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THIS WEEK IN WALL STREET REFORM
October 26-November 1, 2013

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TOP STORIES

Reid Says He Will Try Again to Push Watt Nomination
(Susan Davis, USA Today, 10/31/13)
"Senate Majority Leader Harry Reid, D-Nev., vowed to try again after Senate Republicans on Thursday blocked the nomination of Rep. Mel Watt, D-N.C., to head the agency that oversees mortgage lenders Fannie Mae and Freddie Mac at a critical time for the industry.

"'Republicans' unprecedented obstruction continued today with a step that we have not seen since the Civil War,'" Reid said.

"Democrats fell three votes shy of the 60 required to advance his nomination to lead the Federal Housing Finance Agency. White House spokesman Jay Carney called the vote 'enormously disappointing' and said the president is hopeful Watt can be confirmed in the future…"

CFTC Delays Cases, Shelves Probes, in Funding Squeeze
Jean Eaglesham, Wall Street Journal, 10/31/13)
"The Commodity Futures Trading Commission is so cash-starved that the agency is being forced to delay cases, shelve certain probes and decided not to file charges against two former traders over JPMorgan 'London Whale' trading mess, a top official said.

"In an interview, David Meister, who stepped down this week as the CFTC's enforcement chief, said the agency is 'absolutely undersized' ... The 50-year-old former prosecutor's warning came Wednesday, his last day at the CFTC after a near-three-year enforcement stint. Since he joined the CFTC in January 2011, the once-obscure agency has reinvented itself to become an apparent force to be reckoned with…"

Democrats Claim Barney Frank, Sheila Bair, Maxine Waters Back Deregulation Bill. It's Not True.
(Ryan Grim, Shahien Nasiripour, The Huffington Post, 10/30/13)
"Lobbyists and House Democrats working to roll back a key provision of Wall Street reform are taking liberties with the truth as they make their case ahead of a key House vote… A letter from

Rep. Jim Himes (D-Conn.) to his colleagues claims three surprising supporters of [HR 992, “The Swaps Regulatory Improvement Act,” which aims] to loosen regulations on derivatives trades: former Rep. Barney Frank (D-Mass.), a chief sponsor of the historic Dodd-Frank reform law that would be altered by the latest bill; Sheila Bair, the tough, reform-minded former head of the Federal Deposit Insurance Corporation; and Rep. Maxine Waters (D-Calif.), the progressive ranking member on the House Financial Services Committee. But none of that is quite right…”

(See collection of materials on HR 992.)

Fed Governors Increasingly Have Academic Backgrounds
(Michael S. Derby, The Wall Street Journal, 10/28/13)
“At a time when the Federal Reserve finds itself more deeply involved in banking oversight, a new report laments the lack of direct regulatory experience among its top officials. The Conference of State Bank Supervisors study zeros in on the members of the Fed’s seven-member board of governors in Washington.

“The paper’s authors observe these policymakers, both now and for some time, have been drawn primarily from the ranks of academic economists. A few have had finance backgrounds, while fewer have had direct experience in the regulation of the financial industry. This contrasts with the Fed’s early decades, when most of the board members were drawn from the ranks of banking, finance and government. The transition over time is tracked in a colorful Excel chart…”

The Fed’s Last Troublemaker
(Nancy Cook, National Journal, 10/31/13)
"Few people outside of Washington could tell you much about [Fed Gov. Daniel] Tarullo. Yet, essentially he is the last rabble-rouser on fiscal reform left in the Obama administration, who is fighting overtime to permanently tamp down Wall Street's excesses.

"He remains irritated by the delay in finalizing major portions of the Dodd-Frank law, and he continues to push for more-stringent and nuanced rules even as the banking industry tries to slow the new regulations, such as the 'Volcker Rule.' Of course, the further the U.S. moves away from the global financial meltdown, the harder it becomes to justify the reach of Dodd-Frank - making Tarullo's goals more elusive than ever."

Bond Billionaire Bill Gross: I Got Rich at the Expense of the Less Well-Off
(Sam Ro, Business Insider, 10/30/13)
“Bill Gross' latest monthly PIMCO Investment Outlook is out, and it spends some time discussing the massive wealth disparity in America. “Having benefited enormously via the leveraging of capital since the beginning of my career and having shared a decreasing percentage of my income thanks to Presidents Reagan and Bush 43 via lower government taxes, I now find my intellectual leanings shifting to the plight of labor... Having gotten rich at the expense of labor, the guilt sets in and I begin to feel sorry for the less well-off.’

