AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM | JAN. 15 – 23, 2015

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THE ASSAULT ON DODD-FRANK

> **“We can’t put the security of families at risk by taking away their health insurance, or unraveling the new rules on Wall Street, or refighting past battles on immigration when we’ve got a system to fix. And if a bill comes to my desk that tries to do any of these things, I will veto it. It will have earned my veto." – President Obama’s 2015 State of the Union message**

Obama: 'I Will Veto' if GOP Tries to Undo my Accomplishments
Dylan Scott, Talking Points Memo, 1/20/15

Obama Vows to Keep Dodd-Frank Intact, Urges Cyber Bill
Joe Adler, American Banker, 1/20/15

Stand up for Dodd-Frank
News & Observer, 1/20/15

The near-Depression of 2008, known by the rather frightening term of the “Great Recession,” certainly wasn’t the product of one problem in the financial services or investment industries. But there is no question that the free-wheeling, mortgage-gambling, high risk for high stakes ways of Wall Street helped lead the country to near disaster.

Now, the Wall Street cowboys are feeling good that they’re not in prison and are witnessing a sort of economic rebound in the United States. They are saying to Congress that they’re ready to dust themselves off and get right back on the horse.

Good advice for a real cowboy maybe, but not for the greedy investment house honchos who survived the Great Recession without going to jail – which is where many Americans who were nearly ruined in the recession would like to have seen them....

Obama Defends Financial Reform While Steering Clear of Bank Bashing
Ryan Tracy, Wall St. Journal, 1/20/15

The tax proposal itself, though short on details, appeared to be a farther-reaching levy on Wall Street than Mr. Obama has previously proposed. In 2010 and in every year since, his budget has included a "financial crisis responsibility fee" ostensibly targeted at the biggest banks. **Americans for Financial Reform**, a coalition that advocates for tougher Wall Street rules, said the president's tax proposal is "well justified by economic goals, including the need to provide greater incentives against destructive financial practices" and part of "a broad and emerging consensus on the appropriateness of taxing the financial sector commensurately with its profits."

Republicans and Wall Street Say To Hell With Protecting the Public!

Interview with Simon Johnson, Moyers & Co., 1/15/15

Since December, Congress has twice passed measures to weaken regulations in the Dodd-Frank financial law that are intended to reduce the risk of another financial meltdown.

In the last election cycle, Wall Street banks and financial interests spent over $1.2 billion on lobbying and campaign contributions, according to **Americans for Financial Reform**. Their spending strategy appears to be working. Just this week, the House passed further legislation that would delay by two years some key provisions of Dodd-Frank.

Hensarling lays out his plans

Kevin Cirilli, The Hill, 1/21/15

House Passes Bill Further Weakening Financial Regulation

Interview with William Black, The Real News Network, 1/15/15

The Truth about Wall Street's Volcker Rule Assault

Bull Market, 1/19/15

Revisiting the banking rules that died by a thousand small cuts

Barry Eichengreen, Fortune Magazine, 1/16/15

The New War over Wall Street

Peter Schroeder, The Hill, 1/22/15

CONSUMER FINANCE & CFPB

The Big-Bank Lobby v. Elizabeth Warren

Amy Traub, PolicyShop (Demos), 1/23/15

$4.6 billion. According to the analysis of **Americans for Financial Reform**, that's the amount the Consumer Financial Protection Bureau has returned to over 12 million Americans who have been harmed by the illegal, deceptive, and discriminatory practices of financial services companies. And the agency has only been around for three and half years…

This week, Demos is proud to join **Americans for Financial Reform** and dozens of other public interest organizations sending a letter calling on members of Congress to oppose any efforts to dismantle, weaken, or change the structure of the CFPB. Congress must not place "narrow industry interests above the vital public interest in regulation of the consumer finance marketplace."

See joint letter.

