AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
JUNE 21 – JUNE 27, 2014

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CONSUMER FINANCE AND CFPB

Court Ruling Unlikely to Affect U.S. Consumer Regulator
Alan Zibel, Wall Street Journal, 6/26/14
"A Supreme Court decision invalidating President Barack Obama's appointment of three federal labor panel members during a Senate break is unlikely to hamper a consumer-finance regulator whose leader was also first installed without congressional approval.

"Banking industry lawyers said Thursday there is only a small chance a financial firm would be able—or willing—to challenge the Consumer Financial Protection Bureau's actions in an 18-month period in which the agency's director, Richard Cordray, served as a 'recess' appointee. Also, few if any financial firms are inclined to question the authority of a key regulator, they said."

CFPB Casts Its Eye On Mobile Banking
John Ginovsky, ABA Banking Journal, 6/25/14
"The Consumer Financial Protection Bureau launched an inquiry into the opportunities and challenges associated with the use of mobile financial services, with a particular interest in how mobile technologies are impacting unbanked and underserved consumers with limited access to traditional banking systems…

"According to recent figures, roughly 90% of U.S. consumers own a cell phone; of those, about 60% are smartphones. In addition, almost 50 million Americans have tablets… The inquiry focuses on mobile banking services and mobile financial management services. The inquiry also specifically addresses how the use of mobile payment products can be used to improve the financial lives of underserved consumers, who may include younger consumers, those with low income, or those who live in locations without easy access to traditional banking."

You Win Even If You Lose: Put Cash In Savings, Be Entered In A Lottery
Kyung M. Song, Seattle Times, 6/22/14
"Since 2013, a handful of credit unions in Washington state have taken advantage of a new state regulation written to encourage people with little savings to sock away more money. For every $25 they put into a certificate of deposit (CD) as part of the Save to

Win program, members are automatically entered into regular lotteries with payouts ranging from $50 to $5,000…

"Kilmer, now a freshman congressman, is trying to replicate the program with federally chartered banks… A quarter of Americans surveyed say they have zero savings; nearly half the population has less than $1,000 stashed away. At the same time, some 68 million adults, living in 28.3 percent of all households, are unbanked or underbanked, according to a 2012 report by the Federal Deposit Insurance Corp."

U.S. Regulator Flags Concerns About Growing Auto-Loan Market
Alan Zibel and Andrew R. Johnson, Wall Street Journal, 6/25/14
"The Office of the Comptroller of the Currency, in a report released Wednesday, singled out concerns in the 'indirect' auto lending market, in which banks buy up loans originated by car dealers. The regulator said it's concerned about signs of loosening lending standards, including more loans to borrowers with weaker credit…

"Banks saw auto lending grow nearly 13% compared with a year earlier in the fourth quarter of last year and the OCC said it's worried about growing losses in the industry. Average losses per vehicle have 'risen substantially in the past two years.'

"The average loss on a defaulted auto loan rose to more than $8,500 in the first quarter of this year, compared with $7,400 a year earlier, according to a May report by Experian PLC."

DOJ Scammer Payment Probe Advances
Alan Zibel, Wall Street Journal, 6/23/14
"The Justice Department is preparing to bring more cases against banks and payment-processing companies as part of a broad federal probe into financial firms that handle payments for alleged scam artists, Attorney General Eric Holder said Monday…

"His remarks come amid a backlash by lawmakers and business groups over the probe, which is aimed at shutting down a variety of financial frauds by cutting off their access to banks. The effort is targeting alleged scammers that operate under the guise of selling medical-discount cards, debt-relief offers and government grants as well as some Internet-based short-term lenders…

"Earlier this month, a trade group representing short-term lenders sued bank regulators, saying that more than 80 banks have terminated business relationships with legal lenders as a result of the federal crackdown. In response to such concerns, Mr. Holder said the Justice Department 'won't target businesses operating within the bounds of the law.'"

See joint letter of support for Operation Choke Point

DERIVATIVES, COMMODITIES & THE CFTC

House Passes CFTC Reauthorization
Cristina Marcos, The Hill, 6/24/14

"The House on Tuesday passed legislation to reauthorize the Commodity Futures Trading Commission through fiscal 2018. The bill passed 265-144 over objections from some Democrats that certain provisions would impede the CFTC's authority to regulate futures and option markets…
"Democrats objected to language in the bill that would require the CFTC to conduct cost-benefit analyses of its proposed regulations. They argued it would slow down implementation of the agency's rules…

"In a statement of administration policy, the White House said it 'strongly opposes' the bill because 'by imposing a number of organizational and procedural changes and offers no solution to address the persistent inadequacy of the agency's funding.' But the administration stopped short of a veto threat."

See AFR statement: House Reauthorization Bill Would Undermine Rather than Support CFTC

House Passes Bill to Limit CFTC on Swaps Rules
Andrew Ackerman and Michael R. Crittenden, Wall Street Journal, 6/24/14
"The House of Representatives signed off on legislation Tuesday to scale back the Commodity Futures Trading Commission's ability to impose swaps rules abroad, a bill critics warned would make it easier for banks to circumvent tough U.S. rules.