Gross urges his fellow “money people” to “acknowledge your good fortune at having been born in the ‘40s, ‘50s or ‘60s, entering the male-dominated workforce 25 years later, and having had the privilege of riding a credit wave and a credit boom for the past three decades. You did not, as President Obama averred, ‘build that,’ you did not create that wave. You rode it. And now it’s time to kick out and share some of your good fortune by paying higher taxes or reforming them to favor economic growth and labor, as opposed to corporate profits and individual gazillions…”

MORE ON THE MEL WATT NOMINATION

The Case for Mel Watt

(Dory Rand, US News.com, 10/30/13)

“Ever since the collapse of the housing bubble, local officials around the country have had to deal with a massive problem of homes effectively abandoned by banks and other absentee owners.

“With the direct and indirect costs of this neglect running into the billions of dollars, scores of cities and towns have passed laws calling on lenders or mortgage holders to pay a fee for maintaining the properties they have taken steps to reclaim. Now, as Chicago has learned, such efforts face an unexpected threat from an arm of the United States government – the little-known Federal Housing Finance Agency, or FHFA.in Chicago, banks had been walking away from the foreclosure process after deciding that it might not generate enough money to justify the expense of maintenance. The city council responded with an ordinance requiring mortgage holders to maintain homes before taking ownership of them. The council had carefully crafted its rule to answer the criticisms of a group of major banks, but the FHFA objected…”

Mortgage Bankers Urge Senate to Confirm Mel Watt

(Jon Prior, Politico, 10/31/13)

“Mortgage Bankers Association Chairman E.J. Burke today urged the Senate to confirm North Carolina Congressman Mel Watt as the next regulator of the taxpayer-owned mortgage companies Fannie Mae and Freddie Mac.

“The White House met with several industry groups earlier this week to organize a push to confirm Watt as director of the Federal Housing Finance Agency. Burke said that Watt's two decades of work on the House Financial Services committee gives him the needed understanding of the housing finance market for the role.

“Congressman Watt would bring considerable experience to the post of Director," Burke said in a statement, adding that a permanent leader of the agency needed to be confirmed in order to advance the debate on housing reform.”

JP MORGAN CHASE SETTLEMENT AND RELATED CASES

JPMorgan's Dimon Put in a Rough Spot

(E. Scott Reckard, The LA Times, 10/24/13)

”Jamie Dimon, arguably the nation's most powerful banker, has navigated intense scrutiny from

Congress, the White House and regulators around the globe. But it's a federal prosecutor in Sacramento, far from the world's financial and political capitals, who pinned the chairman of JPMorgan Chase & Co. to the wall.

"U.S. Atty. Benjamin B. Wagner led the investigators who forced JPMorgan into talks now widely expected to produce a $13-billion settlement of fraud allegations. His team delivered key evidence revealing how JPMorgan misled investors while peddling bonds backed by subprime and 'liar' loans from the housing bubble…"

<u>JPMorgan Reaches Deal With Agency Over Loans</u>
(Ben Protess, The New York Times, 10/25/13)
"JPMorgan Chase has secured important concessions in a $13 billion settlement over its mortgage practices, allowances that could ultimately reduce the bank's financial burden and leave the government itself on the hook for a small portion of the cost. The concessions emerged on Friday in an agreement with one of the federal regulators suing JPMorgan, the nation's largest bank. The regulator, the Federal Housing Finance Agency, ran ahead of a broader deal that the Justice Department and other authorities were negotiating with the bank. The housing agency, which oversees Fannie Mae and Freddie Mac, extracted a $5.1 billion payout on Friday.

"But unlike other regulators pursuing the bank, it did not require JPMorgan to admit wrongdoing. And in a provision buried in the settlement, the agency effectively allows JPMorgan to try later to recoup about $1 billion from another federal regulator: the Federal Deposit Insurance Corporation…"

<u>Part of J.P. Morgan's Deal With U.S. at Risk of Collapse</u>
(Devlin Barrett, The Wall Street Journal, 10/29/13)
"Part of a multibillion-dollar deal between J.P. Morgan Chase and the government is at risk of collapsing over a disagreement about the bank's effort to be reimbursed by a government-controlled fund, according to people familiar with the discussions. A draft agreement offered by the bank Sunday night has angered federal officials and raised new questions about the ability of the two sides to finalize what would be a record-setting pact, according to people familiar with the talks.