The Economic Impact of Payday Lending on Economically Vulnerable Customers

Howard University Center on Race and Wealth, January 2015

Results show that in Florida, the payday loan industry destroyed 2,150 net jobs, and reduced labor income, value added, and total sales by about $107 million, $308 million, and $381 million, respectively. As a result of this loss in spending, many jobs in Florida were stripped from the economy causing a loss in total economic output. The net economic impact of payday loans also was negative in Alabama and Louisiana. However, we found that the net economic impact of payday loans in Mississippi was positive." The researchers note that their input-output model analysis overstated the positive economic impacts of the payday loan industry.

"Since our findings demonstrate that payday lenders strip money from their customers and the reduced spending on other goods and services strip the economy of potential gains, it is in the best interest of the entire state for the government to take action to limit these predatory practices and at the same time educate the public about the dangers of payday loans."

Banks Stop Selling Account Data to Payday Lenders Amid Pressure
Zake Faux, Bloomberg, 1/21/15

Senator Casey Asks Regulators to Take Closer Look at Rent-To-Own Stores
Chris Morran, Consumerist, 1/21/15

Payday Loan Rules Can Help Level the Playing Field for Desperate Borrowers
Valerie R. Wilson, NY Times, 1/20/15

Payday lending: a 21st Century Civil Rights Issue
Charlene Crowell, St. Louis American, 1/21/15
In a recent letter to President Obama, the Leadership Conference on Civil and Human Rights (LCCR) identified payday lending as one of its top legislative priorities, representing a "path forward for our country in advancing social and economic justice."

Lenders Criticize Consumer Agency's Mortgage Tool
Mary Ellen Podmolik, Chicago Tribune, 1/ 20/15

With Payday Loans, Let Banks and Nonbanks Play by the Same Rules
Jamie Fulmer, NY Times, 1/20/15

When It Comes to Regulation of Payday Loans, One Size Won't Fit All
Lisa Servon, The New York Times, 1/22/15

End Predatory Practices
Gary Kalman, NY Times, 1/20/15

BankMobile Aims to Become the Uber of Banking
Mary Wisniewski, American Banker, 1/20/15
The digital-only offshoot of Customers Bank combines edgier technology — like letting consumers snap photos of their driver's license to open accounts — with a new business model that counts on interchange revenue rather than fees.

Bank of America, Wells Fargo Notch Win in Supreme Court Rebuff
Jen Wilson, Charlotte Business Journal, 1/21/15

CFPB fines Wells Fargo, JPMorgan $36 million for 'illegal mortgage kickbacks'
Peter Schroder, The Hill, 1/22/15

[Robocallers are Coming After Your Cellphone]

Herb Weisbaum, Today Show, 1/15/15

Since it's pretty hard to get someone to agree to have robots call them, the nation's bankers have asked the Federal Communication Commission (FCC) to change the rules to allow them to robocall their customers. In some cases, without their prior consent.

See **joint letter** urging FCC to not allow wrong-number robocalls to cellphones

ABA Criticizes CFPB Study on High-cost Credit Extended to Servicemembers

Barbara Mishkin, CFPB Monitor, 1/21/15

Why Postal Banking Is So Needed – and on the Rise

David Dayen, Salon, 1/20/15

Postal banking — allowing the post office to serve over 67 million Americans with little or no access to financial services, providing low-cost alternatives that would both promote financial inclusion and shore up the finances of the nation's second-largest employer — has enjoyed a bit of institutional support, from Senator Elizabeth Warren to the Postal Service's own Inspector General. But it hasn't had the benefit of an activist movement pushing for it, until now.

Yesterday, fifteen consumer, progressive and labor groups inaugurated the Campaign for Postal Banking, demanding the creation of a "public option" for affordable financial services for unbanked and underbanked Americans. The campaign denounces the high cost of what they call "legal loan sharks" like payday lenders and check-cashing stores, and lauds the array of benefits for millions of people from fair access to simple banking services. And they plan to build public pressure on the Postal Service management to establish postal banking under their own authority, without having to go through Congress.

The founding members include leading consumer watchdogs like Public Citizen and **Americans for Financial Reform**, faith and progressive organizations like Interfaith Worker Justice and National People's Action, the Alliance for Retired Americans and all four major postal unions.

