Trump Deregulation Agenda Is a Gift Bag For Wall Street Banks and Predatory Lenders

A new round of Wall Street deregulation is something the great majority of voters were clearly NOT looking for when they went to the polls last November. Most Americans have strong memories of the financial crisis and the economic misery it unleashed. Millions of people lost jobs or homes; many millions more suffered sharp declines in income, retirement savings, and household wealth; communities of color took the worst hit as the racial wealth gap roughly doubled.

Eight years later, the big banks are thriving, even as millions of American families continue to dig out from under the wreckage. Nevertheless, President Trump and his senior economic team, led by Goldman Sachs alums Steven Mnuchin and Gary Cohen, have mapped out a plan to undo or undermine many of the reform measures taken after the financial crisis of 2008 - measures put in place both to prevent a fresh disaster and to shield consumers against deceptive and abusive banking and lending practices. In formulating its recommendations, the Treasury Department has followed the lead of the country's biggest banks, whose recklessness and deceit were a major cause of the crisis.

ATTACKS ON CONSUMER RIGHTS AND THE CONSUMER FINANCIAL PROTECTION BUREAU

The Administration's proposals would cripple the Consumer Financial Protection Bureau. Since it got up and running in 2011, this new agency has begun to bring basic rules of fair play to the financial marketplace, while delivering nearly $12 billion in relief to more than 29 million wronged consumers. Lawbreaking banks and financial companies want to have free rein to abuse their customers, and the Administration's proposals would grant their wishes.

Several Treasury Department-backed proposals take aim at the Consumer Bureau's funding or authority.

Funding. Like other bank regulators, the CFPB is currently funded outside of the appropriations process in order to insulate it against political pressure. The Administration and its allies in Congress want to change that, putting the big banks and financial interests in a position to use their campaign contributions and lobbying clout to radically shrink the agency and withhold money for activities they dislike.

Enforcement authority. Once again, the Trump Administration has lined up with predatory lenders and Wall Street by calling for sharp limits on the Bureau's authority to punish firms that cheat their customers. Under the proposed limits, the CFPB would be left with persuasion and cajoling as its main enforcement tools.

Supervisory and examination authority. The Treasury Department is trying to take away the CFPB's ability to kick the tires and look under the hood in order to make sure that banks and financial companies follow the law.

Complaint system. The CFPB has created a place for consumers to report complaints of wrongdoing, with companies required to respond within 60 days. This tool has helped millions gain financial relief, while helping the Bureau, consumer groups, the media, and the public identify widespread problems. The Treasury Department has come out in support of industry calls to block the public disclosure of these complaints, which would make the database far less useful.

The Treasury Department's proposals would greatly weaken the Consumer Bureau's ability to implement two crucial rules:

Payday rule. This aim of this rule - expected soon - is to curb the abuses of payday and car-title lenders, whose loanshark-style interest rates of 300-plus percent trap borrowers in a cycle of debt.

Arbitration rule. This rule - already finalized but under threat - curbs the financial industry's use of forced-arbitration ripoff clauses that ban class-action lawsuits. These ripoff clauses amount to Get-Out-Of-Jail-Free cards for widespread fraud. By putting them into take-it-or-leave-it customer agreements, banks and lenders get to keep their ill-gotten gains, and they get to keep illegal schemes under wraps, because arbitration proceedings are typically held in secret. Wells Fargo and Equifax are just two of the firms that have used such clauses to funnel customer complaints to biased arbitration proceedings, where the average consumer ends up being ordered to *pay the bank or lender* $7,725.

ATTACKS ON MORTGAGE LENDING SAFEGUARDS

Mortgage-lending standards have been significantly strengthened since the financial crisis. The Trump Administration's proposals would roll back these measures and substantially weaken the ability of the Consumer Bureau to police the mortgage market.