"A key sticking point is whether J.P. Morgan or the Federal Deposit Insurance Corp. bears ultimate responsibility for liabilities linked to Washington Mutual, which J.P. Morgan acquired during the financial crisis, said people close to the talks. On Sunday night, lawyers for the bank also offered a proposed deal that could give the bank extra legal protection from criminal probes—something the Justice Department leadership isn't willing to accept, these people said…"

<u>J.P. Morgan's $5.1 Billion Settlement Is Tax Deductible</u>
(Michael Rapoport & Dan Fitzpatrick, The New York Times, 10/30/13)
"JPMorgan Chase & Co.'s $5.1 billion settlement with Fannie Mae and Freddie Mac will be

entirely tax deductible for the bank, according to a person familiar with the situation—effectively lessening the bank's true payout and shifting part of the settlement's cost to taxpayers…"

<u>JPMorgan Pact Draws Fire</u>
(Brian Faler, Politico, 10/31/13)
"The administration's tentative $13 billion settlement with JPMorgan Chase is drawing some bipartisan fire in Congress where lawmakers say it could leave taxpayers on the hook. Some complain any agreement is likely to prove smaller than advertised because it will allow the biggest U.S. bank to claim tax breaks that will substantially reduce the settlement's ultimate cost.

"'It's ridiculous,'" said Sen. John McCain (R-Ariz.). 'A bad joke.'"

<u>London Rolls out Red Carpet for Dimon and JPMorgan</u>
(Ben White, Morning Money, 11/1/13)
"A little birdie tells us while things are not so friendly for him in the U.S. right now, JPMorgan Chase CEO Jamie Dimon 'got a warm embrace from UK leaders' during a recent visit. Dimon was in London for a series of JPM events, anchored by their CEO Forum and Global Cities Initiative (GCI) ... Boris Johnson, Mayor of London spoke to the GCI dinner, 'extolling the virtues of the finance sector, JPMorgan's presence in the UK, and its positive impact on job creation in other parts of the country, particularly in Bournemouth.' Johnson's big joke: 'The US gave us JPMorgan, we gave you Piers Morgan, and the UK got the better deal.'

"More from the little birdie: 'At the CEO Forum, the Chancellor of the Exchequer, George Osborne, stressed the openness of the UK economy, recognized the mobile nature of global businesses like financial services, and acknowledged that the JPMC board has "choices" about where they locate and invest. ... HRH The Duke of York hosted a dinner at Buckingham Palace for the CEO forum attendees. He thanked JPMorgan for its presence in the UK and role in the economy; and urged a better understanding of the role of banks in creating growth in the economy.'"

<u>Bank's Midlevel Executive Becomes a New Face of the Housing Crisis</u>
(Landon Thomas Jr., New York Times, 10/25/13)
"Fuld. Cayne. Mozilo. Mairone? More than five years after the housing bust, the roll call of banking executives who have been blamed by the public for the crisis has grown ever longer. But when it comes to top managers who have been hit with a jury verdict for pushing dubious mortgages, the list is small indeed.

"The new name added this week was Rebecca S. Mairone, a midlevel executive atBank of America's Countrywide mortgage unit, who was held liable by a federal jury in Manhattan for having saddled the housing giants Fannie Mae and Freddie Mac with bad mortgages that resulted in over $1 billion in losses…"

DERIVATIVES AND COMMODITIES

House Votes to Repeal Dodd-Frank Provision
(Eric Lipton, NY Times, 10/30/13)
"The House of Representatives, with bipartisan support, passed legislation on Wednesday that would roll back a major element of the 2010 law intended to strengthen the nation's financial regulations by allowing big banks like Citigroup and JPMorgan Chase to continue to handle most types of derivatives trades in house.

"The bill, which passed by a 292-122 vote, would repeal a requirement in the Dodd-Frank law that big banks 'push out' some derivatives trading into separate units that are not backed by the government's insurance fund.

"But the debate Wednesday regarding this decidedly technical matter quickly turned into an impassioned dispute over the role the federal government has played since the recession in regulating financial markets. Advocates of the legislation argued on the House floor that the federal government is partly responsible for the slow rate of economic growth because it imposed excessive new regulations…"

House, Set to Vote on 2 Bills, Is Seen as an Ally of Wall St.
(Eric Lipton & Ben Protess, The New York Times, 10/28/13)
"To Wall Street, this town might seem like enemy territory. But even as federal regulators and prosecutors extract multibillion-dollar penalties from the nation's biggest banks, Wall Street can rely on at least one ally here: the House of Representatives.

"The House is scheduled to vote on two bills this week that would undercut new financial regulations and hand Wall Street a victory… The bills are part of a broader campaign in the House, among Republicans and business-friendly Democrats, to roll back elements of the 2010 Dodd-Frank Act… Of 10 recent bills that alter Dodd-Frank or other financial regulation, six have passed the House this year. This week, if the House approves Citigroup's legislation and another bill that would delay heightened standards for firms that offer investment advice to retirees, the tally would rise to eight…"

CFTC to Vote on Client-Funds Protection Rule
(Silla Brush, Bloomberg, 10/28/13)
"The U.S. Commodity Futures Trading Commission will meet Wednesday to complete rules to boost protection of customer funds. The customer-protection rules, which have been under debate for more than a year, were proposed after the collapse of MF Global Holdings Ltd. initially left a gap of $1.6 billion in client funds. The proposal spurred opposition from the futures industry. One part of the proposal required brokerages to at all times of the day keep enough of their own money, or residual interest, on hand to account for their customers' deficits.

