloomberg
A group of organizations including the AFL-CIO and the Committee for Better Banks said it plans to submit a letter to Chairman William Rainer and Chief Executive Officer Scott Powell at Santander Consumer’s annual shareholder meeting Tuesday. They say the company should end dealer markups to prevent racial discrimination in lending.

“In addition to harming consumers, the racially disparate impact of indirect vehicle lending creates risks to the company’s reputation and exposes the company to potential legal liability,” the groups said in a draft letter provided to Bloomberg News.

People are taking Equifax to small claims court and winning | WSB Radio (Atlanta)
A librarian from Vermont took the credit-reporting agency to court shortly after the massive hack

was disclosed. Jessamyn West, 49, filed suit in small claims court, arguing that the ordeal she went through from the recent death of her mother that July was only compounded by having to sort through her finances along with the prospect of having her other family members' data exposed, according to an account from cybersecurity blogger Brian Krebs.

West sued Equifax for nearly $5,000, but the judge agreed to give her $690 ($90 of which was for court fees), Krebs reports. These are aren't typically massive judgments, but rather very modest damages. They are, however, costing the embattled company a ton of money in legal fees.

DERIVATIVES, COMMODITIES & THE CFTC

[Bitcoin and ether shouldn't be regulated like stocks and bonds, a top SEC official says]() | Washington Post
Two of the world's biggest virtual currencies need not be regulated like stocks and bonds, a top official at the Securities and Exchange Commission said Thursday, putting to rest months of uncertainty about how the financial regulator views bitcoin and ether, the cryptocurrency behind Ethereum.

Hinman's remarks suggest that, unlike companies, which are required to educate stock investors about the health of their businesses, the developers behind bitcoin and ether face no such obligations. The basis for this conclusion, Hinman said, lies in the fact that bitcoin and ether are developed diffusely, by many unaffiliated people, rather than by a single, centralized entity such as a corporation.

The speech was seen as a victory by cryptocurrency advocates who have argued that applying securities regulation to a novel technology could inhibit its growth. Minutes after Hinman began speaking, the price of bitcoin spiked by nearly 3 percent, according to Coinmarketcap.com. The price of ether surged more than 9 percent.

INVESTOR PROTECTION, THE SEC, AND RETIREMENT SAVINGS

[SEC advice rule concerns raised by Schwab, AARP]() | Investment News
AARP, which represents about 38 million Americans in or near retirement, said the disclosure doesn't provide enough information for investors to distinguish between investment advisers and brokers.

David Certner, AARP legislative policy director, said Form CRS neither mentions the fiduciary duty that investment advisers currently owe clients nor defines the best-interest standard that the SEC is proposing for brokers.

"We're concerned that not only will this summary confuse investors, but it may provide them with a false sense of security," he said on a conference call with reporters.

[Merrill Considers Lifting Ban on Commission-Based Retirement Accounts](#) | Wall St. Journal
Merrill Lynch may reverse a ban on commissions in retirement accounts the firm manages, marking a potentially significant retreat for a leading advocate of fee-based accounts.

The brokerage arm of Bank of America Corp. BAC -1.42% banned commissions for retirement accounts in anticipation of the Labor Department's "fiduciary rule," which went into effect in April 2016. The regulation was meant to protect retirement savers from conflicted financial advice from brokers seeking commission income.

But the rule was thrown out by a U.S. Circuit Court in March. And the Securities and Exchange Commission is working on its own version of a best-interest rule that would apply to brokers. That has led Merrill to review its policy, setting the stage for a potential about face on aggressive changes it had said were in the best interest of clients.

SEC commissioner calls for updating stock buyback rules | The Hill
Robert Jackson, who was appointed by Trump to one of the SEC's Democratic seats, expressed concerns about the fact that corporate executives are using stock buybacks as an opportunity to cash out the stocks they receive as part of their compensation.

"We give stock to corporate managers to convince them to create the kind of long-term value that benefits American companies and the workers and communities they serve," Jackson said in a speech at the left-leaning Center for American Progress. "Instead, what we are seeing is that executives are using buybacks as a chance to cash out their compensation at investor expense."

Stock Buybacks, Corporate Executive Cashouts, and the End of the 'Safe Harbor' Rule? | Roosevelt Institute (Lenore Palladino & Adil Abdela)
In today's political environment, an overhaul before 2021 is unlikely. Commissioner Jackson has, however, taken an important first step, declaring that the rules governing stock buybacks can and must be changed.

Commissioner Jackson's office conducted new research that empirically demonstrates that corporate executives are authorizing buyback programs to inflate share prices and then turning around and selling their own shares for profit. They found that in the first eight days after a buyback announcement, insiders sell their own personal holdings at twice as many companies as usual. Most notably, executives are selling an average of $500,000 worth of stock per day—a five-fold increase as compared to the normal daily average of $100,000.

