

# AMERICANS FOR FINANCIAL REFORM

## THIS WEEK IN WALL STREET REFORM | FEB. 14 - 20, 2015

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### [Warning: Too Much Finance Is Bad for the Economy](#)

**Buttonwood's blog, The Economist, 2/18/15**

One of the biggest political issues in recent years has been that Wall Street has done better than Main Street. That is not just a populist slogan. A [new study](#) from the Bank for International Settlements (the central bankers' central bank, as it is dubbed) shows exactly why rapid finance sector growth is bad for the rest of the economy.

The study, by Stephen Cecchetti and Enisse Kharroubi, is a follow-up to a [2012 paper](#) which outlined the negative link between the finance sector and growth, after a certain point. When an economy is immature and the financial sector is small, then growth of the sector is helpful. Enterprising businessmen can get the capital they need to expand their companies; savers have a secure home for their money, making them more willing to provide finance to the business sector; and so on.

But you can have too much of a good thing. The 2012 paper suggests that when private sector debt passes 100% of GDP, that point is reached. Another way of looking at the same topic is the proportion of workers employed by the finance sector. Once that proportion passes 3.9%, the effect on productivity growth turns negative. Ireland and Spain are cases in point. During the five years beginning 2005, Irish and Spanish financial sector employment grew at an average annual rate of 4.1% and 1.4% respectively; output per worker fell by 2.7% and 1.4% a year over the same period.

### [Two New Papers Say Big Finance Sectors Hurt Growth and Innovation](#)

**Yves Smith, Naked Capitalism, 2/19/15**

### [New Rules Spur a Humbling Overhaul of Wall St. Banks](#)

**Nathaniel Popper & Peter Eavis, NY Times, 2/19/15**

At an industry gathering of Wall Street executives last week, the conversation returned again and again to the big changes already underway — and those yet to come — that have hollowed out trading floors and office towers in Manhattan and Connecticut and taken the swagger out of an industry that has long defined New York.

### [Holder Starts 90-Day Clock On Potential Prosecution Of Bankers](#)

**Alison Fitzgerald, Center for Public Integrity, 2/17/15**

Attorney General Eric Holder said the Justice Department will determine within the next 90 days whether to charge individual [Wall Street executives](#) with crimes related to the 2008 financial crisis.

Holder said he's asked the prosecutors who have been investigating the major banks and their executives to make recommendations whether to bring charges or close the probes.

## **CONSUMER FINANCE & CFPB**

### **No More Payday Predators**

**The Editors, Bloomberg View, 2/19/15**

If you were thinking straight, would you pay more than 300 percent in annualized interest -- or risk losing your home -- to borrow a few hundred dollars? If the answer is no, you might see the wisdom of regulating the short-term, small-sum credit commonly known as payday lending.

Typically aimed at low-income customers with spotty credit and cash-flow problems, the business has long been controversial. In its classic [form](#), someone who wants to tap an upcoming paycheck borrows \$100 to \$500 and agrees to return the whole amount in a couple of weeks, along with interest of 15 percent or more (that's 391 percent annualized). As a guarantee, the borrower provides a post-dated check or authorizes the lender to access a bank account electronically. Variations include title loans and installment loans, in which borrowers pledge collateral ranging from [cars](#) to [chainsaws](#)...

Lenders know that chronic overborrowers are the most profitable. They make retiring loans difficult by requiring customers to choose between paying the whole principal or extending the loan. They exploit inattention by renewing loans automatically unless otherwise instructed, extracting new fees each time. In the worst cases, they make unauthorized withdrawals and rely on harassment and intimidation.

### **Number of Payday Lenders Drops, but Installment Lenders Increase**

**Walker Moskop, St. Louis Post-Dispatch, 2/19/15**

Payday lending volume in Missouri has declined significantly in recent years, [according to a state survey](#) released this month. On first appearance, the survey would appear to be good news to consumer groups that are fighting to limit the availability of high-interest, short-term loans. They argue the loans lure cash-strapped borrowers into cycles of debt. But the survey numbers paint an incomplete picture.