"The vote was 265-144, largely along party lines, with some Democrats and the White House warning the measure would hamstring the CFTC. A companion measure has yet to be introduced in the Senate…"

House Passes Bill to Aid Koch Brothers, Deregulate Wall Street
Zach Carter, Huffington Post, 6/27/14
"The U.S. House of Representatives on Tuesday passed a financial deregulation package that would benefit the Koch brothers and the nation's largest banks by a vote of 265-143.

"The bill includes… measures sought by the largest Wall Street banks and the Koch brothers, who control significant financial and energy derivatives operations," writes Zach Carter of the Huffington Post. "**Americans for Financial Reform**, the premier policy analysis organization among bank watchdogs, advocated strongly against the bill alongside consumer groups and the AFL-CIO."

Wall Street to Take Hit from New Swap Platforms
Douwe Miedema, Reuters, 6/25/14
"Wall Street banks are set to take a hit from new rules forcing swaps trading onto regulated platforms, a change expected to lower prices and cause further revenue drops, a study showed on Wednesday.

"The new rules, which took effect in February and were required by the 2010 Dodd-Frank financial reform law, could cause revenue in the derivatives business to fall by up to 35 percent, the study by consulting firm McKinsey said."

Banks May Lose $4.5 Billion a Year on Swaps Shift, McKinsey Says
Matthew Leising, Bloomberg, Bloomberg, 6/25/14

ENFORCEMENT

[BNP Paribas Expected to Plead Guilty and Pay $8.9 Billion Fine](#)
Ben Protess and Jessica Silver-Greenberg, New York Times, 6/26/14
"BNP Paribas is set to plead guilty to criminal charges and pay an $8.9 billion penalty to state and federal authorities, according to people briefed on the case. The move would be the culmination of a widespread investigation into the French bank for transferring billions of dollars on behalf of Sudan and other countries blacklisted by the United States…

"Benjamin M. Lawsky, New York state's financial regulator, promised not to pull BNP's license but instead took aim at the bank's ability to process payments in dollar denominations, a function known as dollar clearing that is essential to doing business with international clients. Mr. Lawsky's office has reached a tentative deal with BNP that would prevent certain units within the bank's headquarters in Paris, as well as in its offices in Geneva and Singapore, from clearing dollar transactions for at least six months, according to two of the people briefed on the matter. The bank's oil and gas unit, which was involved in many of the illicit transactions at the heart of the case, is among those that face the suspension. BNP's business of processing transactions on behalf of other banks would also face restrictions, one of the people said."

BNP Said to Face Dollar-Clearing Curb Under Settlement
Greg Farrell and Fabio Benedetti-Valentini, Bloomberg, 6/26/14
"The ban on dollar clearing could affect specific business, such as oil and gas transactions, and certain offices, such as Geneva, where the alleged illegal transactions took place, the person said. Cesaltine Gregorio, a BNP Paribas spokeswoman in New York, declined to comment."

Market Structure Nightmare Comes True in Barclays Dark Pools Action
Sam Mamudi and Doni Bloomfield, Bloomberg, 6/27/14
"For years, brokers and traders have assured anyone who cast aspersions on America's electronic stock market that the concerns don't add up. Then came Eric Schneiderman.

"New York's attorney general has spent a year digging for dirt on two of the main features of modern market structure, dark pools and high-frequency trading. This week, he hit a vein with a 30-page complaint against Barclays Plc. (BARC)

"Schneiderman's suit against the British bank alleged Barclays executives lied to customers while secretly cozying up to high-frequency firms. In doing so, he emboldened those who contend the private venues are havens for bad actors taking advantage of mutual and pension funds. The action provided ammunition to those who say the stock market's opaque structure mainly serves insiders."

Barclays CEO Falters in Culture Shift as Suit Cites Fraud
Elisa Martinuzzi and Richard Partington, Bloomberg, 6/27/14
"Antony Jenkins, promoted to run Barclays Plc (BARC) after the Libor scandal, pledged to overhaul the bank's culture, committing to values of integrity and respect. Allegations of fraud on his watch are undermining his plan.

“Barclays lied to customers and masked the role of high-frequency traders as it sought to boost revenue at one of Wall Street’s largest private trading venues, New York Attorney General Eric Schneiderman said in a civil complaint filed June 25. He cited a pattern of misleading and false representations that went on as recently as April.

“The first allegations of new misconduct since Jenkins was named chief executive officer of the London-based bank in August 2012 mark a setback in his efforts to break with the past and sent shares plunging the most since he took over. A hit to the reputation of the Barclays LX dark pool also would hinder Jenkins’s effort to turn around the firm’s investment bank by focusing on equities.”

Cracks Open in Dark Pool Defense With Barclays Lawsuit
Sam Mamudi and Doni Bloomfield, Bloomberg, 6/26/14
“The state’s top law-enforcement official released the account, which he said he got from the former Barclays senior director, in a 30-page document that portrayed the London-based bank as bilking its own customers to expand its dark pool. Schneiderman cited a pattern of ‘fraud and deceit’ starting in 2011 in which Barclays hoarded orders for stocks and assured investors they were protected from high-frequency firms while simultaneously aiding predatory tactics.”