This has resulted in personal profit to insiders of $75.1 million in 2017 and the first three months of 2018—a figure that would be much higher if examined across all public companies in the U.S. (they limited their investigation to roughly 350 firms).

The Wall Street Con Now Shredding Our Economic Future | Inequality.org (Sam Pizzigati)
Last year, U.S. corporate outlays for buybacks totaled $800 billion. The buyback pace this year has quickened, as top execs rush to "invest" the savings they're realizing from the GOP corporate tax cut enacted last December. In May alone, corporate CEOs bought back $174 billion worth of their shares, "an all-time record" for a single month.

None of these buyback billions will make America's corporations more creative or productive. What will these buyback billions do? They'll simply, as Pulitzer Prize-winning business journalist Steven Pearlstein noted last week, redistribute "even more of the nation's wealth to corporate executives, wealthy investors, and Wall Street financiers."

Ellison introduces bill to curb stock buybacks | The Hill
The introduction of the bill by Ellison — who serves as deputy chairman of the Democratic National Committee and is running for attorney general of Minnesota — comes as Democrats have been drawing attention to the boom in stock buybacks as they make their case against the tax law…

"Large corporations have used their recent tax break to close plants and offshore jobs, all while spending record billions on buybacks to enrich their own executives," Ellison said in a statement. "Workers deserve a larger share of the profits they produce and a seat at the table, and this law will make sure they get it."

Ellison's bill would bar companies from offering stock buybacks on the open markets. Instead, buybacks would have to be done through tender offers, which face more disclosure requirements. The bill also would require public companies to have their workers chose one-third of their boards.

SEC Chairman: Most of Dodd-Frank Is Here to Stay | Wall St. Journal
Postcrisis rules have created new challenges for Trump-appointed regulators as they look at recalibrating the financial rule book, but the vast majority of the 2010 Dodd-Frank Act isn't going anywhere, Securities and Exchange Commission Chairman Jay Clayton said Monday. Speaking at The Wall Street Journal's CFO Network annual meeting in Washington, Mr. Clayton said that regulators are evaluating how postcrisis rules have performed in practice, and that he had concerns about some of the unintended side effects from some regulations. But any changes will be around the edges, keeping the core of postcrisis overhauls in place, he added. "I don't think Dodd-Frank is changing a great deal, just to put a pin in it," he said.

Senate Dems want watchdog to probe if SEC official tried to pressure bank on gun policies | The Hill
Senate Democrats want the top watchdog at the Securities and Exchange Commission (SEC) to investigate if a commissioner tried to influence Citigroup to reverse new policies restricting business with firearms manufacturers. Several Democrats, led by Sen. Chris Van Hollen (D-Md.), are sending a letter to Carl Hoecker, the inspector general at the SEC, on Wednesday asking him to look into comments Commissioner Michael Piwowar reportedly made to Citigroup during a meeting earlier this year. "We do have concerns that Commissioner Piwowar may have abused his government position in an attempt to unduly influence Citigroup to reverse a business decision that conflicts with his personal and political views," the Democratic lawmakers wrote in their letter.

Merrill considers lifting ban on commission-based retirement accounts | Wall St. Journal
Clients have been frustrated by the commission ban, said a person familiar with Merrill's decision. For retirement clients with traditional brokerage accounts, the posture meant either

converting to a fee-based account, moving to the bank's cheaper online offering, Merrill Edge, or leaving the firm.

Merrill's embrace of the fiduciary rule came in stark contrast to many other firms across the industry that fought the regulation. And competitors didn't follow after Merrill Lynch announced it was nixing commissions in retirement accounts.

MORTGAGES AND HOUSING

Bank Regulator, on the Defensive, Endorses an Obama-Era Approach to Fight Discrimination | NY Times

"Are you sitting before this committee telling a Hispanic American that there is no discrimination in mortgage lending?" asked Senator Robert Menendez, a New Jersey Democrat who is the son of Cuban immigrants.

"No," replied Mr. Otting. "I think there is disparate impact that occurs in America. What I said was I did not personally observe" discrimination.

Civil rights groups have long cited the concept of "disparate impact" in discrimination cases, alleging that inherent bias against minorities, women and disabled people resulted in disparate — and unfair — treatment in employment, education and housing…

A spokesman for Mr. Otting said his comments reflected his personal view, but would inform his enforcement and reform of the Community Reinvestment Act, a federal law intended to fight lending discrimination and residential segregation.