"The CFTC said the proposal would avoid the possibility that brokerages would use end-of-the day balancing to 'obscure a shortfall.' The change from industry practice would tie up additional capital and would probably lead to increased costs for clients, according to brokerages that objected to the rule. It also set requirements for ‘funding portals’ — an alternative method of selling these shares that breaks Wall Street's monopoly on securities dealing…”

<u>Obama Opposes House GOP Financial Regulation Bills</u>
(Associated Press, 10/29/13)
“The White House says it opposes legislation in the Republican-controlled House that would exempt certain financial transactions used by banks from falling under the provisions of a 3-year-old law passed in response to the 2008-2009 financial crisis.

“The White House stopped short of threatening a presidential veto, but says that regulators should be permitted to complete new financial rules before new attempts to amend the regulations. The proposed legislation would allow certain risky bank trades to retain the protections of the Federal Deposit Insurance Corporation. The White House did threaten to veto another House bill that would delay the Labor Department from issuing a rule designed to protect consumers in their investments, particularly their retirement savings…”

<u>House Votes for Bipartisan Change to Dodd-Frank on Bank Swaps</u>
(Pete Kasperowicz, The Hill, 10/30/13)
“A bipartisan tweak to the Dodd-Frank financial reform law passed the House Wednesday, one that would give banks more flexibility to use complex financial instruments known as swaps to hedge risk.

“The House passed the Swaps Regulatory Improvement Act, H.R. 992, in a 292-122 vote that saw 70 Democrats join all but three Republicans. Republicans voting against it were Reps. John Duncan (Tenn.), Walter Jones (N.C.), and Thomas Massie (Ky.).

“In reaction to the 2008 financial meltdown, Congress included language in Section 716 of Dodd-Frank that required banks to move commodity, energy and other swaps into a non-bank entity. Banks can still hedge risk directly using interest rate and foreign exchange swaps, but the idea was to remove other risks from banks, many of which were ultimately bailed out by the government…”

<u>Delaney May Derail Dodd-Frank Component</u>
(Cumberland Times News, 10/28/13)
“This week, the House of Representatives plans to vote on a measure — HR 992 — that would repeal a section of the 2010 Dodd-Frank Wall Street Reform Act that prohibits gambling by banks with FDIC-guaranteed deposits.

“If he votes the same way as he did in committee, U.S. Rep. John Delaney, D-Md., who represents Western Maryland, will support this measure. In effect, he will support a measure that subsidizes Wall Street gambling. House Financial Services Committee Republicans have long been in favor of this carve-out for Wall Street. So it was no surprise when they voted unanimously on May 7 in favor of HR 992 and eight other bills to eviscerate important safeguards in the 2010 Wall Street Reform Act pertaining to derivatives supervision. But

Western Maryland taxpayers would perhaps be surprised to learn that Rep. Delaney and several other Democratic freshmen also jumped on board. Derivatives have to do with the gambling aspect of financial firms' operations, as it is the part in which they make high-stakes bets under the guise of 'hedging…'"

Fed May Outline Commodity Policy for Banks Early 2014
(Douwe Miedema, Reuters,10/28/13)
"The U.S. Federal Reserve may not unveil its plans for regulating Wall Street's Commodity trading business until early next year, a person briefed on the matter said, deferring a decision on the politically fraught debate into 2014.

"The timing confounds any expectations that the regulator would make its views known before a second Senate hearing expected next month into the rigging of aluminum and other markets, at which Fed officials are due to testify…"

"The Fed is reviewing a decade-old decision that has allowed Citigroup, Barclays and other banks to engage in the trading of physical commodities such as oil and metals, as well as its wider policy on containing the risks from the commodity business for banks…"

CFTC Approves Tighter Commodity Trading Rules
(Alexandra Stevenson, New York Times, 10/30/13)
"In October 2011, as the futures broker MF Global teetered on the brink of collapse, it dipped into client accounts in an effort to avert bankruptcy. But the action failed to save the broker, and its implosion left thousands of clients short a total of $1.6 billion.

