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THIS WEEK IN WALL STREET REFORM
Oct. 5 to Oct. 11, 2013

MORTGAGES AND FORECLOSURES

Richmond's Rules: Why One California Town is Keeping Wall Street Up at Night

(Lydia DePillis, Washington Post, 10/5/13)
The Washington Post takes a hard look at eminent domain as a potential anti-foreclosure tool. "For communities across the land -- North Las Vegas, San Bernardino County, Calif., Chicago -- where too many are stuck with house payments beyond what they can afford, this was the nuclear option. While those cities backed away, Richmond hit the button…

"After five years of the federal government gently nudging banks to forgive homeowners debt they took on in better days, cities have found a legal weapon the financial industry truly fears…"

U.S. Supreme Court Says Banks Cannot Appeal in FHFA Case

(Lawrence Hurley, Reuters, 10/7/13)
"In 2011, the FHFA sued 18 banks [including Bank of America, Barclays, Goldman Sachs, and JP MorganChase], accusing them of violating securities laws by misleading Fannie and Freddie about $200 billion in mortgage-backed securities they purchased."

According to the Supreme Court, banks involved in 13 as-yet-unsettled lawsuits cannot seek review of a New York-based 2nd U.S. Circuit Court of Appeals decision that went against them.

Buried in Fine Print: $57B of FHA Loans Big Banks May Have to Eat

(Kate Berry, American Banker, 10/7/13)
"The nation's four largest banks are holding $57 billion of seriously delinquent loans that they've been slow to move into foreclosure over concerns that the Federal Housing Administration, the government mortgage insurer, will refuse to cover the losses and hit

them with damages, according to industry sources.

"The banks — Bank of America (BAC), Citigroup (NYSE:C), JPMorgan Chase (JPM), and Wells Fargo (WFC) — have assured investors in the footnotes of quarterly filings that the loans are government-insured and therefore pose no threat to their bottom lines, even if they end up in foreclosure. What's more, the banks have used these supposedly iron-clad government guarantees as a pretext for continuing to classify the loans as performing and for holding no reserves against them…"

New Mortgage Regulations Will Squeeze Working-Class Buyers, According to Columnist
(Tim Grant, Pittsburgh Post-Gazette, 10/9/13)
"Financial institutions in the business of originating mortgages that they plan to resell on the secondary market to government-sponsored mortgage buyers Fannie Mae and Freddie Mac will have to raise their standards for approving loans. That is likely to have the biggest impact on working-class families, many of whom are struggling with consumer debt and are living paycheck to paycheck…"

FEDERAL RESERVE

As Regulator, Yellen Set to Stay Tough on Banks
(Wall Street Journal, 10/10/13)
"Janet Yellen, President Barack Obama's nominee to head the Federal Reserve, is expected to continue the Fed's toughened approach to bank regulation, including a push toward stricter controls on large banks and tighter scrutiny over lending used by hedge funds, money-market firms, and other companies.

"Ms. Yellen, whose views on regulation are less well-known than her monetary-policy approach, grabbed the attention of bankers in June when she aligned herself with fellow Fed Govs. Daniel Tarullo and Jeremy Stein in suggesting the U.S. may have to increase capital cushions at big banks. In a speech in Shanghai, Ms. Yellen said the U.S. may need to go beyond international agreements for so-called systemically important financial institutions to eliminate the idea that any bank is 'too big to fail….'"

Yellen's No. 1 Theory: The Badly Paid Don't Work Hard
(CNBC, 10/9/13)
"President Barack Obama's choice of Janet Yellen to head the Federal Reserve was surely bolstered by the fact that her concerns about unemployment outweigh her concerns about inflation. It must have gratified him, then, to learn that her most famous theory attempts to pinpoint the specific cause behind unemployment.