Banks Start To Drain Barclays Dark Pool
Martin Arnold, Kara Scannell, Daniel Schäfer, David Oakley and Camilla Hall, Financial Times, 6/26/14
"Big banks have started pulling their business out of Barclays' 'dark pool' after the British bank was sued by New York's top securities regulator for allegedly misleading institutional investors over its anonymous trading venue.

"Deutsche Bank, Credit Suisse and Royal Bank of Canada were among the institutions that on Thursday withdrew from Barclays' LX dark pool in the wake of the lawsuit from Eric Schneiderman, the New York attorney-general. AllianceBernstein, the asset manager, also said it had stopped using LX…"

Brokerage Firms Shun Barclays Trading Pool After Suit; Brief Shutdown Is Reported
William Alden, New York Times, 6/26/14

Ex-Madoff Accountant Konigsberg Pleads Guilty to Fraud
Erik Larson, Bloomberg, 6/24/14

Long Summer of Legal Woes Ahead for Banks
Slideshow, American Banker, 6/24/14

At Heart of Christie Inquiry, a Law Feared on Wall Street
William Alden, New York Times, 6/14/14
"[T]he Manhattan district attorney is working with the Securities and Exchange Commission in an investigation of possible securities law violations stemming from a $1.8 billion agreement in 2011 to repair the Pulaski Skyway, the roadway connecting Newark and Jersey City.

"But the Manhattan prosecutors, led by Cyrus Vance Jr., have a weapon the SEC lacks: the Martin Act. This New York State law sets a relatively low bar for bringing fraud cases, enabling a succession of New York attorneys general to wield it against Wall Street firms like Merrill Lynch and JPMorgan Chase."

EXECUTIVE COMPENSATION

Bankers Seen Getting Raises as Rates Traders' Pay Slumps
Michael J. Moore, Bloomberg, 6/25/14
"Wall Street interest-rate traders will probably suffer the biggest compensation cuts for a second straight year, while firms add investment bankers and pay them more, Options Group Inc. said in a report.

"Employers may dismiss interest-rate traders and pay the remaining ones in the U.S. 18 percent less on average than in 2013, the New York-based recruitment firm said in a mid-year report released today. Investment bankers in the U.S. and Europe may see a 15 percent jump in total pay, and people working in equity derivatives may get an even larger boost…

"The Options Group report included a survey of more than 3,000 financial services employees that showed one-fifth of people in rates-trading units had their pay cut in half last year. Commodities traders may see increases in compensation, led by a 13 percent bump in the U.S., after the survey showed that just a quarter of them said their 2013 pay met expectations, the least among any group."

INVESTOR PROTECTION AND THE SEC

House Appropriators Vote to Cut IRS Funding, Curb Swaps Rule
Erik Wasson, Bloomberg Government (paywalled), 6/26/14
"The House Appropriations Committee approved a fiscal 2015 Financial Services spending bill that would reduce IRS funding and limit a Dodd Frank swaps rule. The bill was approved on a party-line vote of 28-21. It would provide $21.3 billion in discretionary funds, a cut of $566 million from the current fiscal year…

"Democrats on the panel opposed the bill, citing inadequate funding for the Internal Revenue Service and the SEC as well as a move to weaken changes implemented as part of the 2010 Dodd Frank law. Appropriators adopted a provision that would limit the Dodd-Frank law's swaps push-out rule. The language is similar to H.R. 992, which the House passed last year."

SEC Signs Off on Foreign-Bank Swaps Rules
Andrew Ackerman, Wall Street Journal, 6/15/14
"The Securities and Exchange Commission finalized long-awaited swaps rules outlining the circumstances that would require foreign branches of U.S. banks to adhere to SEC regulations, overcoming reluctance from some commissioners who warned the rules are too weak…

"Democrat Kara Stein voted for the measure but warned it was of limited scope and risked causing a repeat of the financial crisis, when the solvency of companies like American International Group Inc. was threatened by trades executed by branches overseas…

"Large American banks, including Bank of America Corp. and Goldman Sachs Group Inc. are changing the terms of some swaps agreements made by the their offshore units so they don't get caught up by U.S. regulations, The Wall Street Journal has previously reported… Both Ms. Stein and Luis Aguilar, another Democrat on the commission, expressed concern the rules ignore the reality of parent companies 'implicitly' guaranteeing overseas affiliates that get into trouble even if they are under no legal requirement to do so."

SEC Limits Derivatives Trading by Foreign Branches of U.S. Banks
William Alden, New York Times, 6/25/14

See AFR statement on final SEC cross-border rule

Andrew Ceresney on Where the SEC Is Headed
Francesco Guerrera, Wall Street Journal, 6/23/14

Exchanges Get Test to Curb Dark Trading in SEC Program
Dave Michaels, Bloomberg, 6/25/14
"The experiment was sought by exchange operators including Nasdaq OMX Group Inc. (NDAQ) and Intercontinental Exchange Inc. (ICE), which have seen their share of trading fall as private platforms such as dark pools have taken 37 percent of share volume, according to data compiled by Bloomberg. The test will prevent trading outside the exchanges unless a competing venue or broker offers a significantly better price or size lot to investors, according to an order posted on the SEC's website yesterday."