While payday loan volume and the number of payday loan storefronts have dropped, the number of consumer installment lenders has surged.

### **Lenders step up financing to subprime borrowers**

**Alan Zibel, Wall St. Journal, 2/18/15**

### **Payday Lenders Escaped Regulation, Now They Face the Church**

**Mark Niquette, Bloomberg Business, 2/19/15**

### **Payday Loans Entrap the Most Vulnerable**

**Galen Carey, Roll Call, 2/19/15**

### **Payday Lending: The Lie That Binds**

**Reilly Morse, Roll Call, 2/18/15**

### **A Better Option Payday-Loan Borrowers**

**Mitchell D. Weiss, St. Louis Post-Dispatch, 2/18/15**

### **Consumer Advocates Pan Reemergence of Payday Lending Alternative**

**Lavendrick Smith, Olympian, 2/18/15**

[The Big Box Bank: Wal-Mart Makes a Play for the Underbanked](#)  
Christine DiGangi, Credit.com, 2/19/15

[Rep. Darren Jernigan wants to limit the payday lending industry](#)  
Steven Hale, Nashville Scene, 2/19/15

[The Secret World of Government Debt Collection](#)  
Blake Ellis and Melanie Hicken, CNNMoney

[9 Reasons to Love Credit Unions \(And Not Big Banks\)](#)  
Allison Martin, MoneyTalksNews, 2/18/15

[The CFPB just another bloated bureaucracy](#)  
Jeffrey H. Joseph, Detroit News, 2/14/15

[Bill Calls for CFPB inspector general](#)  
Cristina Marcos, The Hill, 2/17/15

[Consumer Groups Want FCC to Ban Robo Calls Without Consent](#)  
Susan Salisbury, Palm Beach Post, 2/19/15

Do you like receiving robocalls on your cell phone? Probably not. Today more than 58,000 consumers across the nation sent a message to the Federal Communications Commission: Do not allow robocalls to cell phones without our consent.

The message was delivered in a petition from a coalition of national consumer groups — the National Consumer Law Center, National Association of Consumer Advocates, **Americans for Financial Reform**, Consumer Action, Consumer Federation of America, National Consumers League, Public Citizen, and U.S. PIRG.

## **ENFORCEMENT**

[Justice Department Is Seeking Felony Pleas by Big Banks in Foreign Currency Cases](#)  
Ben Protess & Jessica Silver-Greenberg, NY Times, 2/9/15

In the final stages of a long-running investigation into corruption in the world's largest financial market, federal prosecutors have recently informed Barclays, JPMorgan Chase, the Royal Bank of Scotland and Citigroup that they must enter guilty pleas to settle the cases, according to lawyers briefed on the matter. The pleas would be likely to carry a symbolic stigma, if limited actual fallout, in handing felony convictions to some of the world's biggest banks.

[Iceland's Response to Bank Fraud – A Lesson for the U.S.?](#)  
National Law Review, 2/18/15

[US Regulators Revive Work on Incentive-Pay Rules](#)  
Victoria McGrane and Andrew Ackerman, Wall St. Journal, 2/16/15

## **EXECUTIVE COMPENSATION**

[Feeling the Squeeze? What's Happening With Pay at Investment Banks and Asset Managers](#)

William Wright, New Financial, 2/18/15

[Asset Managers on Track to Overtake Investment Bankers on Average in Pay](#)  
Jenny Anderson, NY Times, 2/17/15

## **HOUSING AND MORTGAGES**

[The Untouchable Profits of Fannie Mae and Freddie Mac](#)  
Gretchen Morgenson, NY Times, 2/15/15

[Feds: Mortgage Lender Deceived Veterans, Paid Kickbacks](#)  
Tim Prudente, Capital Gazette, 2/17/15

[Four Reasons to Ignore the CFPB Mortgage Tool](#)  
Jacob Gaffney, Housing Wire, 2/17/15

## **INVESTOR RIGHTS AND THE SEC**

[Making Brokers Toe the Mark](#)  
Tara Siegel Bernard, NY Times, 2/13/15

If you are in the market for financial advice, good luck figuring out which financial advisers are legally obligated to act in your best interest. There is a big difference between glorified salesman and true investment advisers, and yet the onus is on consumers to sort it all out.

