

# AMERICANS FOR FINANCIAL REFORM

## THIS WEEK IN WALL STREET REFORM | FEB. 7 - 13, 2015

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### LATEST CONGRESSIONAL BATTLES

#### [How Big Banks Are Using Smaller Ones as Cover for Getting out of Financial Reform](#)

**David Sanchez, ThinkProgress, Feb. 11, 2015**

[S]mall bank lobbies are frequently used to obtain a pass on consumer protection and financial reforms for banks of all sizes, not just small ones. [All three groups](#) that have been called to testify this week on small bank relief have targeted the new Consumer Financial Protection Bureau, calling for structural changes that would hamper its ability to protect consumers from abuses by banks of all sizes. The [community bank](#) and [credit union](#) lobbies have similarly pushed to [exempt 99 percent of banks](#) from consumer protection supervision.

And [all three lobbies](#) are working to weaken reforms that protect borrowers from inflated fees and discourage lenders of all sizes from making the risky loans that fueled the financial crisis.

#### [Warren: Wall Street Using Small Banks to Weaken Rules](#)

**Kevin Cirilli, The Hill, Feb. 10, 2015**

#### [Elizabeth Warren Calls a Banking Lobbyist's Bluff](#)

**Alexis Goldstein, Bull Market, 2/13/15**

#### [Banker Literally Applauds Elizabeth Warren At Senate Hearing](#)

**Ryan Grim, Huffington Post, 2/12/15**

Warren noted that when new banking regulations were initially proposed, large banks predicted that the rules would doom smaller community banks. But even though those restrictions have gone into effect, she pointed out, those banks are highly profitable today. "We should be very skeptical of regulatory relief bills that are promoted as helping small banks but are pushed by ABA lobbyists for the big banks," she said, referring to R. Daniel Blanton, who was at the hearing representing the American Bankers Association.

Rather than passing bills on behalf of big banks, Warren suggested, perhaps lawmakers should strip the banks of their subsidies and look into prosecuting them instead.

"If we really want to help the community banks ... let's start by holding big bank executives accountable for committing fraud like we do with small bank executives," Warren said, drawing applause from Buhrmaster, the community bank representative.

### **Size Matters: Community Bankers' Real Problem**

**Adam Levitin, Credit Slips, Feb. 10, 2015**

A new study by a fellow and a masters student at the Harvard Kennedy School of Government thinks it has found the culprits: Dodd-Frank! The CFPB! Regulation! ... It is gussied up to look like serious academic research, with footnotes and working paper series cover page, but don't let looks fool you. The study doesn't conform with basic norms of scholarship, such as discussing contrary evidence and having conclusions flow from evidence. Instead, the study is really a mouthpiece for a big bank anti-regulatory agenda that pretends to really be looking out for community banks.

### **Regulations Hit Smaller US Banks Hardest**

**Tracy Alloway, Financial Times, February 8, 2015**

### **Small Banks Score Gains in Lifting Regulation**

**Victoria McGrane & Ryan Tracy, Wall St. Journal, 2/2/15**

### **Dodd-Frank Is Crushing Community Banks, Suggests New Study -- But Is It That Simple?**

**Owen Davis, International Business Times, 2/11/15**

Authors Marshall Lux and Robert Greene compiled FDIC data on 20 years of lending patterns. Since Dodd-Frank passed, the share of banking assets controlled by community banks has declined by 12 percent -- nearly double the rate of decline in the previous four years. "Community banks' vitality has been challenged more in the years after Dodd-Frank than in the years during the crisis," the authors wrote.

The banking industry has leapt on the report to condemn Dodd-Frank. "The threshold of profitability has been raised by the regulations," Wayne Abernathy of the American Bankers Association, which lobbies for banks large and small, says. "I don't think think Dodd-Frank is the sole reason, but it's a major accelerant."

Not everyone in community banking sees Dodd-Frank in the same light. "It's a misnomer to think that all of its provisions apply in a uniform way," Mitria Wilson, vice president of government affairs for the nonprofit Center for Responsible Lending, says. The organization's affiliate Self-Help, one of the largest nonprofit community development lenders in the nation, hasn't been hamstrung by reforms, Wilson says. "We're still making loans."

See [AFR briefing paper on "Myths and Realities"](#) and [Senate Testimony of Michael Calhoun](#)

### **Rocky Week in Washington for Higher SIFI Level**

**Guggenheim Securities Newsletter, 2/13/15**

Politico reported on Thursday evening that Rep. Blaine Luetkemeyer was "close" to filing legislation to raise the SIFI designation level. The congressman said the bill has "lots" of bipartisan support...