Americans Spend $103 Billion a Year on Predatory Lenders. Postal Banking Could Change That

Laura Clawson, Daily Kos, 1/22/15

Want to End Poverty in America? It's Pretty Simple

Jeff Spross, The Week, 1/21/15

Postal Unions Join with Financial Reform Groups in Campaign for Postal Banking

Doug Cunningham, Workers Independent News, 1/20/15

APWU Calls for Expanded Financial Services at Post Offices

Ryan McDermott, Fierce Government, 1/20/15

[Financial Reform Coalition Demands U.S. Banking Public Option]
Matt Stannard, Occupy.com, 1/20/15

[NALC Joins Postal Banking Coalition]
Brian Sheehan, Postal News.com, 1/19/15

DERIVATIVES, COMMODITIES & THE CFTC

[CFTC Nears New Rules to Curb Excessive Speculation]
Leslie Josephs, Wall St Journal, 1/22/15

The proposed rule has drawn criticism from industry groups, which contend the restrictions could hinder their ability to protect themselves against risks ranging from variation in product quality to market volatility.

The comment period on the proposed rule—authorized by the 2010 Dodd-Frank law—ends Thursday, capping a lengthy process. A federal court [threw out the regulator's previous proposal] in September 2012, highlighting the challenges to implementing restrictions on potentially opaque markets like commodities.

ENFORCEMENT

[DOJ collects $1.8 billion in corporate fines]
Tim Devaney, The Hill, 1/22/15

The federal government collected more than $1.8 billion in penalties in 2014 from companies accused of cheating consumers, the Obama administration announced Thursday. This is one of the biggest annual collections from the Justice Department's antitrust division in history.

EXECUTIVE COMPENSATION

[Golden Parachutes are Lead Balloon for Investors]
Chris Bryant and Arash Massoudi, Financial Times, 1/14/15

[Charles Elson], professor of corporate governance at the University of Delaware, questions whether they have the desired effect in a takeover situation. "The parachute says: don't worry about losing your job, as we're paying you a little extra to do your [fiduciary] duty," he explains.

"But it creates a perverse incentive of paying someone extra to do their duty when the company should be sold anyway… [or] to go against the shareholder interest when the company shouldn't be sold. Shareholders complain about it and they are right to complain about it."

A corporate governance specialist at a large institutional investment company concurs. "If management of a company need a mega payout to do a deal, then there is something deeply flawed with the management… Companies are not a job protection agency for the CEO."

[JPMorgan Chase and Goldman Sachs Chiefs to Get a Sweeter Pay Package]
Nathaniel Popper & Jessica Silver-Greenberg, NY Times, 1/22/15

FEDERAL RESERVE

New York Fed Official Calls For Stronger Ethics in Banking Sector

Yin Wilczek, Bloomberg BNA (paywalled), 1/22/15

[General Counsel Thomas] Baxter urged banks to focus on three key factors:

1. Tie employee compensation and promotion to ethical considerations;
2. Cultivate strong "character at the top"; and
3. Promote organizational values that reflect the firm's public function as a financial intermediary, while recognizing "the privileges that come with a banking charter."

Baxter also suggested that banks "leave out" some matters from their ethics code, including the perception of customers as "counterparties" representing opportunities for profit.

"Viewing customers as profit opportunities is inconsistent with a strong ethical culture," he said. "In my experience, firms that consider their operational model as service provider tend to have a better culture than those firms that consider their operational model as money maker."

FINANCIAL TRANSACTION TAX

Obama's Budget Proposal Will Take Aim at the Wealthy

Steven Mufson & Juliet Elperin, Washington Post, 1/17/15

The proposal to impose a 7 basis point fee on financial institutions with assets of more than $50 billion will also run smack into opposition from big banks and insurance companies. The administration compared the fee with a proposal by former House Ways and Means Committee chairman Dave Camp (R-Mich.) for an excise tax on large financial institutions. And last week, the House Budget Committee's ranking Democrat, Rep. Chris Van Hollen (D-Md.), proposed a 0.1 percent surcharge on financial market transactions.