"Two years after MF Global's bankruptcy, regulators have sought to restore confidence in the industry, tightening rules that force brokerage firms to better safeguard client money. The Commission voted 3 to 1 on Wednesday to finish rules proposed a year ago to protect customers, including measures to close loopholes, reinforce internal risk controls and force brokers to provide more information to clients…"

EU's Swaps Rule Plan May Breach G-20 Accords, Barnier Warns
(Jim Brunsden, Bloomberg, 10/31/13)
"The European Union's financial services chief told legislators that a planned overhaul of the bloc's rules for trading swaps may breach international agreements, threatening EU access to overseas markets.

"Michel Barnier, the financial services commissioner, is urging changes to the blueprint which, as it stands, could "lead to an increase of trading of derivatives instruments on dark venues," undermining transparency agreements reached in 2009 by the Group of 20 nations, according to a letter sent to legislators obtained by Bloomberg News…"

INVESTOR PROTECTION

30 House Democrats Joined the GOP to Sell You Out to Wall Street. Which Ones?
(Daily Kos, 10/29/13)
"Republicans and conservative Democrats just voted to sell you out to Wall Street… Today, the House passed the so-called Retail Investor Protection Act 254 to 166. 30 Democrats voted with 224 Republicans in favor. 165 Democrats--and one Republican--voted against it. Those following H.R. 2374 thought it would pass with wide bipartisan margins, so having 165 Democratic NAY's was better than expected. The 30 Democratic YEA's still need to be named and shamed, however.

"First, let's begin with the important question: What is the Retail Investor Protection Act? The bill delays a new Department of Labor rule that would prevent financial advisers from stealing from your 401(K) plans or IRAs. Allowing financial advisers to rip you off is a great complement to that other plank in the Republican-Conservadem retirement insecurity platform, cutting Social Security."

Dems Prod SEC on Corporate Giving Rule
(Ben Goad, The Hill, 10/30/13)
"The Securities and Exchange Commission should move forward with regulations requiring publicly traded firms to disclose their political spending to shareholders, a pair of Democrats on the Senate Banking Committee said Wednesday.

"Sens. Robert Menendez (D-N.J.) and Elizabeth Warren (D-Mass.) are seeking to ramp up pressure on the agency as it weighs hundreds of thousands of comments from proponents of the plan…"

Delamaide: Crowdfunding Rules Help Investors
(Darrell Delamaide, USA Today, 10/30/13)
"Investors disillusioned with what increasingly looks like a stock market rigged in favor of high-frequency traders will soon have an opportunity to buy shares in local start-ups and enterprises through crowdfunding. The Securities and Exchange Commission last week proposed rules to carve out an exemption for small companies to offer shares without going through the burdensome and expensive process of SEC registration…"

BANK CAPITAL REQUIREMENTS

Bank Regulators Float Liquid Assets Rules
(Julian Hattem, The Hill, 10/30/13)
"Federal bank regulators want large banks to increase the amount of money they hold in reserve for emergency situations.

"The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the

Currency unveiled draft rules requiring major banks and savings associations to keep large amounts of liquid assets on hand to sell off during a credit crunch. The regulators' requirements are based on standards developed by the international Basel Committee, but are more stringent in some regards…"

(See AFR Letter of 10/21/13.)

SYSTEMIC RISK

U.S. Regulators Aim for December Vote on Volcker
(Douwe Miedema, Reuters, 10/30/13)
"U.S. regulators hope to vote in December on a rule that would bar banks from gambling with their own money, the nation's top derivatives regulator said on Wednesday, a sign that the controversial Volcker rule may soon become law. The rule, which was devised by former Federal Reserve Chairman Paul Volcker, would prohibit Wall Street banks from risky trades in financial markets using their own capital, a practice known as proprietary trading.

"The six agencies working on the rule still have not agreed on a final text of more than 1,000 pages, said Gary Gensler, chairman of the Commodity Futures Trading Commission, though he indicated a consensus was nearing…"

Should the U.S. Break Up the Big Banks?
(Intelligence Squared U.S., 10/16/13)
"Richard Fisher: "Let me just give you a statistic - 0.2 percent of all the banks in the United States of America control 70 percent of the banking assets of the country… JPMorgan has assets that exceed the total assets of 5,400 community banks in this country. Our definition of a bank 'too big to fail' is a bank whose bond holders and shareholders and managers and big customers, even their oligarchs, believe themselves exempt from the rules and the consequences that apply to all others. If they screw up they'll be bailed out by you, the people in this audience, the American taxpayers…"

"Under the law, the big banks are now designated as systemically important financial institutions. The acronym for that is SIFIs. Now we,at the Dallas Fed and Simon and I would consider the SIFI an acronym for Save If Failure Impending. And actually when you think about it, SIFI sounds like a communicable disease – something that's transmitted by risky behavior…"

EXECUTIVE COMPENSATION

Poisonous Million Dollar Pay Packages
(Leo. W. Gerard, The Huffington Post, 10/28/13)
"Pope Francis has the antidote for what ails the United States. He gave the Catholic Church's 1.2 billion followers a dose last week when he suspended the Bishop of Bling. The German bishop, Franz-Peter Tebartz-van Elst, bought himself a $20,000 bathtub while spending $42 million renovating his residence. It's an echo of John Thain, the Merrill Lynch chief executive who bought a $35,000 toilet while spending $1.2 million on office renovations just months before

confessing to $56 billion in losses.

