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Financial Reform Newsletter: June 22, 2017

President Trump's Deregulation Termites Eating Away the Foundation of our Financial and Economic Security;
The Treasury Department's Report: Yet Another Dangerous Step Closer to Another Devastating Financial Crash?;
Abacus: Small Enough to Jail

President Trump's Deregulation Termites Eating Away the Foundation of our Financial and Economic Security

Candidate Trump was the most anti-Wall Street candidate since FDR in the 1930s. However, in stark contrast, ***President Trump*** has heartily embraced Wall Street and its agenda. It's as if President Trump had never met Candidate Trump. This contradiction covers both personnel and policy and is a flip flop of historic proportion.

The latest example of this was the administration's announcement late last Friday of its intent to nominate a staffer (Jim Clinger) from Chairman Jeb Hensarling's House Financial Services Committee to be the next Chairman of the Federal Deposit Insurance Corporation (FDIC). The FDIC insures the deposits of most banks in the US and, therefore, protects the savings of virtually every American who has a savings account at a bank. Mr. Hensarling, the author of the financial deregulation CHOICE Act, has been the most relentless and vocal critic of the FDIC's financial protection rules, orderly liquidation authority (OLA) and living wills in particular.

As the Financial Times headline made clear: "Trump nominates Dodd-Frank opponent to police Wall Street." One bank analyst observed that "[t]he FDIC has arguably been the toughest regulator on banks in recent years. Under Clinger, we believe the agency would be more sympathetic [to the banks] than at any time since the financial crisis."

The FT article highlights two key points.

First, the nomination comes "as Wall Street banks lower their expectations for an overhaul of Dodd-Frank in Congress and pin their hopes instead on Trump-appointed regulators watering down rules within existing law." As we have said, political and legislative maneuverings in Congress will get the media attention, but the real policy rollbacks will be at the regulatory agencies, which is where Better Markets focuses its work.

Second, Wall Street's political allies continue to deliver for Wall Street while minimizing the chance that the public will find out what they are doing and hold them accountable for siding with Wall Street over Main Street. The Clinger announcement was late on a Friday afternoon, the traditional time for releasing information that will get little or no attention. The House Republican leadership did the same thing when they scheduled the vote on the biggest Wall Street deregulation bill in decades (Chairman Hensarling's CHOICE Act) at the very same time as former FBI Director Comey was testifying about his firing by the President, which received all the media attention.

We all know how a deregulation agenda like this ends because it just happened: finance and Wall Street's biggest banks in particular were deregulated in the years leading up to the 2008 crash by regulatory agencies that were packed with industry-friendly allies. This was starkly illustrated by the infamous 2003 picture of 2 "regulators" (FDIC Vice Chair & OTS head) with 3 bank lobbyists taking a chain saw to so-called "red tape" regulation:

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In the years before the crash, regulators and bank lobbyists killed, weakened or didn't enforce key financial protections, which they called "red tape." It's no surprise that this deregulation frenzy was a primary cause of the 2008 crash: deregulation is like termites eating the foundation of a building. They are unseen and work slowly, but destroy the foundation until the building collapses. The deregulation termites are already working hard at the Treasury, NEC, SEC, CFTC and OCC. Now they'll be moving into the FDIC and then the Fed.

The Treasury Department's Report: Yet Another Dangerous Step Closer to Another Devastating Financial Crash?

Last week, the Trump Treasury Department released the first of what will be four reports in response to requests from the President to review the financial protection rules put in place after the 2008 financial crash. The Report is long and complicated, with numerous recommendations and observations. While it isn't clear what action the administration will ultimately try to take or what it will be successful at, there are some very troubling positions set out in the Report.

While the report was presented as primarily focusing on easing regulations on community banks, it is really aimed at the heart of the Dodd-Frank financial reform law passed in response to the 2008 financial crash and economic catastrophe. For example, it would strip the Consumer Financial Protection Bureau (CFPB) of nearly all of its powers and, like the Choice Act passed by the House the week before, proposes a dangerous regulatory off-ramp if banks meet minimal capital and liquidity requirements. It also replaces the "break-the-glass" last-chance failsafe protection of orderly liquidation authority (OLA) with an untested and unworkable change to the bankruptcy code, purportedly to unwind failing financial institutions.

Dismantling the financial protection rules put in place to prevent Wall Street from crashing the financial system and causing a second Great Depression is like taking down the flood prevention system put up to protect New Orleans from another Hurricane Katrina. The financial protection rules are like New Orleans' flood prevention system: you hope you never need it, but you better have it when disaster strikes. Importantly, the financial protection system, like the flood prevention system, better have layers of protection because you can't count on every layer working perfectly in every unpredictable scenario that might happen in the future.

Of course, some financial protection rules could be done better or differently, but this Report is not the product of a neutral process to open-mindedly evaluate what should be done better. It is the result of an order from a President who promised to "do a number" on financial protection rules and who has demanded that those rules be smashed and that Wall Street be unleashed. If that's what happens,

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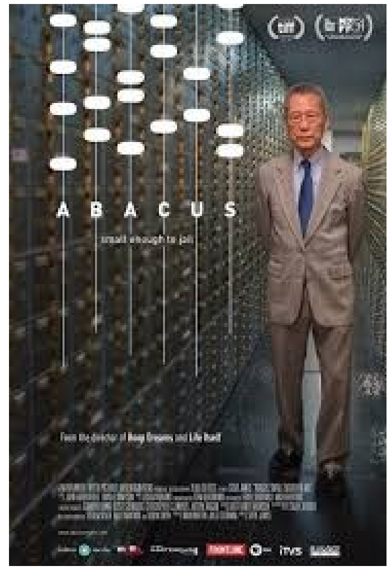
then there will be another devastating financial crash, sooner rather than later and worse than the last one, and taxpayers will be on the hook again for bailing out Wall Street. That would be a needless tragedy of historic proportion.

Abacus: Small Enough to Jail



Abacus Federal Savings Bank, a small bank that served New York's Chinatown, holds the dubious distinction of being the only U.S. bank to face criminal charges in the wake of the 2008 financial crisis. "Abacus: Small Enough to Jail" is a critically-praised and award winning documentary that tells the story of the Sung family who ran the bank and how they faced prosecution following the self-reporting to regulators of three employees who accepted bribes and falsified income statements in mortgage applications.

The film is currently touring the country and, following successful runs in New York and Los Angeles, is playing in Washington, DC from June 23rd to the 29th. [Screening information as well as other cities where the film will play can be found here.]

Without giving away the outcome of the trial, there is no doubt that targeting Abacus was a ridiculous and unfortunate substitute for failing to prosecute the too-big-to-fail banks that caused the 2008 financial crisis. Spending a couple of hours in a dark, air-conditioned movie theater watching this hugely important film will be time well spent.

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