Otting's 'discrimination' comment is blow to CRA efforts: Senate Dems | American Banker

Small mortgage loans: Why are they so hard to find? | Ask a Lender

The Urban Institute, a Washington, D.C.-based think tank that studies a variety of social and economic issues, including housing costs and home mortgages, said that low-cost, single-family properties — those valued at $70,000 or less — comprised 14 percent of all U.S. home sales in 2015. That statistic is significant on its own, but it jumps to 39 percent in the 300 counties nationwide that had the highest shares of low-cost homes and at least 500 home sales in 2015.

Creating more affordable mortgages is another consideration. In 2017, homebuyers who obtained a mortgage of more than $70,000 had interest rates that were lower, on average, than those who had borrowed a smaller amount, the Urban Institute said. VA loans had the largest gap, with borrowers of $70,000 or less paying an average rate of 4.25 percent, compared to 3.88 percent for those with mortgages of more than $70,000.

Home equity rises at near record level | Scotsman Guide

REGULATION IN GENERAL

Sen. Elizabeth Warren praises power of regulation during symposium speech | Safety & Health
Sen. Elizabeth Warren (D-MA) lauded government regulation as a vital societal institution during a June 5 speech, saying "good rules empower people to live, work and do business freely and safely." Delivered before a symposium hosted by the Coalition for Sensible Safeguards, a group of more than 160 unions and nonprofit organizations, Warren's remarks came in stark contrast to the Trump administration's focus on deregulation.

AT&T-Time Warner ruling a milestone for vertical mergers | The Hill
The antitrust court ruling allowing the AT&T-Time Warner merger to proceed is a watershed event for vertical mergers, in which a buyer and a supplier combine. But what remains to be seen is what the future holds for the Justice Department's enforcement of other vertical mergers and alliances in the deal pipeline. For investment professionals and merger and acquisition (M&A) specialists, predicting how the Department of Justice (DOJ) or Federal Trade Commission (FTC) might react to a horizontal transaction among companies that largely occupy the same space (e.g., United Airlines and Continental Airlines) is relatively straightforward. This is partly because these agencies have published guidelines on such transactions, and there is an extensive string of precedent in the horizontal merger field. The need for predictive analytics behind such transactions cannot be underestimated. A proposed transaction can generate much uncertainty in the capital markets and among the employee bases of both firms; not being able to predict how an agency might respond to a proposed transaction can be an unacceptable risk for any transaction.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Warren, Krishnamoorthi demand examination of Education Department ethics program after former for-profit college exec shapes policy | ABC News
Two Democrats are demanding a review of the Education Department's ethics program following an ABC News report that revealed a senior Education official, hired straight out of the for-profit college sector, helped dismantle regulations designed to protect students defrauded by predatory colleges.

Sen. Elizabeth Warren, a Massachusetts Democrat, and Rep. Raja Krishnamoorthi, a Democrat from Illinois, make the demand in a letter sent to the department's inspector general Thursday.

Robert Eitel, who was hired by the Trump administration last year after four years as a for-profit college executive, played a role in suspending an Obama-era policy known as "borrower defense to repayment," according to documents obtained exclusively by ABC through the watchdog group Democracy Forward.

Trump administration undermined student debt relief unit while claims mounted, watchdog finds | Washington Post
As thousands of applications for student debt forgiveness poured into the U.S. Education Department, the Trump administration cut the staff working on the claims and ordered a halt to an overhaul of the system, according to the agency's inspector general.

The result: Claims lingered month after month.

A letter from the agency watchdog to Sen. Richard J. Durbin (D-Ill.), obtained Wednesday by The Washington Post, sheds light on the Education Department's controversial handling of more than 100,000 debt relief claims submitted by defrauded student loan borrowers.

Betsy Devos Remakes Higher Education in the Image of Trump University | Daily Beast (Margaret Carlson)

Veterans slam loosening rules on for-profit colleges | ConnectingVets.com (Matt Saintsing)
H.R. 4508, known as the PROSPER Act, is a massive 542-page bill pushed by House Republicans that would overhaul the Higher Education Act, which regulates everything from financial aid to Greek life on campuses. Supporters of the legislation, like Rep. Virginia Foxx (R-N.C.) say that it cuts down on overly burdensome regulations and other reporting requirements for institutions of higher-learning.

But several veterans' organizations, including the American Legion, Veterans of Foreign Wars (VFW), Student Veterans of America, and the Tragedy Assistance Program for Survivors (TAPS), and other have committed to oppose a floor vote on the bill unless major changes are made. "It's a great bill for bad schools," tweeted Will Hubbard, vice president of government affairs at Student Veterans of America.