That same Politico story demonstrated the hurdles that regional banks face to changing the SIFI designation level. Americans for Financial Reform is distributing a "fact sheet" to Capitol Hill arguing against changing the designation system. The fact sheet is well done and represents a threat to those who want to change the system. The group argues that Sec. 165 of Dodd-Frank gives the Federal Reserve enormous discretion to treat banks above \$50 billion of assets differently. So there is no reason that a regional bank needs to be treated the same as JP Morgan. It also argues that the failure of regional banks could collectively crash the economy which is why there is systemic risk for regional and mega banks. As we said, the fact sheet is a potent document. What it misses is the Federal Reserve's unwillingness to contravene what it

believes was the intent of Congress to create a system of enhanced leverage, liquidity and capital controls for banks with at least \$50 billion of assets.

### [Five Key Takeaways from Senate Banking's First Look at Reg Relief](#)

**Victoria Finkle, American Banker, Feb. 10, 2015**

"Today we will focus on regulatory relief for smaller financial institutions. In the near future we will continue this examination by focusing on unnecessary statutory and regulatory impediments across the financial services spectrum," said Senate Banking Committee Chairman Richard Shelby.

### [Republican Bill Could Give Congress Veto Power Over Executive Regulations](#)

**Sarah Westwood, Washington Examiner, Feb. 10, 2015**

### [Banks May Have Overplayed Their Hand Fighting Wall Street Regulation](#)

**Cheyenne Hopkins, Bloomberg, 2/11/15**

Wall Street lobbied aggressively and succeeded late last year in persuading lawmakers to roll back rules for the \$700 trillion derivatives market. Instead of generating momentum for further changes to the Dodd-Frank Act, the victory sparked a populist uprising among Democrats that's had wide-ranging consequences, including stymieing less controversial requests from regional banks like Capital One Financial Corp.

"A short while ago there was bipartisan agreement on a number of common sense improvements," said Rob Nichols, president of the Financial Services Forum that represents the chief executives of Wall Street's biggest banks. "Unfortunately, that bipartisan agreement is gone."

Financial companies and their employees spent \$169 million on the November elections and had expectations that their bid to loosen regulations would get easier with Republicans in control of both the House and Senate. Now, there is second-guessing that banks overplayed their hand, according to lobbyists.

### [Bank Lobbyists Still Fear Progressives and the Public](#)

**William K. Black, New Economic Perspectives, 2/12/15**

### [Regulating the Regulators](#)

**Editorial, Bloomberg View, 2/9/15**

Granted, the application of cost-benefit analysis to finance [isn't straightforward](#): The science, you might say, isn't settled. This makes involving the law especially hazardous: It gives courts and mischief-making litigants too many opportunities to obstruct and delay, with too little assurance that better rules will result.

## **CONSUMER FINANCE & CFPB**

### [Consumer Protection Agency Seeks Limits Payday Lenders](#)

**Jessica Silver-Greenberg, NY Times, Feb. 9 2015**

The rules are expected to address expensive credit backed by car titles and some installment loans that stretch longer than the traditional two-week payday loan, according to industry lawyers, consumer groups and government authorities briefed on the discussions who all spoke on the condition of anonymity because the deliberations are private. Certain installment loans, for example, with interest rates that exceed 36 percent, the people said, will most likely be covered by the rules.

[Oklahoma Ranks In The Top States For Payday Loan Use](#)

Sheila Stogsdill, Grandlakenews, 2/13/15

[Payday Loans Are Bleeding American Workers Dry](#)

Danny Vinik, The New Republic, 2/11/15

[CFPB Should Stop Predatory Lenders](#)

Alice Vickers, Tallahassee Democrat, 2/12/15

[How The Post Office Could Take On The Payday Loan Industry](#)

David Jamieson, Huffington Post, 2/11/15

[Postal Unions, Advocacy Groups Join Forces To 'Save' USPS](#)

Lisa Rein, Washington Post, 2/12/14

[Pennsylvania consumers to receive \\$8 million in restitution settlement with Advance America](#)

Press Release from Pennsylvania Attorney General's Office, Feb. 11, 2015

[Studies Question Value of Expected CFPB Payday Loan Limits](#)

Alan Kaplinsky, CFPB Monitor, Feb. 10, 2015

Two recent studies cast serious doubt on the rationale typically offered by consumer advocates for an ability-to-repay requirement and rollover limits—namely, that sustained use of payday loans adversely affects borrowers and borrowers are harmed when they fail to repay a payday loan.