SEC's White Seeking to Level U.S. Bond Market for Smaller Buyers
Lisa Abramowicz, Michael J. Moore and Sam Mamudi, Bloomberg, 6/21/14
"The main U.S. securities regulator is ramping up calls to democratize a $40 trillion bond market, proposing that smaller investors receive more price information to avoid getting fleeced when buying less-traded debt.

"The Securities and Exchange Commission wants retail investors to have the same access to privately negotiated bond prices as big institutions, allowing them to make better decisions about how much to pay for the securities, Chair Mary Jo White said yesterday. Releasing such information on corporate and municipal transactions would promote competition and better execution, she said...

"The practice of dealers showing clients different prices for the same securities on electronic bond-trading platforms has drawn SEC scrutiny. The agency is concerned that smaller investors are being penalized, a person with direct knowledge of the inquiry said in March."

[SEC Head Advocates Bond Market Reforms]
Rebecca Robbins, Washington Post, 6/21/14
"Speaking at the Economic Club of New York, White said that the multitrillion dollar market for municipal and corporate bonds is plagued by decentralization, insufficient competition and underuse of technology — problems, she said, that new regulations could help solve…

"James Angel, a finance professor at Georgetown University, called the reforms 'long overdue.' He predicted, however, that the proposals could prompt some pushback from municipal bond dealers who could recoil at changes they may think could make it harder for them to make money…"

["Kickstarter, but with Stock"]
Jim Saksa, Slate, 6/23/14
"Unfortunately, the hype over equity crowdfunding is just that. Crowdfunding won't significantly improve the supply of investment capital, and the capital that crowdfunding does supply won't significantly improve the bank accounts of investors. In fact, given that even usually sober-minded media has a tendency to act like a stoned sophomore whenever a story involves the Internet (*'This. Changes. EVERYTHING.'*), there's an enormous risk that unsuspecting investors will get burned once the Securities and Exchange Commission finalizes crowdfunding's rules…

"What's more, instead of a simple safe harbor for equity crowdfunding, Title III gave us a regulatory hurricane. Crowdfunding's extensive registration and disclosure requirements manage to be simultaneously too heavily regulated for businesses to use and too poorly regulated to protect investors. In an attempt to reconcile these diametric failures into something resembling a useful law, the SEC released a 585-page rule proposal, but no amount of lawmaking lipstick will make this statutory pig pretty."

SEC Measuring Investor Impact of Labor Dept Fiduciary Plan
Suzanne Barlyn, Reuters, 6/26/14
"The U.S. Securities and Exchange Commission is trying to determine the impact that a plan by the U.S. Department of Labor could have on investors who turn to brokerages for retirement guidance, an official said on Thursday.

"The retail brokerage industry has fiercely opposed the Labor Department plan. It would require that financial advisers who give advice to clients about individual retirement accounts (IRAs) and workplace retirement plans such as 401(k)s act as fiduciaries, or in their clients' best interests…

"Both regulators have been looking at the fiduciary issue for years. The Labor Department, which oversees the regulation of retirement plans, withdrew a previous version of its planned rule in 2012, after fierce industry opposition about costs. It recently delayed its unveiling of a new proposal to early 2015. Labor Department officials there have said they are concerned about potential conflicts of interest posed by advisers who suggest that clients roll over their workplace retirement plans into IRAs and then earn commissions from trades in those accounts."

SEC Is Gearing Up to Focus on Ratings Firms

Timothy W. Martin, Wall Street Journal, 6/24/14

“The government's top credit-rating watchdog has kept a low profile since taking the job two years ago to help prevent another financial crisis. That may be about to change. Thomas J. Butler, head of the Securities and Exchange Commission's Office of Credit Ratings, said he has referred multiple cases to the agency's enforcement division and is helping complete several industry regulations to address quality and transparency in how big debt deals are rated.

“Those moves signal a potential flurry of regulatory activity involving ratings firms, which have been largely untouched as government oversight has increased in most other financial sectors in recent years.”

SEC, Hill Prep for Showdown

Jon Prior and MJ Lee, Politico, 6/27/14

“An SEC insider trading investigation is turning into a major test of how aggressively federal officials can pursue whether Congress is involved in illegally tipping off Wall Street traders, who are increasingly mining Washington for information they can turn into lucrative investing strategies.

“The SEC is seeking information from the House Ways and Means Committee and its top Republican health care aide concerning the possible leak last year of information regarding payment rates to Medicare Advantage health plans that may have led to a spike in the shares of health care companies.”

“House officials are refusing to cooperate, arguing it raises constitutional issues, and the SEC is asking a court to force the committee and the aide, Brian Sutter, to provide the information it is seeking.”