One of the senior administration officials Saturday said that the goal of the proposed fee from the White House was to discourage big financial institutions from excessive borrowing. He said that despite banking revisions after the 2008-2009 financial crisis, highly leveraged financial institutions "still pose risks to the broader economy," adding that "this fee is designed to make that activity more costly."

Obama Bank Tax: Smart Policy or Bank Bashing?

WMUR9-ABC Manchester, New Hampshire

Obama Plan Reignites Tax Fight

Carol E. Lee, **John D. Mckinnon** & **Kristina Peterson,** Wall St. Journal, 1/19/15

How Obama Plans to Tax the Biggest Banks

Stan Alcorn, Marketplace, 1/19/15

See AFR Statement: **State of the Union Bank Tax Proposal Is a Welcome Step**

HOUSING AND MORTGAGES

Low-income Loans Didn't Cause the Financial Crisis

Mark Thoma, CBS Money Watch, 1/ 21/15

The typical narrative is that government, through the Community Reinvestment Act (CRA) and Fannie Mae/Freddie Mac, caused lenders to reduce standards in order to make these loans. That in turn led to an abundance of loans to people who could not afford to repay them. These loans went into default in large numbers, and that fueled the financial crisis.

For instance, Rep. Scott Garrett, R-N.J., claimed in early 2007 that "The recklessness of government is the primary culprit here. For years Congress has been pushing banks to make risky subprime loans. ...Congress passed laws that said we're going to fine you and we're going to file lawsuits against you lenders if you don't make risky loans."

However, the new evidence from Manuel Adelino of the Fuqua School of Business at Duke University, Antoinette Schoar of the MIT Sloan School of Management and Felipe Severino of the Tuck School of Business at Dartmouth undermines this story. In their paper, "Changes in Buyer Composition and the Expansion of Credit During the Boom," the researchers found:

"While there was a rapid expansion in overall mortgage origination during this time period, the fraction of new mortgage dollars going to each income group was stable. In other words, the poor did not represent a higher fraction of the mortgage loans originated over the period. In addition, borrowers in the middle and top of the distribution are the ones that contributed most significantly to the increase in mortgages in default after 2007. Taken together, the evidence in the paper suggests that there was no decoupling of mortgage growth from income growth where unsustainable credit was flowing disproportionally to poor people."

HUD Secretary: Getting a Mortgage Will Be a Bit Easier This Year

Brian Collins, American Banker, 1/21/15

CFPB Makes Adjustments to Mortgage Disclosure Rule

Rachel Witkowski, American Banker, 1/20/15

Changes to 'Know Before You Owe' mortgage rules finalized

Lydia Wheeler, The Hill, 1/22/15

INVESTOR RIGHTS AND THE SEC

White House Readies Crackdown on Financial Advisers

Kevin Cirilli, The Hill, 1/22/15

For years, progressives have raised concerns that the same financial advisers and investment dealers who help Americans with their IRA and 401(k)s are also pocketing commissions while making sales that aren't in the best interests of their clients.

But the business community has vehemently rebutted the allegations, arguing that the industry is rooted in trust and organized to allow for low-income Americans to get the same financial advice as the wealthy.

[Hatch: Switch Fiduciary Rule Making for Retirement Plans from DOL To Treasury]

Ted Knutson, Financial Advisor, 1/20/15

Senate Finance Committee Chairman Orrin Hatch said Tuesday the committee will work to shift pension fiduciary rule making from the Labor Department to the Treasury Department. Legislation the Utah Republican will offer would require Treasury to consult with the Securities and Exchange Commission in developing guidelines.

Coalition Urges Labor Department to Protect Retirees' Nest Eggs

Carol Fleck, AARP blog, 1/17/15

FINRA Arbitration Data Under Fire Again

ThinkAdvisor, 1/22/15

Mandatory arbitration deprives investors doing business with brokerage firms and investment advisors of the right to a judge and jury," the groups, which included **Americans for Financial Reform**, the Alliance for Justice, the Center for Justice and Democracy, Consumers Union, National Consumers League, Public Citizen, the National Association of Consumer Advocates, US PIRG, and the Public Investors Arbitration Bar Association, told the task force in their Wednesday letter. "Investors do not receive open hearings and often do not receive fair ones," the group said.