[Many States Have Cracked Down on Payday Loans. How Do Lenders Get Away With It?](#)

Jeff Guo, Washington Post, Feb. 9, 2015

[New York DFS Urges CFPB to Adopt 'Strong' Payday Loan Rules](#)

JD Supra (press release), 2/4/15

[Predatory Lender Met Compliance Standards: ICUL](#)

David Morrison, Credit Union Times, Feb. 11, 2015

[Cordray Opens Up About Upcoming CFPB Rules, Internal Struggles](#)

Rachel Witkowski, Credit Union Journal, Feb. 10, 2015

Speaking at a town hall meeting organized by the National Credit Union Administration, Cordray gave some specifics about how the agency plans to write rules on overdraft programs, the first time he's publicly delved so deeply into the issue after the agency released several reports on overdrafts in recent years.

## **DERIVATIVES, COMMODITIES & THE CFTC**

[New Rules on Bank Capital, Swaps Clearing Set to Clash](#)

Andrew Ackerman, Wall St. Journal, 2/12/15

Commodity Futures Trading Commission Chairman Timothy Massad, testifying on Capitol Hill, said he is concerned the rule would make it more expensive for banks to route swaps through clearinghouses, hindering a Dodd-Frank mandate that most swaps be cleared.

[SEC Officials Blast Agency Over Clerical Errors on Swaps and Rulemaking](#)  
Sarah Lynch, Reuters, Feb. 12, 2015

[Joint Statement on the Commission's Proposed Rule on Hedging Disclosures](#)  
Press Release, Securities and Exchange Commission, Feb. 9, 2015

## **ENFORCEMENT**

[UK Lawmakers to Haul up HSBC, Tax Chiefs Over Swiss Bank Allegations](#)  
Kirstin Ridley & Steve Slater, Reuters, 2/12/15

HSBC this week admitted failings in compliance and controls in its Swiss private bank after media reports alleged it helped wealthy customers conceal millions of dollars of assets in a period up to 2007.

The disclosures have sparked a political row over practices at HSBC, Europe's biggest bank, and whether it had done enough to pursue possible tax dodgers.

### [The Swiss Leaks](#)

Bill Whitaker, CBS News, Feb. 8 2015

They show the bank [HSBC] did business with a collection of international outlaws: tax dodgers, arms dealers and drug smugglers -- offering a rare glimpse into the highly secretive world of Swiss banking.

### [Bank of America's U.S. Deposit-Taking Unit Financed Tax Trades](#)

Jenny Strasburg, Wall St Journal, 2/11/15

Bank of America Corp. for years used its government-backed U.S. banking subsidiary to finance billions of dollars in controversial trades that helped hedge funds and other clients avoid taxes, according to internal documents and people familiar with the matter.

The bank last year quietly started phasing out the practice of using funds from its U.S. banking unit to finance transactions by its European investment-banking arm that, among other things, helped hedge funds avoid taxes on stock dividends, according to the documents and people.

### [Why Only Big Bankers Can Flout the Rules and Get Away With It](#)

Susan Antilla, The Street, Feb. 12, 2015

In [its case](#) against Standard & Poor's, the government finally found a punishment that hurt. ... It's the actions against S&P and one of its former executives in late January that actually left a mark. In a \$77 million settlement with the Securities and Exchange Commission and other regulators over post-crisis violations, S&P had to do more than write a check.

### [Why are So Few in Washington Vocal about Banking Criminals?](#)

Ring of Fire Radio, 2/11/15

## **EXECUTIVE COMPENSATION**

### [Investors Should Know Pay Gap Between CEO and Workers](#)

Richard Trumka, NY Times, Feb. 9, 2015

It has been well documented that large pay gaps between chief executives and their workers severely weaken companies and put investments in those companies at risk. These gaps inhibit

teamwork and lead to lower job satisfaction and morale, higher employee turnover, reduced productivity and inferior product quality. Companies with low employee morale are routinely outperformed by competitors with higher morale. According to Moody's Investors Service, excessive executive compensation indicates a weak board and poor decision-making.

### [The Paratroopers of Crony Capitalism](#)

**Richard Trumka, Wall Street Journal, Feb. 10, 2015**

It is also the topic of an AFL-CIO shareholder proposal that would urge companies to report which senior executives are eligible for a golden parachute and how much they would receive if they entered government service. In response, Citigroup, Goldman Sachs and Morgan Stanley are asking the Securities and Exchange Commission to use its authority to stop shareholders from voting on the proposal at their annual meetings.