ATTACKS ON SAFEGUARDS AGAINST ANOTHER FINANCIAL CRISIS

Another part of the Trump Treasury plan targets key mechanisms for monitoring and restraining the kind of financial industry recklessness that could lead to another meltdown and bailout:

Limits on risky bets and leverage. Before the crisis, some U.S. banks were borrowing as much as $40 for every dollar of their own investors' money. That level of leverage multiplied profits in good times and losses in bad times, posing a grave danger to the health and stability of the financial system and the economy. After the crisis, regulators limited the amount that banks could borrow, and forced them to raise additional investor capital. The Treasury Department wants weaken the rules and let the biggest banks borrow more money.

Living wills. During the financial crisis, regulators argued that a lack of explicit legal authority to restructure failed banks had left them with no alternative to a bailout. The Dodd Frank Act created a process, to be overseen by the Federal Deposit Insurance Corporation (FDIC), for the safe winding-down of large, failing companies, with their executives, directors, and officers held accountable. The Trump Treasury Department wants to substantially weaken this authority.

Stress Tests. Dodd Frank provided for regular "stress testing" to monitor banks' ability to withstand market reversals. The Treasury Department favors weakening the stress-test process by, among other things, making detailed testing criteria public in advance and allowing banks to sue in court to stop tests they view as too tough. These proposals would allow banks to game the system and weaken stress testing to the point of being useless.

The Volcker Rule. This provision of Dodd Frank bars the big Wall Street banks from playing reckless games with the benefit of insured deposits and other taxpayer subsidies and guarantees. Such gambling, besides increasing the risk of another financial meltdown, drives economic inequality by inflating financial sector profits and executive bonuses. The Comptroller of the Currency, the main regulator of the largest banks, has signaled its intent to substantially weaken the Volcker Rule and has invited the big Wall Street banks to submit their ideas for doing so.

Regulation of large regional banks. The Trump Administration has signaled support for the efforts of two dozen "regional" banks, each among the largest 35 banks in the country, to be exempted from enhanced risk oversight, based on the false argument that they pose no threat to financial sector stability. Banks in this size range, including Washington Mutual, Countrywide, and Wachovia, played a significant role in the financial crisis through their massive participation in dangerous and irresponsible mortgage lending. Such an exemption would leave financial regulators with even less authority than they had before the financial crisis.

ATTACKS ON INVESTOR SAFEGUARDS

The Administration has also endorsed proposals to roll back regulations intended to guard average investors against exploitation by corporate and financial-market insiders. One of the most important protections at risk is the Department of Labor's May 2016 rule requiring retirement investment advisers to look out for their clients' best financial interests. Self-serving retirement advice – that is, sales pitches disguised as advice – costs American workers and retirees an estimated $17 billion a year. The big winners in this game are Wall Street brokerage houses and insurance companies. They have already persuaded the Labor Department to announce an 18-month delay and re-study of many parts of the rule.

ATTACKS ON DEFRAUDED STUDENTS AND STUDENT-LOAN BORROWERS

In every major decision since the Trump Administration took office, the Department of Education has favored the interests of private companies over the students it is charged with protecting. In April, the Department rescinded three memos meant to protect borrowers and ensure accountability, including one intended to prevent servicers that repeatedly broke the law from being rewarded with government contracts. In June, the Department abandoned the victims of predatory colleges by delaying the update to the Borrower Defense rule, and creating two new negotiated rulemakings to re-do and likely dismantle both the Borrower Defense and Gainful Employment rules -- rules meant to prevent abuse and hold bad actors accountable. The Department has also hired multiple former employees of for-profit colleges, including Robert Eitel, who used to work for Bridgepoint, a chain that would benefit from all the degregulation advanced by the Department.

In September, the Department ended an information sharing initiative with the Consumer Financial Protection Bureau (CFPB). In that same month, Education Secretary Betsy DeVos insulted defrauded students across the country, tens of thousands of whom await debt discharges, by saying they were simply looking for “free money.” The Department’s actions under Secretary DeVos have a common theme: they all represent a betrayal of students and a boon to private companies with a history of preying on those students.