POLITICAL INFLUENCE OF WALL STREET AND REVOLVING DOOR

CFTC Official Tied to Wall Street Profits From Merger Fight

Robert Schmidt, Bloomberg, 1/22/15

In moving from the private sector to government, the newest Republican member of the Commodity Futures Trading Commission has acquired potential conflicts that ethics lawyers say could force him to stay away from matters involving major companies regulated by the agency.

J. Christopher Giancarlo joined the CFTC in June after working at a derivatives brokerage and serving as chairman of an industry lobbying group. Six weeks later CME Group Inc., the world's largest futures exchange, made an offer to buy Giancarlo's former employer. In short order, his old firm's stock price surged, adding an extra windfall to Giancarlo's multimillion dollar severance as he divested his holdings.

Giancarlo's conflicts are emblematic of the CFTC's shift from a sleepy overseer of agricultural contracts to a desirable place for Wall Street executives to try to influence regulation and burnish their resumes.

STUDENT LOANS

Will New Owner of Everest University, WyoTech. Continue With Old Owners' Sketchy Practices

Ashlee Kieler, Consumerist, 1/22/15

SYSTEMIC RISK

Goldman Sachs Investments Test the Volcker Rule

Nathaniel Popper, NY Times, 1/21/15

Goldman Sachs has been on a shopping spree with its own money, snapping up apartments in Spain, a mall in Utah and a European ink company, all of which the bank hopes eventually to sell for a profit. These are the sorts of investments that many, including some of the bank's regulators, had assumed would be prohibited by one of the signature elements of the 2010 financial overhaul legislation, the Volcker Rule.

Davos 2015: Banks are better off for more regulation, says Deutsche Bank boss

James Ashton, Independent, 1/21/15

Banks are better off for most of the new regulations that have been introduced in the wake of the financial crisis, according to the boss of one of the world's largest lenders. "The bulk of regulatory reform was much needed," Deutsche Bank chief Anshu Jain told delegates at the World Economic Forum's annual meeting.

Poll: Majority Wants to Break up Big Banks

Claes Bell (CFA), Bankrate.com, 1/21/15

Poll: Bipartisan backing for breaking up big banks

Peter Schroeder, The Hill, 1/20/15

Majority Of Americans Want to Break up 'Big Banks'

Michael Ide, ValueWalk, 1/20/15

Regulators Promise Changes for 'Applying Systemic' Label

Ryan Tracy, Wall St Journal, 1/21/15

JP Morgan 'Under Assault' by Unpatriotic Regulators, CEO Says

Alan Pyke, ThinkProgress Economy, 1/ 15/15

Top financial regulators back proposals to revamp process for picking big firms for oversight

Martin Crutsinger, Associated Press via Daily Journal, 1/ 21/15

Big Banks and Their Game of Risk

Aaron Arnold, Bulletin of the Atomic Scientists, 1/20/15

OTHER TOPICS

The Chamber of Commerce Conveniently Forgets its Attacks on Obama

Dana Milbank, Washington Post, 1/14/15

The point isn't that the economy is booming because of President Obama's policies. The recovery until now had been disappointing by any standard. But if the business lobby and conservatives in Congress aren't going to give Obama any credit now that the recovery is underway, they might at least acknowledge that the sky didn't fall because of his actions, and that the socialist takeover that many on the Hill warned of has not occurred.

There was no such acknowledgment at Wednesday's State of American Business speech… In his Q&A following the speech, [Tom Donohue, the longtime president of the U.S. Chamber of Commerce] went on about the "unprecedented regulatory onslaught" and said that "while things are improving, the current policies of tax, spend and regulate aren't cutting it." He complained that Obama wants "to do more tax increases," and he cautioned the administration and everybody else against taking a "victory lap."

Republicans Introduce Bill to Rein in Regulators
Tim Devaney, The Hill, 1/22/15

GOP Wants to Wreck Government, Not Govern
Rena Steinzor & James Goodwin, The Hill, 1/23/15