### [CEO-Worker Pay Gap Matters to Investors](#)

**Richard Trumka, CNBC.com (video), Feb. 10, 2015**

### [New Report Shines Light on the 100 Most Overpaid CEOs in S&P 500](#)

**PRN Newswire via CNBC News, Feb. 12, 2015**

## **FEDERAL RESERVE**

### [Fed's George: Wrong to Rely on Regulation Alone to Thwart Bubbles](#)

**Michael S. Derby, Wall St. Journal 2/9/15**

### [Rate Uncertainty Prompts More Bankers to Focus on Deposits](#)

**John Reosti, American Banker, Feb. 12, 2015**

## **HOUSING AND MORTGAGES**

### [How Mortgage Fraud Made the Financial Crisis Worse](#)

**Binyamin Applebaum, NY Times, 2/12/15**

New academic research... deserves attention for providing evidence that the lending industry's conduct during the housing boom often broke the law. The paper by the economists Atif Mian of Princeton University and Amir Sufi of the University of Chicago [focuses on a particular kind of fraud](#): the practice of overstating a borrower's income in order to obtain a larger loan.

### [HUD Secretary Defends Decision to Lower FHA Fees](#)

**Joe Light, Wall St. Journal, 2/11/15**

### [Debating FHA and the Housing Finance System](#)

**David Stevens, The Hill, 2/13/15**

### [Home Loan Programs Let Buyers Put Less Down](#)

**Tara Siegel Bernard, NY Times, Feb. 6, 2015**

## **INVESTOR RIGHTS AND THE SEC**

### [Top Republican presses for 'fiduciary rule' details](#)

**Kevin Cirilli, The Hill, Feb. 9, 2015**

Senate Homeland Security and Governmental Affairs Committee Chairman Ron Johnson (R-Wis.) is pressing administration officials on how they'll impose looming regulations for financial

advisers that Republicans say will cut access to low-income Americans. Johnson is asking Department of Labor Secretary Thomas Perez to explain how the new regulations won't "adversely affect middle and low-income Americans," according to the Feb. 5 letter obtained first by The Hill on Monday.

### **[Congressional Q&A Seeks to Delay Protections for Retirement Savers](#)**

**Barbara Roper, Huffington Post, 2/11/15**

When a member of Congress wants to rein in a regulator, the classic strategy is to send them a letter with a long list of questions and a short deadline for response. Senate Homeland Security and Governmental Affairs Committee Chairman Ron Johnson (R-Wis.) recently [sent such a letter](#) to Department of Labor (DOL) Secretary Thomas Perez. The subject was DOL's efforts to strengthen protections for retirement savers by closing loopholes in a rule that requires advisers to act in their customers' interests instead of their own...

At the top of the Johnson letter's list of questions is one seeking assurances that the rule won't "adversely affect middle and low-income Americans." This is taken straight from industry talking points.

### **[Investor Advocates Prepare for Fiduciary Fight](#)**

**Megan Leonhardt, Wealth Management, 2/13/15**

### **[Chamber of Commerce Raises Concerns With DOL Fiduciary Redraft](#)**

**ThinkAdvisor, 2/5/15**

### **[SEC Proposes Stricter Rules for Hedging Disclosures](#)**

**Lydia Wheeler, The Hill, Feb. 9, 2015**

## **STUDENT LOANS**

### **[When Colleges Use Veterans as Pawns](#)**

**Editorial, NY Times, Feb. 10, 2015**

For-profit colleges that burden students with crippling debt — often while giving them useless credentials in return — are luring veterans who receive G.I. Bill benefits to take advantage of a loophole in federal law. On the merits, a proposal in President Obama's 2016 budget that would close this destructive loophole deserves unanimous support in Congress. But because the for-profit industry has considerable power in Washington, veterans may be let down.

### **[Flip Side of Reducing Student Debt is Increasing The Federal Deficit](#)**

**Kevin Carey, NY Times, Feb. 10, 2015**

### **[Congressional Report Blasts 'a Jungle of Red Tape' That Ensnarers Colleges](#)**

**Kelly Field, Chronicle of Higher Education, 2/13/15**

## **SYSTEMIC RISK**

### **[The Right Way to Take Measure of TBTF](#)**

**Paul Saltzman, American Banker, Feb. 12, 2015**

### **[JP Morgan Owned the Swiss Franc Move](#)**

**Linette Lopez, Business Insider, Jan. 27, 2015**

[Bank of America Mixed Serious Banking and Fun Swaps](#)

Matt Levine, Bloomberg, Feb. 11, 2015

**OTHER TOPICS**

[Financial Services Democrats Challenge GOP Views on Inequality Issues](#)

Press Release, Office of Rep. Maxine Waters, 2/13/15