AMERICANS FOR FINANCIAL REFORM

# THIS WEEK IN WALL STREET REFORM
# AUGUST 9 – 15, 2014

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## CONSUMER FINANCE AND THE CFPB

**John Oliver Looks at Payday Lending**
**Last Week Tonight, HBO, 8/10/14**

**Activists to Unleash 'Shark Week' Attack on Payday Lending Industry**
**Benjamin Goad, The Hill, 8/11/14**
"Financial reform advocates will try to take a bite out of payday lenders, launching a push for tougher regulations to correspond with the Discovery Channel's "Shark Week." The weeklong initiative seeks to capitalize on the annual television event, a rite of summer that has amassed a cult-like following in its 26th year, with a series of online memes and a petition urging regulators to clamp down on the industry."

**New York Prosecutors Go After Tennessee Loan Sharks**
**Matt Levine, Bloomberg, 8/12/14**
The gist of the dispute here is that one Carey Vaughn Brown, and his lawyer Joanna Temple, set up a cluster of payday lenders -- ACH Federal, Credit Protection Depot, Owls Nest LLC, MyCashNow.com, etc. etc. -- mostly in Chattanooga, Tennesee (and a little bit in the British West Indies), and those companies made payday loans to people in New York that violated New York usury laws…

**Payday Lending Is Big Business: What You Should Know**
**Pooja Bathia, USA Today, 8/14/14**

[Paper Boys: Inside the Dark, Labyrinthine World of Consumer Debt Collection]
**Jake Halpern, NY Times Magazine, 8/15/14**
“In many ways, Buffalo never recovered from the loss of its steel mills in the 1980s. Yet at least one industry was booming: debt collection… [Aaron] Siegel was intrigued by the fact that so many people in his midst were toiling to collect on debts that his employer — the bank — had given up on and had sold at huge discounts. He sensed an opportunity and in the fall of 2005, using $125,000 from his personal savings, he bought his first batch of paper and opened a collection agency. During the day, he worked at the bank; after hours, he ran his new company.

“The most pressing order of business was hiring collectors. Those who applied to work for him were mainly a downtrodden lot, and their ranks included ex-convicts, drug addicts, 20-somethings without high-school diplomas and a variety of other hard-luck cases. ‘Oh, my God, they were like thugs,’ Siegel recalled. He quickly concluded, however, that the more clean-cut types simply couldn’t get the job done. As he put it: ‘You realize that you’re sitting on an investment and you’ve hired a bunch of Boy Scouts who can’t turn any money.’”

[Debt: The Big Threat to a Happy retirement]
**Rodney Brooks, USA Today, 8/12/14**

[Why Medical Debt May Finally Stop Destroying Your Credit]
**Amy Traub, Demos, 8/11/14**

[The Lending Model That Bypasses the Bankers]
**William D. Cohan, National Journal, 8/14/14**
“One of the more hopeful consequences of the 2008 financial crisis has been the growth of a group of small companies dedicated to upending the status quo on Wall Street… At the forefront of the group is Lending Club, a San Francisco-based company founded in 2007 by Renaud Laplanche, a serial entrepreneur and former Wall Street attorney… Lending Club uses the Internet to match investors with individual borrowers, most of whom are looking to refinance their credit-card debt or other personal loans. The result is a sort of eHarmony for borrowers and lenders.”

[Abusive Lenders Target Service Members]
**Susan Tompor, USA Today, 8/10/14**

[Feds Shut Down "Scam" Targeting U.S. Soliders]
**Mitch Lipka, CBS News, 8/14/14**

[What Do FICO Changes Mean for Consumers?]
**Fox News, 8/11/14**

## DERIVATIVES, COMMODITIES & THE CFTC

[Fight Brews on Changes That Affect Derivatives]
**Peter Eavis, NY Times, 8/1/4/14**
“Tensions are building in an enormous market that nearly brought Wall Street to its knees in 2008. Financial regulators are pushing for an arcane but crucial modification to the contracts that stand behind the $700 trillion global market for derivatives. The change is part of the regulators’ efforts to avoid the sort of systemic chaos that occurred after Lehman Brothers crashed.

“Large banks and investment firms, however, are concerned that the adjustment — which would affect how trades are treated when a bank fails — could weaken their legal rights and may even make the market for derivatives riskier. The financial firms have been expressing their fears in talks with the Federal Reserve and the Federal Deposit Insurance Corporation, the bank regulators behind the push.”