“Co-written with her husband, Nobel-winning economist George Akerlof, Yellen's most widely cited paper is borne out of a simple premise: ‘if people do not get what they think they deserve, they get angry.’ Yellen and Akerlof go on to argue that workers who receive less than what they perceive to be a fair wage will purposely work less hard as a way to take revenge on their employer. And the worse they are paid, the less hard they will work. Or, as the paper puts it, ‘workers proportionally withdraw effort as their actual wage falls short of their fair wage…’"

<u>Senate Republicans Pledge to Examine Yellen’s Record</u>
(Credit Union Times, 10/10/13)
“’I intend to fairly but rigorously scrutinize this nominee. What we need in the Fed is a policy of humility that recognizes its limitations and the risk of continued easing,’ said Senator Jeff Sessions (R-Alabama), Ranking Member of the Senate Budget Committee on Wednesday…

“’Ms. Yellen subscribes to the liberal school of thought that the best way to handle to our nation’s fiscal challenges is to throw more money at them,’ said the second ranking Republican in the Senate, John Cornyn (R-Texas)…”

<u>Next Fed Chair Has Opportunity to Rein in Big Banks, Protect Consumers</u>
(Public Citizen statement, 10/9/13)
“’She is not known as a creature of Wall Street like Larry Summers, Tim Geithner or Robert Rubin, who believe in the failed notion that unregulated financial institutions that engage in excessively risky activities somehow serve our economy,’ said Robert Weissman, president of Public Citizen.

“Added Lisa Gilbert, director of Public Citizen’s Congress Watch division, ‘Yellen’s nomination as the first female chair of the Fed is historic and a welcome addition to what traditionally has been a male-dominated institution.’”

<u>Yellen as Americans’ Favorite Shows Fed Is Captured by Democracy</u>
(Caroline Salas Gage, Bloomberg, 10/9/13)
“For better or worse, the Federal Reserve is no longer detached from public opinion about how the 100-year-old central bank should be run. President Barack Obama nominated Janet Yellen today to succeed Ben S. Bernanke as Fed chief after unparalleled scrutiny during the selection process. Former Treasury Secretary Lawrence Summers, who had been the president’s favorite, withdrew from consideration on Sept. 15 after opposition from fellow Democrats, while Yellen, the Fed’s vice chairman, drew support from more than 400 economists, women’s groups, investors and politicians.

“The unprecedented frenzy surrounding the nomination is an extension of the backlash that resulted from the Fed’s bailouts during the financial crisis and also reflects heightened concern about the economy after record monetary stimulus has failed to bring joblessness below 7 percent…"

Nine Amazing Facts About Janet Yellen, Our Next Fed chair
(Dylan Matthews, Washington Post, 10/9/13)
She is perhaps the most qualified Fed chair in history. She's been a powerful voice for the unemployment hawks on the Fed. She doesn't want to use monetary policy to pop bubbles. She owns a lot of stamps. And more.

BANKING AND BANK ACCOUNTS

NCRC Analysis of CFPB Bank Account Complaints by ZIP Code
(NCRC, 10/8/13)
"While complaint data by itself cannot definitively measure the consumer experience with bank accounts, policy makers should be concerned if complaints are disproportionately coming from traditionally underserved communities. Poor service could deter consumers from seeking banking relationships and/or could be indicative of a reluctance on the part of some banks to offer bank accounts to traditionally underserved communities.

"This analysis reveals that predominantly minority communities are more likely to submit complaints about poor service related to bank accounts than predominantly white communities. At the same time, upper income communities are more likely to submit complaints than lower income communities… The good news is that residents in minority communities are more likely to also receive monetary relief as compensation for their complaints. However, the CFPB database does not indicate whether this resolution was satisfactory to the consumer or whether the consumer continued a relationship with the bank. In addition, minority communities are also more likely than predominantly white communities to have their complaints unaddressed by banks…"

Consumer Group Finds Racial Disparity in Bank Complaints
(Danielle Douglas, Washington Post, 10/8/13)
"People in minority communities are more likely to submit grievances to the government's consumer watchdog about their banks than those in predominantly white areas, a trend that raises questions about fair lending practices, the National Community Reinvestment Coalition said in a report released Tuesday.
The advocacy group analyzed 17,168 complaints that the Consumer Financial Protection Bureau received as of June 20 from bank customers who had trouble opening accounts, depositing money, withdrawing funds and using debit cards, among other things.

“Using the Zip codes included in the complaints and Census Bureau data, researchers determined that black and Hispanic neighborhoods reported a disproportionate number of problems with their banks. Consumers from predominantly black communities accounted for nearly 10 percent of complaints to the CFPB, though they represented only 6 percent of households examined in the study**.**

Cardless ATMs Allow You to Get Cash With Your Phone
(Blake Ellis, CNN Money, 10/9/13)
“Imagine getting cash out of an ATM without using a debit card. Just like using a ‘remote control for the ATM,’ you will soon be able to log onto a mobile app, indicate the amount of money you want and receive it in seconds from an ATM. No debit card necessary -- all you need is your phone, financial services giant FIS announced at the Money2020 conference in Las Vegas this week.