“Unlike Elst and Thain, Pope Francis is beloved for his asceticism. He lives in Spartan rooms and drives a 1984 Renault. He runs an organization as big as any American corporation. Yet he doesn't demand millions in pay and perks. American CEOs, by contrast, place themselves on $35,000 thrones bought with the sweat of struggling minimum wage workers. The income inequality they've caused over the past half century is corrosive to the American ideal of an egalitarian society free of grotesquely wealthy royalty…”

MORTGAGES AND FORECLOSURES

From Anonymity to Scourge of Wall Street

(Peter Lattman & Ben Protess, The New York Times, 10/30/13)

“The architect of a recent legal crackdown on Wall Street’s dubious mortgage practices was not the attorney general, a United States attorney or a rising star in the Justice Department. Instead, it was Leon W. Weidman, an unassuming 69-year-old career prosecutor, toiling away in anonymity 3,000 miles from Washington.

“For much of his 43 years as a government lawyer, Mr. Weidman led a small group of federal prosecutors in Los Angeles. In the 1990s and 2000s, he and his team brought nearly 200 civil fraud lawsuits against two-bit mortgage crooks and small-business cheats, using an obscure federal law created in the aftermath of the savings and loan crisis a quarter century ago. Now the work of Mr. Weidman, a onetime engineer who earned his law degree at night, has leapt to a bigger stage: the government’s campaign to punish Wall Street for the financial crisis…”

Credit Suisse to Citigroup Said to Face Mortgage-Bond Probe

(Keri Geiger and Dakin Campbell, Bloomberg, 10/25/13)

‘“Credit Suisse Group AG and Citigroup Inc. are among banks grappling with a round of U.S. probes into mortgage-bond sales, as the government uses a 1989 law to extend scrutiny of Wall Street’s role in the credit crisis and seek additional penalties from the industry.

“The Justice Department is examining whether both companies violated the Financial Reform, Recovery and Enforcement Act, which targets misconduct affecting federally insured financial firms, according to people briefed on the situation. JPMorgan Chase & Co. and Bank of America Corp. also are facing FIRREA inquiries, people familiar with those cases have said…”

From Ashes of Housing Crisis, a New Type of Bond

(Diana Olick, CNBC, 10/25/13)

“It feels like back to the future in bonds. A brand-new investment product will launch next week that is born of the housing and mortgage crashes but based on the same strategy that caused at least some of the crisis. Blackstone, the largest investor in single-family rental homes, is introducing a new security backed by those homes. The as-yet unnamed bond will provide investors with not only an income stream from rental properties but also a potential return if they are sold. Much like a mortgage-backed security (MBS), it is a rental-backed security.

“‘JPMorgan, Deutsche Bank and Credit Suisse will market about $500 million of the securities, said sources close to the matter. At least one of the tranches will be triple-A rated, according to sources, although ratings firms said to be involved would not comment…”

Banks Brace for End of Prepayment Penalty Boom
(Andy Peters, American Banker, 10/31/13)
“It's like a night out on the town — it's great at first, but there's always a hangover the next morning. The mortgage-refinance boom lifted banks' bottom lines when they needed it most. But once rates started rising, the refinance industry collapsed, knocking out a huge revenue stream and forcing banks to fire thousands of workers.

“Now, the same scenario is about to play out in the area of prepayment penalty fees. The drop-off is expected to be most pronounced among banks with a big exposure to multifamily loans…”

SIGTARP Alleges Hardest Hit Fund failures
(Kerri Ann Panchuk, HousingWire, 10/29/13)
“The Hardest Hit Fund, which was launched by the Treasury to help families in areas stricken by the housing bust, fell short of its stated goals, the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) warns… The Hardest Hit Fund started with ambitious goals, SIGTARP says, but ineffective barometers and metrics prompted states receiving the funds to substantially lower their goals.