[FDIC's Hoenig Tells Banks to Quickly Change Derivatives Contracts]
**Douwe Miedema and Emily Stephenson, Reuters, 8/14/14**
"Banks need to urgently change a provision in derivatives contracts that prevents them from smoothly winding down their business if they start failing during a crisis, a top U.S. regulator told Reuters on Wednesday.

"Thomas Hoenig, second in command at the Federal Deposit Insurance Corp, said the so-called early termination rights were one of the most pressing problems regulators found last week with documents that show how banks can go through bankruptcy court during a crisis that threatens their solvency."

[SEC Aggressively Investigates Media Leaks]
**Sheila S. Coronel, Columbia Journalism Review, 8/15/14**

## ENFORCEMENT

[U.S. Finds Fresh Use for Seldom-Used Statute in Subprime Cases]
**Peter J. Henning, NY Times, 8/11/14**
"Like a child with a new toy, the Justice Department is using a powerful civil fraud provision to investigate potential wrongdoing in the marketing of securities backed by risky auto loans. This opens up a new front for the government to pursue large monetary penalties against companies that package loans made without paying too much attention to whether the borrowers are credit worthy.

"General Motors Financial, the lending arm of the carmaker, and the auto finance company Santander Consumer USA disclosed last week that they had received subpoenas from the Justice Department for information about the securitization of subprime loans since 2007. The subpoenas seek documents related to possible violations of the Financial Institutions Reform, Recovery, and Enforcement Act, better known as Firrea, which is being wielded to great effect these days."

[Santander Consumer Gets U.S. Subpoena on Auto Loans]
**Reuters, 8/7/14**

[J.P. Morgan Faces More Questions on Conflicts of Interest]
**Emily Glazer, Julie Steingberg, and Jean Eagelsham, Wall Street Journal, 8/8/14**

[Mortgage Ads Lead to $21 Million Settlement With Regulator]
**Alan Zibel, Wall Street Journal, 8/12/14**

[Second Ex-Citadel Worker Pleads Guilty in Trade-Secrets Case]
**Andrew Harris, Bloomberg, 8/12/14**

## FEDERAL RESERVE

[Banks Push to Delay Rule on Investments]
**Andrew Ackerman and Ryan Tracy, Wall Street Journal, 8/12/14**
'Bank officials, trade groups and lawmakers are quietly lobbying the Federal Reserve to grant a reprieve of up to seven years from a provision that limits banks' investments in private-equity and venture-capital funds, according to people familiar with the effort. Absent action by the Fed, the critics warn, banks will be forced to sell their stakes in these funds at fire-sale prices by next summer, when firms are expected to begin complying with the rule.

"'This is supposed to be a regulatory option in special circumstances,' said Marcus Stanley, policy director for **Americans for Financial Reform**, a group that advocates tougher financial regulation. 'It's not supposed to be an automatic permission for every bank to get a 12-year period after passage of Dodd-Frank to divest from venture funds.'"

**Fed's Fischer Keeping Options on the Table for Next Bubble**
**Wall Street Journal, 8/12/14**

**Fed's Rosengren Says Brokerage Rules Need 'Major Re-Examination'**
**Jeff Kearns, Bloomberg, 8/13/14**

## INVESTOR PROTECTION AND SEC

**Once Powerful, Mary Jo White's SEC Is Seen as Sluggish and Ineffective**
**Jesse Eisinger, ProPublica, 8/13/14**
"Mary Jo White took the helm of the Securities and Exchange Commission amid high hopes that she could turn around the once-proud agency. More than a year into her tenure, she has disappointed a wide swath of would-be allies.

"An Obama appointee, Ms. White seems most at odds not with her Republican commissioners, but with Kara M. Stein. Ms. Stein came from the office of Senator Jack Reed, Democrat of Rhode Island, and was an important architect of the Dodd-Frank rules. She should be Ms. White's firmest ally, the in-house expert on policy, which isn't the chairwoman's forte. In recent months, Ms. Stein has been increasingly vocal in criticizing the S.E.C.'s ineffectual rules and weak enforcement and has cast dissenting votes… She is not alone. Ms. White's S.E.C. irritated the White House, the Treasury and the Financial Stability Oversight Council when it undermined the council's authority on the question of whether to designate large asset managers as posing a potential risk to the financial system."