“Three banks -- Wintrust in Illinois, BMO Harris in Chicago and Los-Angeles-based City National -- have been piloting the service in recent months and plan to launch it across most of their ATMs by the end of 2014…”

ENFORCEMENT

How Jamie Dimon’s Getting Away With It
(Matthew Yglesias, Slate, 10/8/13)
“The federal government might be out of appropriations and dangerously near defaulting on the national debt, but there is one source of funding that’s been extremely lucrative this year: fines on JPMorgan Chase, one of the largest banks in the world. The vast array of legal penalties levied on the bank is especially noteworthy because Chase and its CEO, Jamie Dimon, emerged from the financial crisis with one of the best reputations in the industry. They got out of the mortgage-backed securities business early, shored up their balance sheet, and were therefore able to take advantage of fire-sale prices on wounded banks like Bear Stearns and Washington Mutual. As recently as May, *Businessweek* hailed Dimon on its cover as Wall Street’s Indispensible Man—a giant among the titans of Wall Street.

Today, several months and billions of fines later, he’s ... still a giant among the titans of Wall Street. And that’s the problem.

Blankfein’s Secret for Winning Washington’s Love
(Charles Gasparino, New York Post, 10/7/13)
“JP Morgan chief Jamie Dimon continues to offer $11 billion or more to the vast Obama

regulatory apparatus that seems intent on bringing down both him and his bank, but there may be a more simple solution to his dilemma: Act more like Lloyd.

Lloyd Blankfein, that is… [His] transformation is nothing short of remarkable." Blankfein has been "quiet and malleable… after the heat from various probes of Goldman's conduct during the financial crisis grew to such a level that he himself hinted he might step down as the bank's chief…"

When Giant Banks Pay Fines, Where Does the Money Go? Does It Stop Crime?
(Lynn Stuart Parramore, AlterNet, 10/8/13)
"If somebody broke into your home and stole your belongings, you'd expect to see some serious consequences if they got caught. But when banks and financial firms rob, defraud and mismanage the money of Americans—and even cast them out of their own homes illegally—the worst that usually happens is a fine…

"Since the recent financial crisis and housing collapse, some of Wall Street's biggest banks have faced fines from regulators reaching into billion-dollar territory. In the latest news, JPMorgan Chase is looking at $11 billion in fines for pushing crap mortgage securities on unwary investors… The sum would be the largest single financial fine in history, if in fact it ever is paid…

"So what happens to all that dough? Will it really change anything? Let's follow the money trail…"

SAC Is Said to Weigh Plea Deal in Insider Trading Case
(Peter Lattman, New York Times DealBook, 10/9/13)
"Prosecutors have offered the fund a deal to resolve the case by pleading guilty and paying a penalty of about $2 billion. If SAC does not accept the deal in the coming weeks, the government has threatened to pursue a much larger fine against the fund. In agreeing to have SAC plead guilty and pay the hefty fine, SAC's owner, Steven A. Cohen, would be seeking to put his legal woes behind him in the hopes of salvaging his business. Once he resolved the government's case, Mr. Cohen would look to transform SAC into a 'family office' that would manage Mr. Cohen's own wealth…"

Legal Side Effect in Admission of Wrongdoing to the SEC
(Alexander Stevenson, New York Times, 10/7/13)
"When Philip A. Falcone admitted committing "multiple acts of misconduct" in a settlement this summer with the Securities and Exchange Commission, the hedge fund billionaire appeared to put his legal woes to rest.

"But that admission, a rarity given the S.E.C.'s longstanding policy of allowing defendants to "neither admit nor deny" wrongdoing, has given rise to a fresh set of problems for both Mr. Falcone and the commission.

"On Monday, New York's top financial regulator used the admission to punish Mr. Falcone in an unrelated case, imposing a seven-year ban on the billionaire from controlling insurance companies licensed in New York. Mr. Falcone was also barred from serving as an officer or director of Fidelity and Guaranty Life Insurance…"

DEBT COLLECTORS

States Put Families at Risk to Feed an Insatiable Debt Collection Machine
(NCLC, October 2013)
"The economic downturn has strained millions of families to the breaking point, and the astronomic growth of the debt buyer industry makes them increasingly vulnerable to seizure of essential wages and property to pay their oldest debts. A new report from the National Consumer Law Center surveys the exemption laws of the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands that protect wages, assets in a bank account, and property from seizure by creditors. *No Fresh Start: How States Let Debt Collectors Push Families into Poverty* finds that *not one* jurisdiction's laws meet basic standards so that debtors can continue to work productively to support themselves and their families.