ITT Tech CEO Is Sued For Serving Himself As Company Collapsed | Republic Report (David Halperin)

Millions in student loans forgiven for former Corinthian College students | ABC 7 News
There has been a huge victory for thousands of California students allegedly defrauded by the now-defunct Corinthian Colleges. California's attorney general is forgiving millions in student loans. "Corinthian was a predatory institution that's shut down because of its fraudulent practices," said California Attorney General Xavier Becerra.

Becerra announced a settlement with Balboa Student Loan Trust providing $67 million in debt forgiveness.

Dem lawmakers demand review of Education Department ethics program over official tied to for-profit colleges | The Hill
Sen. Elizabeth Warren (D-Mass.) and Rep. Raja Krishnamoorthi (D-Ill.) sent the demands after an ABC News report revealed that a top Education official who was hired from the for-profit college industry helped roll back regulations put in place to protect students from being defrauded by predatory colleges.

SYSTEMIC RISK

Weakening of Dodd-Frank Means It is Back to School Time | MRV Newsletter (Mayra Rodríguez Valladares)
In a Moody's report aptly titled 'Higher asset threshold for US SIFI designation will relax some banks' regulatory oversight, a credit negative', Senior Vice President Allen Tischler explains that "the higher asset threshold for SIFI designation is likely to lead to a relaxation of risk governance and encourage more aggressive capital management, a credit-negative outcome." Specifically, the area that should concerns us all is that if many of the banks in the range of $100-$250 billion are no longer required to participate in public stress tests, transparency to ratings analysts and investors will be greatly reduced. I agree with Tischler that the "quantitative results of DFAST and CCAR provide a relative rank ordering of stress capital resilience under a common set of assumptions. The loss of such transparency is credit negative."

Every time that a legislative action or policy lead to weaker regulations and lighter touch bank supervision, banks channel their savings on compliance and audit costs to taking on more risk by increasing lending with lighter due diligence and weaker covenant provisions. They also increase their investments in riskier products such as securitizations, below investment grade bonds, and derivatives.

Fed sets limits on biggest banks' loans to each other | Washington Post
The Federal Reserve has set limits aimed at addressing one of the leading causes of the 2008 financial crisis — the buildup of loans extended by one bank to another among the biggest Wall Street institutions.

The aim of the rule, applied to banks with assets of $250 billion or more, is to help bolster the stability of the financial system. The hope is to prevent a repeat of the crisis that engulfed the financial system in September 2008 when the collapse of Wall Street powerhouse Lehman Brothers raised fears over the stability of banks that had made loans to Lehman.

OTHER TOPICS

Give Everyone Government Bank Accounts | New Republic (David Dayen)
[A] new report co-authored by two Treasury Department veterans, "Central Banking for All: A Public Option for Bank Accounts," argues that Americans should have an account at the Federal Reserve, just as banks do. They believe this would solve a vast array of problems at once, ensuring that everyone is included in the financial system, driving down retail costs for businesses and consumers, and even making recessions less likely.

Morgan Ricks and Lev Menand, who worked in the Obama administration, and John Crawford, a law professor at UC-Hastings, call their idea FedAccount. These personal accounts would operate like the accounts that commercial banks already have with the Fed—with all the attendant privileges. Whereas the average checking account draws 0.05 percent, federal reserve accounts earn interest equivalent to the federal funds rate—currently 1.75 percent. Americans wait up to two days for a check to clear, but thanks to the Fed, banks can instantly transfer money to each other. And while personal bank accounts are only guaranteed through the FDIC up to $250,000, Fed accounts can never default, no matter how large the account balance, because it’s the central bank that prints America’s money.

“The time has come to end this special privilege of banks,” the authors write. Every American, every business, every institution would have the option of a FedAccount, with all the functionality of a normal bank account, like debit cards, direct deposit, online bill pay, and mobile banking, and no chance of default. The authors see the U.S. Postal Service’s 31,000 locations nationwide as a good place to locate ATMs and provide teller services for deposits and withdrawals.

Bank Seizes Valadao’s Family Farm | Roll Call
A bank seized a farm owned by California Rep. David Valadao and his family after they failed to repay $8.3 million in loans. Court documents show that in November, agriculture lender Rabobank sued Triple V Dairy in Fresno Superior Court for failing to repay the loans, the Los Angeles Times reported. Valadao is named in the suit along with his wife, four other family members and 50 other unidentifed defendants, along with two other farms, the Times reported. A statement by Valadao blamed government overreach for the family’s farm troubles. “Like so many family dairy farms across the country, burdensome government regulations made it impossible for the operation to remain open,” he said in a statement. “While this has been an especially difficult experience, I remain hopeful that sharing my story will help those going through similar situations.”