USA Today: Court Fight Bares SEC Insider-trading Probe

Kevin McCoy, USA Today, 6/26/14

“Approximately 15 minutes before the 4 p.m. market close that day, trading volume and stock prices of some health insurers likely to benefit from the increase ‘rose precipitously,’ SEC attorney Amanda Straub wrote in Manhattan federal court papers filed on Friday. For example, shares of Humana, the for-profit managed health care giant based in Louisville, ‘rose from $70.40 at 3:40 p.m. to $75.46 at 3:52 p.m., an increase of approximately 7%,’ Straub wrote. The increase preceded the official rate announcement.

“The SEC, the Department of Justice and the Department of Health and Human Services' inspector general launched investigations. The probes ultimately focused in part on Brian Sutter, staff director of the Ways and Means health subcommittee. He ‘may have documents and information highly relevant to the Humana investigation,’ Straub wrote.”

U.S. House Sought Immunity for Aide

Brody Mullins and Andrew Ackerman, Wall Street Journal, 6/23/14

“Lawyers for the U.S. House sought a deal with the Securities and Exchange Commission to shield from prosecution a congressional aide who has become a key figure in an insider-trading investigation…

"The push for immunity became public Monday, when the U.S. District Court for the Southern District of New York released documents related to the growing fight between Congress and the executive-branch agency. The SEC and Justice Department are investigating whether in April 2013 any public officials leaked word of a change in health-care policy that reached investors, sending health-insurance stocks on a tear…"

"At issue is a long-running SEC probe into whether congressional officials were involved in relaying word of a change in government health-care policy to Wall Street investors in April 2013 before the change was formally announced."

House Resists SEC's Insider Trading Inquiry
Peter J. Henning, New York Times, 6/23/14
"In 2011, Congress was embarrassed by a '60 Minutes' report that highlighted well-timed trades by representatives and senators that appeared to be based on government information and questioned whether they were subject to the prohibition on insider trading. In response to President Obama's State of the Union address calling for action, Congress adopted the Stop Trading on Congressional Knowledge Act, commonly known as the STOCK Act, in April 2012…

"For all the talk about making Congress subject to the insider trading laws, the hard question was whether it would cooperate with the Securities and Exchange Commission in an investigation into questionable trading on information emanating from Capitol Hill. The answer appears to be 'no.'"

Study Asserts Startling Numbers of Insider Trading Rogues
Andrew Ross Sorkin, New York Times, 6/16/14
"A quarter of all public company deals may involve some kind of insider trading, according to the study by two professors at the Stern School of Business at New York University and one professor from McGill University. The study, perhaps the most detailed and exhaustive of its kind, examined hundreds of transactions from 1996 through the end of 2012.

"The professors examined stock option movements — when an investor buys an option to acquire a stock in the future at a set price — as a way of determining whether unusual activity took place in the 30 days before a deal's announcement. The results are persuasive and disturbing, suggesting that law enforcement is woefully behind — or perhaps is so overwhelmed that it simply looks for the most egregious examples of insider trading, or for prominent targets who can attract headlines.

"The professors are so confident in their findings of pervasive insider trading that they determined statistically that the odds of the trading "arising out of chance" were "about three in a trillion." (It's easier, in other words, to hit the lottery.)"

MORTGAGES, FORECLOSURES & HOUSING

Treasury Begins Push to Revive U.S. Mortgage-Bond Market
Clea Benson and Jody Shenn, Bloomberg, 6/26/14
"The Treasury Department will start an initiative to revive the market for mortgage securities without government backing as part of an effort to aid recovery of the housing market, Treasury Secretary Jacob J. Lew said.

"The Treasury also will begin offering financing for loans for affordable apartment buildings and extend aid programs for troubled borrowers for an additional year, Lew said remarks prepared for a speech in Washington today…

"Homeowners having trouble making their loan payments will now have until December 31, 2016 to apply for a mortgage modification under Treasury's Home Affordable Modification Program and other Treasury-run aid programs. The affordable apartment building loans would be backed by Federal Housing Administration and state housing agencies."

Luring Private Capital to Mortgages Gets Treasury Boost
Clea Benson and Jody Shenn, Bloomberg, 6/27/14
"A diverse group including troubled borrowers, low-income renters, mortgage-bond issuers and investors in those bonds will get a boost from new Treasury efforts to keep capital flowing in the mortgage market.

"Marking the fifth anniversary of programs designed to aid borrowers in the wake of the credit crisis, Treasury Secretary Jacob J. Lew is pushing forward with efforts to continue the recovery. The department will start an initiative to revive the market for mortgage securities without government backing, begin offering financing for loans for affordable apartment buildings and extend aid programs for troubled borrowers for an additional year, Lew said yesterday.

"Together the moves are aimed at problem spots that remain in the real-estate market as credit remains tight, housing becomes less affordable, and home prices remain depressed in many areas."

REVOLVING DOOR & POLITICAL POWER OF WALL STREET

Senior U.S. Prosecutor Joins Paul Weiss
Ben Protess, New York Times, 6/26/14
"A day after Lorin L. Reisner announced that he was stepping down as head of the criminal division of the United States attorney's office in Manhattan, the law firm Paul Weiss on Thursday named him as a partner in its litigation department… The firm, which represents some of the biggest banks on Wall Street, occasionally faced off with Mr. Reisner during his government tenure.