"Some state exemption laws are still parked in the horse and buggy days. For example, while Pennsylvania has strong protections for debtors' wages, that state protects almost none of a debtor's property: just clothing, a Bible, school books, sewing machines not held for resale, military uniforms and $300 of other property—in total. Vermont protects one cow, two goats, three swarms of bees, but not a car worth more than $2500…"

INVESTOR RIGHTS

At the SEC, a Question of Home-Court Edge
(Gretchen Morgenson, New York Times, 10/5/13)
"Since Mary Jo White settled in as chairwoman of the Securities and Exchange Commission, lots of tough talk has emanated from the agency about enforcement priorities…

"The SEC has many weapons in its arsenal. One that is not so well known is its internal court system, overseen by administrative law judges… Because of a recent change in the law, these tribunals are likely to hear more cases…"

Who Must Register As A Municipal Advisor?
(Cyril Tuohy, InsuranceNewsNet, 10/7/13)
The SEC's new registration system "appears to have more exemptions than the tax code…

"Who doesn't have to register? [Most] public officials and employees, underwriters, registered investment advisors, registered commodity trading advisors, attorney, engineers, banks, accountants, independent registered municipal advisors and swap dealers. That covers a wide range of professionals who are involved in the municipal securities marketplace…"

"**High" Fees Are Not Necessarily "Bad" Fees, Says ERISA Attorney Fred Reish**
(Christopher Carosa, Fiduciary News, 8/20/13)
Two researchers wrote to investment plan sponsors across the country, raising the issue of "high" fees. Reish, an attorney who specializes in fiduciary responsibility, sees weaknesses in the study cited by the researchers. "As a result, it does not provide a valid basis for concluding that fiduciaries have breached their duties," he says. Reish adds that "high" fees are not necessarily "bad" fees, and plan sponsors who fail to grasp this point may face trouble.

EXECUTIVE COMPENSATION

Federal Regulators Finally 'Mind the Gap'
(Sam Pizzigati, Too Much, 9/21/13)
"Watching grown men fulminate in public can be an unnerving experience. Michael Piwowar and Daniel Gallagher — two distinctly CEO-friendly members of the five-person federal Securities and Exchange Commission — did plenty of fulminating last week…

"They were trying to defend the indefensible — the skyrocketing pay of America's top CEOs — against a common-sense reform" requiring corporations to "reveal the ratio between what they pay their top executives and what they pay their median, or most typical, worker."

Other Dodd-Frank Pay Requirements to Follow Ratio Proposal, SEC Official Says
(Yin Wilczek, Bureau of National Affairs, 10/8/13)
"In the wake of the Securities and Exchange Commission's recent proposal on pay

ratios, other executive compensation requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act are ‘on the way,’ a senior official said.”

According to special senior counsel Anne Krauskopf, commission staff is ‘hard at work’ on recommendations involving clawbacks and employee hedging — to more Dodd-Frank mandates. But the SEC, she added, is likely to proceed with rules for crowdfunding and Regulation A Plus, among other issues, before it takes further action in the area of executive compensation.

SYSTEMIC RISK

Putting a Speed Limit on the Stock Market
(Jacob Goldstein, New York Times, 10/9/13)
“When Brad Katsuyama was running the U.S. trading desk for the Royal Bank of Canada, his clients would send in orders every day, but every day, when Katsuyama went to buy or sell, something would go wrong. When he wanted to buy, offers to sell shares would suddenly vanish, and the price of the stock would shoot up. When he wanted to sell, the same thing would happen in reverse.”