“However, Tim Massad, assistant secretary for financial stability at Treasury, said the states are innovating as they go. It also took some time to get these locally run programs up and running, Massad told HousingWire…”

Rep. Frank: Revamped Mortgage Rules a ‘Grave Error”
(Alan Zibel, Wall Street Journal, 10/29/13)
“An architect of the 2010 Dodd-Frank law is accusing federal regulators of watering down new mortgage rules in the face of opposition from the housing industry. Former Rep. Barney Frank (D., Mass.) slammed federal regulators for their decision to dial back a proposal to impose new rules on the mortgage-securities market–a key piece of the Dodd-Frank law that bears Mr. Frank’s name.

“’This is a grave error, and contrary to the assertion that it would best carry out the statutory intent, significantly repudiates it,’ Mr. Frank wrote in a comment letter being sent to regulators Tuesday.”

Warren Backs Firmer Mortgage Rules to Bar Return to Lax Lending
(Cheyenne Hopkins, Bloomberg, 10/29/13)
“The U.S. Congress should consider strengthening mortgage-servicing standards to ensure banks don’t return to higher-risk lending in a future housing boom, Senator Elizabeth Warren said in a speech today.

“The qualified mortgage rule, which requires lenders to verify a borrower’s ability to repay by confirming income and assets, needs to be bolstered because the version taking effect Jan. 10 has insufficient penalties for noncompliance, Warren said at a Mortgage Bankers Association conference in Washington…”

Report: Market Will Prosper Under Ability-to-Repay, QM Rules
(Krista Franks Brock, DSNews.com, 10/25/13)
“Today’s resilient capital market has the capacity to adapt readily to the pending Ability-to-Repay and Qualified Mortgage (QM) rules set to take effect January 10, 2014, according to a white paper CoreLogic released Friday…”

Consumer Bureau Sues Kentucky Real Estate Law Firm
(Alan Zibel, Wall Street Journal, 10/24/13)
“A small Kentucky real estate law firm has found itself the latest target in renewed federal scrutiny of referrals in the housing industry. The Consumer Financial Protection Bureau on Thursday sued Louisville-based law firm Borders & Borders PLC, accusing it of paying illegal kickbacks to real-estate agents and mortgage brokers in exchange for work.

“The lawsuit is the agency’s third enforcement case involving alleged kickbacks in the real-estate industry, highlighting how the new regulator is stepping up its oversight. The lawsuit accuses Borders & Borders of operating nine joint venture title insurance companies with local real-estate agents and mortgage brokers and splitting the profits with them…”

CFPB AND CONSUMER FINANCE

Why Banks Are Scrambling To Hear Your Complaints
(Amy Fontinelle, Forbes, 10/25/13)
“On March 1, 2012, the Consumer Financial Protection Bureau (CFPB), a federal government agency, began collecting consumer complaints about bank accounts. Bank accounts and bank services make up the CFPB’s third-largest category of complaints, accounting for 15% of them, or 25,700 complaints. One result of consumers’ ability to easily tell the government how a bank has wronged them is that banks are trying to reach angry customers before they file a complaint to the CFPB. Here’s a look at the actions banks are taking, and whether their behavior is likely to harm or help consumers…”

How Far Should the CFPB Go to Save Consumers from Themselves?
(Kevin Wack, American Banker, 10/29/13)
“Behavioral economics is one of the hottest fields in academia, and also one of the most controversial. Researchers in the field are examining how cognitive, social and emotional biases can influence individuals' decision-making. Why, for example, do poor people often get caught in a cycle of debt that has harmful long-term consequences? Why don't Americans save enough for retirement?

“To its champions, behavioral economics offers a welcome corrective to the long-standing belief by many economists that individuals are rational actors. But as the field's influence has grown

— some of its leading scholars have occupied prominent roles in the Obama administration — so has criticism. Some conservative critics argue that the field is being used by liberals to provide an academic rationale for the policies they prefer.

“More than perhaps any other agency, the Consumer Financial Protection Bureau finds itself at the center of this fight…”

Hedge Funds Urge Consumer Bureau to Probe Firm They Short
(Carter Dougherty, Bloomberg, 10/30/13)
”Hedge funds betting against shares of World Acceptance Corp. (WRLD) have been pressing the U.S. Consumer Financial Protection Bureau to investigate the installment-loan firm, according to people briefed on the discussions. The overtures from funds including New York-based Kase Capital Management and Boston-based North Run Capital make the bureau the latest target of investors trying to prod Washington regulators and policy makers to take actions that could benefit their trading strategies…”

CARD Act Disclosures May Have Little Sway Over Consumers
(Kevin Wack, American Banker, 10/31/13)
“One of the main promises of the 2009 credit card reform law was that clearer disclosures to consumers would prompt them to make more prudent financial decisions. For example, the law requires monthly statements to show the payment amount that would be required to pay off the card balance within 36 months, which is often well above the minimum due…

“The disclosure rules have won praise from regulators, consumer advocates, and some bankers. But now questions are emerging about whether the requirements – which are part of a larger policy movement to nudge consumers to act more responsibly – actually had much tangible impact on consumer behavior…”

Senators Question Consumer Protection Bureau on Auto Loan Regulations
(Keith Laing, The Hill, 10/30/13)
“A group of 22 senators is questioning the Consumer Financial Protection Bureau (CFPB) on new rules for auto loans that car dealers say will limit their ability to find good deals for drivers.