**Big Connection Between Campaign Contributions and Lack of SEC Prosecutions: Study**
**David Sirota, International Business Ties, 8/11/14**
"For all the recent drama about big banks paying huge fines, some of the largest financial institutions, like private equity firms, appear to be evading federal registration regulations and getting off scot-free. Why such seemingly lax enforcement? A new analysis of SEC data suggests a way to find the answer: Follow the campaign contributions.

"Conducted by Maria Correira of the London Business School, the analysis examines more than 7,300 episodes of corporations issuing corrections of their financial statements between 1996 and 2006… 'The findings of this study suggest that the SEC is influenced by considerations other than the merits of the case and raise questions regarding the effectiveness with which the agency plays its deterrence and compensation roles,' the report states."

**Under SEC Questioning, Jokes and Jitters**
**Jean Eaglesham, Wall Street Journal¸8/11/14**
"Former American International Group Inc. executive Joseph Cassano cited his Fifth Amendment right to avoid incriminating himself more than 200 times while declining to answer questions posed by the Securities and Exchange Commission in 2009...

"Mr. Cassano's refusal to answer questions is among the disclosures included in 12 transcripts released by the SEC in response to public-records requests from The Wall Street Journal. The transcripts, comprising hundreds of pages, were from interviews conducted under oath related to two high-profile probes from the financial crisis."

**SEC Launches Examination of Alternative Mutual Funds**
**Juliet Chung, Wall Street Journal, 8/12/14**

**MORTGAGES, FORECLOSURES & HOUSING**

**Housing Finance Reform: It's Still About Investment Guarantees**
**Norbert J. Michel, Wash Times¸8/11/14**

**Tips for Millennials Looking to Secure a Mortgage**
**Andrea Murad, Fox News, 8/12/14**

**CFPB Fines Deceptive Mortgage Company $20M**
**Jeff Gelles, Philadelphia Inquirer, 8/15/14**

**REVOLVING DOOR & POLITICAL POWER OF WALL STREET**

**Big Money's Sway: Financial-Sector Lobbying, Campaign Contributions Influence**
**Gail Liberman, Palm Beach Daily, 8/10/14**
"Financial sector lobbying and campaign expenditures tallied more than $800 million so far during the current election cycle, according to **Americans for Financial Reform**, Washington, D.C. That's $1.5 million per day…

"So far, the financial sector, despite huge expenditures, has been unable to overturn key reforms stemming from the 2008 financial crisis, says Lisa Donner, **Americans for Financial Reform** executive director

But they've definitely been successful in citing loopholes, exceptions and adding regulations to minimize the impact of the changes. Lobbyists also have been working long and hard to push back regulation deadlines and effective date

**Wall Street Money Floods Washington**
**Jim Lardner, US News, 8/14/13**
"Where does the money go? Much of it winds up in the campaign warchests of candidates for national office, with 62 percent going to Republicans and 38 percent to Democrats. The biggest recipients are incumbent members of Congress, especially those with leadership positions or seats on the two main financial oversight committees. In the House of Representatives, the top 20 beneficiaries of financial-industry largesse include Financial Services Committee Chairman Jeb Hensarling, R-Texas, and 10 of his committee colleagues…

"All told, members of the Financial Services Committee have collected an average of $408,671 from the financial industry in the current election cycle, compared to a $186,242 average for the House as a whole – a wide gap, which possibly helps account for the steady stream of Wall Street-friendly bills that have come out of the committee lately."

**STUDENT LOANS AND FOR-PROFIT SCHOOLS**

**Durbin Calls for More Oversight on For-Profit Schools**
**John Reynolds, State Journal Register, 8/8/14**
"'[These for-profit schools] only get 10 percent of the graduates from high schools, but they are responsible for 46 percent of the student loan defaults,' said Durbin, the No. 2 Democrat in the Senate. 'Why? Two obvious reasons: They charge too much, and they produce too little.'

"Durbin said the for-profit schools charge two to five times more than other colleges and universities. Unlike other types of loans, people can't walk away from student loans through bankruptcy.

"In April, Durbin introduced a bill that would improve coordination between federal agencies that oversee the for-profit college industry."