"The firm, for example, represented SAC Capital Advisors, the giant hedge fund that was indicted on insider trading charges. Working under Preet Bharara, the United States attorney in Manhattan, Mr. Reisner helped oversee the SAC case.

"Paul Weiss also represented Citigroup in a civil action filed by the Securities and Exchange Commission. At the time, Mr. Reisner was deputy director of the SEC's enforcement division."

How the GOP Civil War Will Affect Banks
Victoria Finkle, American Banker, 6/23/14
"House Majority Leader Eric Cantor's loss to an unknown Tea Party challenger sheds new light on the deep divisions in the Republican Party, which is ultimately likely to have a large impact on the debate over financial policy."

Strict Regulation Makes Revolving Door Spin Faster
Matt Levine, Bloomberg, 6/26/14
Three possible reasons why:

1. "Regulators want to get higher-paying jobs at banks, so they try to be diligent, fair, competent and zealous, so that the banks are impressed by them and hire them.
2. "Regulators want to get higher-paying jobs at banks, so they are hard on banks in ways that force the banks to hire lots of ex-regulators -- to understand complicated rules, say, or to work as monitors for regulatory settlements.
3. "Regulators want to get higher-paying jobs at banks, so they are hard on banks in general, hoping that the banks will hire them to just shut them up."

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Corinthian Colleges' Deal With U.S. May Result In Sold Campuses
Chris Kirkham and Andrew Khouri, Los Angeles Times, 6/23/14
"Santa Ana-based Corinthian has been investigated by the U.S. Department of Education, state attorneys general and other federal regulators for years. The company is accused of falsifying job placement rates and misleading students about financial aid obligations. Students at the company's schools have defaulted on federal loans at some of the highest rates in the nation.

"Two-year programs at one of the company's Everest College locations in Southern California can cost up to $22,000 per year, according to federal data…

"The Education Department stepped in two weeks ago when it imposed a 21-day waiting period on the company's access to millions of dollars in federal aid — which accounts for nearly 85% of company revenue. In a regulatory filing last week, the company signaled it might have to shut down without more cash."

College Group Run for Profit Reaches Deal for U.S. Cash
Tamar Lewin, New York Times, 6/23/14

For-Profit College Fight Heats Up as Democrats Push to Cut Off New Corinthian Students
Janet Lorin, Bloomberg, 6/26/14
"A dozen U.S. senators are asking the Education Department to stop the enrollment of new students at Corinthian Colleges Inc., (COCO) owner of Everest and Heald for-profit schools. The senators, all Democrats, are also asking the Education Department to answer questions related to the protection of students and taxpayer funding, according to a letter sent today to Education Secretary Arne Duncan.

"Corinthian, based in Santa Ana, California, said last week it might have to stop operations after the government limited access to federal-aid funding. An agreement with the department would allow the school's 72,000 students at 107 campuses to continue studies during a transition period. The chain is under investigation by several state attorneys general, the Justice Department and the Consumer Financial Protection Bureau for its marketing and recruiting practices."

Durbin: When Will Congress Address Outrageous Conduct By For-Profit Colleges?
Illinois Sen. Dick Durban, Video, 6/24/14

Why 50% Of College Graduates Need Help From Mom And Dad
James Marshall Crotty, Forbes, 6/23/14
"Though the Pew Research Center found that recent college graduates earn more than $17,500 annually than their non-graduate peers, the latest installment of an ongoing University of Arizona study finds that more than half of those graduates require financial support more than two years after college. Moreover, 50.6% of college graduates surveyed say they rely on financial support from family members, including almost half of those who are employed full-time…

"Although full-time employees rated their financial well-being and life satisfaction higher compared to other survey participants, graduates with student loan debt reported lower well-being across the board, regardless of employment status. The study notes that paying off student loans was particularly challenging among graduate students and graduates who were employed on a part-time basis. In fact, college graduates employed part-time reported just as much financial difficulty as those unemployed."

Education Department Again Delays 'State Authorization' Rule
Inside Higher Ed, 6/24/14
"The U.S. Department of Education is again delaying the deadline for when colleges must comply with a requirement that they obtain authorization from regulators in each state in which they are physically located.

"The rule was set to take effect next month, but the department announced Monday that it is pushing the deadline back to July 1, 2015. This is the second time the department has provided such an extension for a rule that many colleges have said is confusing. Some have also said the rule is being enforced unfairly."

Kaplan to Buy Software-Development School Dev Bootcamp

Lauren Webber, Wall Street Journal, 6/24/14

"In a sign that coding schools may become bigger players in higher education, Kaplan Inc. plans to announce on Wednesday that it is buying Dev Bootcamp, a two-year-old school that offers nine-week crash courses to aspiring software developers…

"The deal highlights some of the headaches facing educational institutions. Evolving models such as MOOCs—massive open online courses—and code schools, combined with worries about student debt and a lackluster job market for young people, are converging to cast doubt on the value of a four-year college degree. A new study by Federal Reserve Bank of New York economists found that such degrees are still a valuable investment.