“The lawmakers, led by Sens. Rob Portman (R-Ohio) and Jeanne Shaheen (D-N.H.), argued that the consumer protection bureau's rules would make it more difficult for car dealers to give auto buyers loan options from places such as credit unions or banks…”

Senators Question Bias Claim on Car Loans
(Alan Zibel, The Wall Street Journal, 10/30/13)
“A bipartisan group of senators is criticizing the Consumer Financial Protection Bureau’s effort to combat alleged discrimination in the auto-lending market, saying the regulator hasn’t shown enough evidence that problems exist.

“The 11 Republicans and 11 Democrats, led by Sens. Rob Portman (R., Ohio) and Jeanne Shaheen (D., N.H.) sent a letter to CFPB Director Richard Cordray Wednesday asking for details on how it analyzes auto loans for potential discrimination against minorities or women. The topic is a priority for the bureau. As a way to avoid discrimination, it has pushed to standardize or limit interest-rate charges added by auto dealers.

“The bipartisan criticism is a major challenge to the new regulator, created under the 2010 Dodd-Frank financial law to police the financial system for consumer abuses…”

<u>City Targets Debt Collectors</u>
(Andrew R. Johnson, The Wall Street Journal, 10/27/13)
“New York City's consumer watchdog is cracking down on debt collectors for allegedly pursuing residents over high-rate loans as regulators try to stamp out Internet lenders they say are skirting state law. The city's Department of Consumer Affairs on Friday filed a complaint to permanently ban National Credit Adjusters LLC… from operating in the city…”

<u>New PayDay Loan Alternative Program to be Unveiled</u>
(Russ Olivo, The Call, 10/28/13)
“A coalition of non-profits and private companies has made the city ground zero for an experiment in consumer lending they hope will persuade state lawmakers to ban “payday” loans. A joint venture of the United Way and the Capital Good Fund, the Woonsocket Payday Loan Alternative Program is slated to open its doors at 719 Front St. on Nov. 4.

“Operating under the banner of the Rhode Island Coalition for Payday Lending Reform, critics of payday loans waged a spirited but unsuccessful lobbying campaign at the Statehouse last year to outlaw the products, arguing they exploit the poor and trap them in a never-ending cycle of debt…”

<u>Payday Lending in America: Policy Solutions</u>
(Pew Charitable Trusts, 10/30/13)
“According to a series of studies by Pew, repayment of these short-term loans takes 36 percent of the paycheck of the average borrower, who can afford to pay only 5 percent. As a result, the typical customer has to repeatedly “re-borrow” the money every two weeks, spends five months of the year in debt, and ultimately pays $520 in fees for the original loan of $375.

“’Payday loans fail to work as advertised,’ said Nick Bourke, who directs Pew’s payday lending research. ‘They far exceed borrowers’ ability to repay, and—by a 3-to-1 margin—payday loan users say they want more regulation of the product. All small loans must have affordable payments. Payday loans do not. Pew’s research demonstrates effective ways to address this problem.’”

<u>Students of For-Profit School Face Arbitration</u>
(Tim Hull, Courthouse News Service, 10/28/13)
“An arbitrator must resolve unfair competition and false advertising claims against the for-profit education company Corinthian Colleges, the 9th Circuit ruled Monday. The federal appeals court in Pasadena found that a California rule that had exempted such claims for ‘public injunctive relief’ from arbitration is no longer valid in light of recent Supreme Court rulings…”

<u>U.S. Department of Education Issues New Rules on Student Loans, Strengthens Key Provisions for Distressed Borrowers</u>
(The Institute for College Access & Success, 10/29/13)
“The U.S. Department of Education has released new final regulations that strengthen key protections for distressed borrowers with federal student loans. The regulations also make conforming revisions to reflect legislative changes related to student loans.

“The new regulations will make it easier for borrowers to get out of default and repay their loans by ensuring that ‘reasonable and affordable’ payments to rehabilitate a loan are, in fact, reasonable and affordable. Consistent with the law, the final regulations specify that the rehabilitation payment amount must not be a required minimum payment, a percentage of the borrower’s total loan balance, or an amount based on other criteria unrelated to the borrower’s total financial circumstances…”