Soon, “with the help of complex algorithms and ultrafast Internet connections, [traders] could buy and sell stocks in fractions of seconds, looking to make a seemingly infinite number of quick, tiny profits that added up. By 2009, high-frequency traders were making billions of dollars a year, and their transactions accounted for about 60 percent of U.S. stock trades…”

Bank Failures are “Inconceivable” Under the Latest Neoclassical Fantasy
(William K. Black, New Economic Perspectives, 10/7/13)
Black, a former financial-fraud investigator who currently teaches *economics and law at* the University of Missouri-Kansas City, critiques proposals recently put forward by two economists; one would curtail the limited-liability privileges of bank shareholders, and the other calls for more “contingent capital.” Both ideas, Black writes, are “so badly designed that they would be even more criminogenic than the highly criminogenic status quo…”

The Fire-Sales Problem and Securities Financing Transactions
(Governor Jeremy C. Stein, BoG Federal Reserve, 10/4/13)
“First, I will briefly discuss the welfare economics of fire sales. That is, I will try to make clear when a forced sale of an asset is not just an event that leads to prices being driven below long-run fundamental values, but also one that involves a market failure, or externality, of the sort that might justify a regulatory response. Second, I will argue that securities financing transactions (SFTs) are a leading example of the kind of

arrangement that can give rise to such externalities, and hence are particularly deserving of policy attention. And third, I will survey some of the recently enhanced tools in our regulatory arsenal (e.g., capital, liquidity, and leverage requirements) and ask to what extent they are suited to tackling the specific externalities associated with fire sales and SFTs..."

PAYDAY LENDING

Tribes Seek Expedited Appeal in New York Online Lending Suit
(Andrew R. Johnson, Wall Street Journal, 10/7/13)
"Two American Indian tribes are appealing a federal judge's decision to allow New York's top banking regulator to curb high-rate loans made to consumers over the Internet.

"The Otoe Missouria Tribe and Lac Vieux Desert Band of Lake Superior Chippewa Indians operate online-lending businesses that were among the targets of a recent crackdown by New York Department of Financial Services Superintendent Benjamin Lawsky. They sued the regulator, arguing that his actions violated their federally recognized rights as sovereign nations…" But a judge ruled against the tribes last week, saying the regulator has authority to enforce state laws against loans made to residents of New York.

DERIVATIVES & COMMODITIES

Barclays Must Pay Families It Harmed While Manipulating Energy Markets
(Statement by seven organizations including AFR , 10/10/13)
"Barclays should "take its medicine" and pay the $435 million civil penalty to the U.S. Treasury and $34.9 million in unjust profits that federal regulators say it owes to low-income families primarily on the West Coast, whom it harmed through market manipulation for two years, seven organizations said today in a joint statement.

"Barclays is one of several banks found by the Federal Energy Regulatory Commission (FERC) to have manipulated energy markets between 2006 and 2008. In July, FERC ordered Barclays to pay a penalty as well as a refund to families in California, Arizona, Oregon and Washington. Barclays has refused to pay…"

U.S. Watchdog Readies Tighter New Commodity Limits Rule
(Reuters, 10/11/13)
"The U.S. derivatives regulator is finishing a new rule to curb speculators with large positions in commodity markets that is in parts tougher than the previous version, two sources with direct knowledge of the plan said.

“Commodity Futures Trading Commission Chairman Gary Gensler is rushing to get a revamped rule out before his term runs out in December, said the sources, even while agency lawyers are preparing to defend the original position limits rule that was knocked back by a U.S. court last year.

“’Gary wants to get this done before he leaves,’ said one of the sources, asking not to be named because he was not authorized to talk to the press…”

CFTC’s O’Malia: Billions in Contracts Traded as Swap Platforms Ramp Up

(Wall Street Journal Money Beat, 10/11/13)

“Hundreds of billions of dollars in swap contracts have traded across new U.S. platforms that opened for business last week, according to a senior derivatives-market regulator. Roughly $450 billion worth of derivatives linked to interest rates and credit changed hands on 18 so-called swap execution facilities over the new trading venues’ initial days of trading, said Scott O’Malia, a CFTC commissioner.

“The so-called SEF platforms launched under new rules laid out by the 2010 Dodd-Frank financial law, which sought to shift trading in swaps toward more-regulated trading venues. The goal was to enable market watchdogs to keep a closer eye on the sector, estimated to represent about $633 trillion in outstanding contracts world-wide, according to the Bank for International Settlements…”

Gensler Says Swaps Shift Off to ‘Very Good Start’

(Silla Brush & Robert Schmidt, Bloomberg, 10/7/13)

“Gary Gensler spent much of the past month fending off Wall Street’s campaign to slow the move to electronic swaps trading. So when the platforms went live last week, the top U.S. derivatives regulator wasn’t going to let a government shutdown stop him from monitoring its progress…

“Gensler, in his final months on the job, had to pick up the phone and call around to make sure the system was working. He pronounced himself satisfied.”