"At the same time, for-profit educators such as Kaplan have been under the microscope of federal regulators for years. The Department of Education recently proposed denying federal funding to schools where a significant portion of graduates default on their loans or have low incomes relative to their debt levels. And the Consumer Financial Protection Bureau is investigating student-lending practices at for-profit schools."

SYSTEMIC RISK

Citigroup Team's Mortgage Bets Undeterred by Volcker Rule

Dakin Campbell and Jody Shenn, Bloomberg, 6/25/14

"Citigroup may be interpreting the exemptions more liberally than other firms, even after past missteps, according to Clifford Rossi, a former risk manager at the bank. The third-largest U.S. lender's catastrophic losses during the credit crisis prompted a $45 billion taxpayer bailout. Now led by Chief Executive Officer Michael Corbat, 54, it failed a Federal Reserve stress test in March for the second time in three years.

"'I would have expected Citi to take a different path,' said Rossi, who left in 2009 and is now an executive-in-residence at the University of Maryland's Robert H. Smith School of Business in College Park. The team's existence is 'surprising, and a little disappointing to be quite honest'…

"Citigroup's interpretation contrasts with that of Goldman Sachs, which concluded that 'businesses that engage in "bright line" proprietary trading were most likely to be prohibited,' according to a filing this year from the New York-based firm. Spokesmen at Goldman Sachs, Bank of America, JPMorgan and Morgan Stanley declined to comment."

Banks Can Still Have Fun Prop Trading in Rates

Matt Levine, Bloomberg, 6/25/14

"Here's a pretty interesting Bloomberg News story [above] about proprietary trading at Citigroup. Here's a schematic summary:

- The Volcker Rule bars banks from 'proprietary trading' in credit.
- But it allows proprietary trading in rates products such as Treasury and agency bonds.

- So Citi set up a prop desk to trade agency bonds, managing over $1 billion of Citi's money.
- It's run by a woman named Anna Raytcheva, who lost billions of dollars trading agency bonds during the financial crisis."

Merkley Slams Citi for Flouting Volcker Rule Firewal
Oregon Sen. Jeff Merkley, Press Release, 6/25/14
"Citigroup's trading activities, as reported by Bloomberg News, appear to constitute a direct violation of law. It's unacceptable for regulators to turn a blind eye as a big bank tries to get back into the risky – and now prohibited – gambling that brought down our economy just a few years ago. The law explicitly prohibits high-risk trading strategies, regardless of any other exemptions. Congress passed the Volcker Rule firewall to prevent exactly this type of reckless behavior. Now it's time for regulators to step up and enforce the law."

Lew Defends Council's Work to Guard Against Financial Risk
Ian Katz and Kasia Klimasinska, Bloomberg, 6/24/14
"U.S. Treasury Secretary Jacob J. Lew pushed back against Republican efforts to curtail the work of a council of regulators charged with preventing another financial crisis and said a failure to examine potential risks could lead to 'large-scale problems'…

"Created by the 2010 Dodd-Frank law, the Financial Stability Oversight Council is authorized to designate non-bank financial companies as systemically important and subject them to Federal Reserve oversight. Under Dodd-Frank, bank-holding companies with more than $50 billion in assets are overseen by the Fed.

"After American International Group Inc. (AIG), Prudential Financial Inc. and General Electric Co.'s finance were named, Representative Randy Neugebauer of Texas, a Republican, introduced a bill seeking a one-year moratorium on further designations. Another bill, sponsored by Representative Scott Garrett, a New Jersey Republican, would allow members of Congress into the council's meetings."

Wall Street's Latest Must-Have? A Volcker Helper
Peter Eavis, New York Times, 6/20/14
"A year from now, Wall Street firms have to comply with the Volcker Rule, a batch of regulations that aim to restrict the type of trading that banks can do. Named after Paul Volcker, the former chairman of the Federal Reserve, the rule is meant to stop banks from making bets for their own profit, an activity known as proprietary trading. The rule, however, allows broker-dealers to trade on behalf of clients and hedge their positions in certain ways.

"Wall Street, it goes without saying, has no love for the rule. It interferes with how banks generate some of their biggest revenues, and it may turn into a legal minefield if they fail to follow its demands.

"Now, though, a couple of white-shoe law firms are bringing out products to help their clients comply with the rule. Shearman & Sterling has its Volcker Assistant, while Davis Polk's is called the Volcker Portal."

[After Crisis, Risk Officers Gain More Clout at Banks](#)
James Sterngold, Wall Street Journal, 6/25/14

[Rate Manipulations May Distort Banks' Market Risk Models](#)
Mayra Rodríguez Valladares, New York Times, 6/25/14
"Many of the world's biggest banks have been ensnared in investigations by United States and British regulators into the manipulation of market rates, especially benchmark rates like the London Interbank Offered Rate, better known as Libor. To date, much of the attention has been on the possible effects of the rate manipulation on individuals and companies, who may end up paying too much, or too little, for loans, bonds or derivatives.

"But the manipulation of the rates can also affect banks because they use the rates in calculating how well capitalized they are and how well they can withstand major market upheaval. The question for regulators and investors, then, is whether the manipulated rates created a mirage of well-capitalized financial institutions."