[Georgia For-Profit Schools Enjoy Lax Policing]
**Janel Davis and Chris Joyner, Atlanta Journal Constitution, 8/9/14**
"An Atlanta Journal-Constitution investigation into the state commission revealed a toothless agency that for years has let about 300 private and for-profit schools it regulates operate in Georgia with almost impunity. The AJC found a supposed watchdog agency with shoddy record-keeping, antiquated processes and slapdash oversight."

[Troubled For-Profit School's TV Ads Keep Running, at Taxpayer Expense]
**Byron Harris, WFAA Dallas, 8/8/14**

[College's Demise Leaves Illinois Students in Limbo]
**Lisa Parker, NBC Chicago, 8/8/14**

[Reinvest in Community Colleges]
**Editorial, San Francisco Chronicle, 8/8/14**

[Woes Stack up for Carmel-Based ITT Tech]
**Jeff Swiatek and Stephanie Wang, Indianapolis Star, 8/11/14**

[Campus Confusion: Corinthian Colleges Students Face Uncertain Future]
**Nona Willis Aronowitz, NBC News, 8/15/14**

[Buyer Beware When It Comes to For-Profit Schools]
**Margarita Cambest, Fort Campbell Courier (KY), 8/14/14**

[The Administration's Forced Extinction of For-Profit Colleges]
**Harris Alford (Nat'l Black Chamber of Commerce), The Hill, 8/14/14**

**SYSTEMIC RISK**

[Bank of America Faces a Hefty Fine, But 'too Big to Fail' Still Threatens]
**Editorial, Washington Post, 8/10/14**
"Just or not, no one should confuse this pending settlement with a solution to the deeper problem of the U.S. financial system — namely that Bank of America and other institutions remain too big to fail. The prospect of a taxpayer rescue in the next crisis still threatens the U.S. government's finances and may distort the flow of capital by implicitly subsidizing the giants. To be sure, the biggest banks have raised capital and are on a much sounder footing than they were before the crisis. Also, the degree of implicit subsidy remains disputed. A new Government Accountability Office report suggests that large bank holding companies had no advantage in funding costs in recent years — i.e., a period of relative financial calm — but that they would enjoy an advantage over smaller institutions during crises.

"And, according to the logic of a recent joint decision by the Federal Deposit Insurance Corp. and the Federal Reserve, that is precisely the problem: Any crisis large enough to threaten one bank would probably be large enough to jeopardize them all, making a government bailout inevitable."

[Too Big to Regulate]
**Editorial, New York Times, 8/9/14**
"Last week — six years after the onset of the financial crisis, four years after Dodd Frank and two years after the biggest banks submitted the first drafts of their living wills — the Federal Deposit

Insurance Corporation and the Federal Reserve rejected the plans from 11 large banks as 'unrealistic or inadequately supported.' The regulators said further that the banks had failed 'to make, or even identify' structural and operational changes that would be needed to attempt an orderly resolution.

"And yet the regulators are not taking steps to downsize the banks. For that to occur, the F.D.I.C. and the Fed have to agree that living wills are unworkable and that more forcible downsizing is needed. The F.D.I.C. seems to have reached that conclusion; it said flatly that the plans don't work. But not the Fed, which has told the banks to submit new plans by July 1, 2015. The banks have had four years already. Now they have nearly another year to toy with a process that has utterly failed to produce credible results."

**Banks' Living Wills Are Dead Letter**
**Darrell Delamaide, USA Today, 8/12/14**

**When She Talks, Banks Shudder**
**Binyamin Appelbaum, New York Times, 8/9/14**
"[Stanford finance professor Anat R.] Admati's simple message is that the government is overlooking the best way to strengthen the financial system. Regulators, she says, need to worry less about what banks do with their money, and more about where the money comes from.

"Her solution is to make banks behave more like other companies by forcing them to reduce sharply their reliance on borrowed money. That would likely make the banking industry more stodgy and less profitable — reducing the economic risks, the executive bonuses and, for shareholders, both the risks and the profits."

**The Bankers' New Clothes Are 20% Equity, 80% Debt**
**Robert Lenzner, Forbes, 8/9/14**

**Do 'Living Wills' for Banks Even Make Sense?**
**Stephen J. Lubben, New York Times¸8/11/14**

**Volcker Rule Brings Bond Trading Out of Shadows: Mark Whitehouse**
**Mark Whitehouse, Bloomberg, 8/14/14**