[U.S. Banks Warned by OCC Against Return to Riskier Lending](#)
Jesse Hamilton, Bloomberg, 6/25/14
"U.S. banks striving to bolster profits amid slow growth and new regulations are being warned against returning to riskier lending, including a type of funding used for mergers and acquisitions.

"Leveraged loans, along with commercial and automobile lending, have seen declines in underwriting standards, the Office of the Comptroller of the Currency said today in a report on threats facing the national banks it oversees. The continuing low-rate environment is setting the industry up for future vulnerability as the firms chase yield by extending asset maturities, the OCC said."

[The 2008 Financial Collapse Was Worse Than 1929, Geithner Insists](#)
Robert Lenzner, Forbes, 6/22/14
"[D]espite all the clamor for regulation and effective oversight of our main financial institutions, I believe that 'vast swaths of the financial system' still have no one in charge and we face confusion and indecision from a regulatory umbrella 'engaged in tribal warfare.' Geithner claims 'the financial system is safer, but it certainly isn't perfectly safe.' In particular, he makes plain just how risky it is to have 'a fragmented regulatory structure,' with 3 federal bank supervisors, 2 market regulators, 5 agencies responsible for reining in proprietary trading and 10 voting members monitoring systemic risks. And systemic risks are often not obvious until it is too late.

"Until I read *Stress Test*, I did not know that the Dodd-Frank legislation took away the Fed's ability to intervene when a financial institution gets into trouble, meaning that the bailout of AIG could not take place today. Nor does the Federal Deposit Insurance Corp. any longer have the authority to make a broad guarantee of deposits in the financial system. This is deeply worrying for the next crisis that is coming someday."

[Four Reasons You Should Care about Big Bank Wind-Down Plans](#)
Joe Adler, American Banker, 6/20/14
"The Dodd-Frank Act's new resolution process applies to only a handful of the roughly 6,700 U.S. banks, but its success or failure is critical to institutions of all sizes.

Regulators are still struggling to implement the complex process, including forcing banks to write ‘living wills’ that detail how they can be dismantled in a crisis and building an effective system of their own capable of resolving them.

“Their efforts could ultimately determine whether the era of ‘too big to fail’ banks is over, yet much of the industry's focus has been drawn elsewhere to more high-profile debates over the Volcker Rule, new mortgage restrictions and other issues.”

CIT's Thain: Higher Regulatory Standards Not a Hurdle to Deals
Andrew R. Johnson, Wall Street Journal, 6/25/14
CIT Chairman and Chief Executive John Thain said the prospect of facing increased regulatory requirements wouldn't deter it from doing acquisitions that may push the company over $50 billion in assets.

“CIT, which provides financing to small and midsize businesses, is one of the few banks that is approaching $50 billion in assets, a threshold regulators use to define so-called Systemically Important Financial Institutions, or SIFIs, which face stricter capital standards and other requirements. CIT had $48.6 billion in assets at the end of the first quarter.”

Data Now Available for use Evaluating the Individual Systemic Footprint of 33 Large U.S. Bank Holding Companies
Press Release, Federal Reserve, 6/26/14

OTHER TOPICS

Saving American Cities
Interview, Robert Pollin, The Real News, 6/26/14
“So about two weeks ago, there was a very, very interesting conference in Washington organized by the outstanding organization Americans for Financial Reform. The conference was titled "Banking without Wall Street". So what really can we do to run a banking system that doesn't have to--every decision and every dollar doesn't have to flow through Wall Street and benefit Wall Street? Rather, as you put it, what can we do to really help the basic economy? And one area of the basic economy, obviously, is our state and local governments, our municipalities.

“Municipalities are the biggest source of employment in the whole country. So there's about 14 million people that are employed or indirectly tied to municipalities. Now, the municipalities were put under severe stress during the Great Recession. The Great Recession ended, by the way, officially ended five years ago. So we're five years past the Great Recession. But state governments are still operating under austerity budgets if they're still operating. There are some cases--notably, especially, Detroit, that has experienced default. But the state and local governments, and municipalities in particular, have been unable to grow, have been unable to hire back the teachers, the health care workers, the public safety workers that make up the core of municipal activities. What we say *municipal government*, we really made public education, we mean health care, we mean safety, we mean parks. That's what we're talking about.”

Bankers Urged to Share Opinions about Reg Burden on Twitter
ABA Dodd-Frank Tracker, 6/27/14

"ABA is encouraging bankers to use Twitter to ask their members of Congress to co-sponsor three House bills addressing regulatory burden for bankers. The bills are **H.R. 2673**, **H.R. 4521** and **H.R. 4466**. Bankers should check the co-sponsor lists at each link and urge their representatives to co-sponsor the legislation if they haven't already — and thank them for their support if they have.

Bankers can visit **house.gov**, enter their zip codes and find their representatives' Twitter handles via members' websites. Use ABA's **suggested tweets** over the next two weeks to share perspectives on regulatory burden. Members of Congress and their staff monitor Twitter for constituent perspectives, so bankers can be sure their tweets will be seen."