[Retirement-Account Standards May Tighten](#)  
Andrew Ackerman, Wall St. Journal, 2/17/15

Brokers who recommend retirement-account investments would have to put their clients' interests ahead of personal gain under rules expected to be endorsed by the Obama administration as soon as next week.

A White House announcement of the so-called fiduciary rules is expected to generate significant pushback from Wall Street, which says it already faces robust regulation and warns the rules' likely costs could make it uneconomical for brokers to serve lower-balance accounts.

[Watchdog Slams Sen. Johnson for DOL Fiduciary Comments](#)  
James J. Green, ThinkAdvisor, 2/11/15

[Investor Advocates Prepare for Fiduciary Fight](#)  
Megan Leonhardt, WealthManagement.com, 2/13/15

"This is a strategic step toward moving forward to the DOL's proposed rule into the public eye," says Marcus Stanley, policy director for **Americans for Financial Reform**. "The industry is trying to prevent the rule from ever being proposed and there's been a systematic misrepresentation of what the rule would be. But that tactic of misrepresentation and the exaggeration will be so much harder to do once the rule is out there," Stanley says.

See [memorandum commissioned by Financial Services Roundtable](#)

[The Rules Governing Your Retirement Account](#)  
CNBC, 2/18/15

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[Petitions Urge Congress and Obama Administration to Back a Strong Fiduciary-Duty Rule for Retirement-Planning Advisers](#)  
AFR Press Release, 2/20/15

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## **STUDENT LOANS**

### [Bill Would Outlaw College-Ratings System and Gainful-Employment Rule](#)

**Andy Thomason, Chronicle of Higher Education, 2/13/15**

Rep. Virginia Foxx's bill, "The Supporting Academic Freedom Through Regulatory Relief Act," comes on the heels of a bipartisan Congressional task force's report that ripped federal regulation of colleges. Ms. Foxx, a former community-college president and professor, is chair of the House Education and the Workforce Committee's higher-education subcommittee.

### [US urged to forgive students' loan debts](#)

**Megan Woolhouse, Boston Globe, 2/17/15**

Attorney General Maura Healey has asked the US Department of Education to forgive the school loans of hundreds of Massachusetts students enrolled at Corinthian Colleges Inc., a for-profit educator investigated by state and federal authorities for practices that left many students deeply in debt, but without jobs.

### [Misleading Assurances in the Corinthian-ECMC Deal](#)

**David Halperin, Huffington Post, 2/13/15**

### [EDMC, for-profits could lose major funding source under Obama's 2016 budget proposal](#)

**Justine Coyne, Pittsburgh Business Times, 2/10/15**

### [Colorado Sues CollegeAmerica for Systematic Deception](#)

**David Halperin, Huffington Post, 2/18/15**

### [Student Debt May Be Sabotaging Your Shot at Buying a Home](#)

**Nathalie Kitroeff, Bloomberg Business, 2/18/15**

### [House Democrat Demands Details on Secretive For-Profit Student Debt Forgiveness Scheme](#)

**Shahien Nasiripour, Huffington Post, 2/20/15**

## **SYSTEMIC RISK AND BIG BANKS**

### [Regulatory Relief For Regional And Community Banks](#)

**Squire Patton Boggs, 2/18/15**

Senator Warren suggested that Congress should be "very skeptical" of regulatory relief bills that are "pushed by ABA lobbyists for the big banks." Her views are echoed by organizations such as Better Markets and **Americans for Financial Reform**. Indeed, AFR has stated that legislation supported by regional banks would be a "major deregulatory change" and the President of Better Markets has said, of a JP Morgan study on the impact of the Dodd-Frank Act on community banks, "[it] is a perfect example of how Wall Street's dangerous too-big-to-fail banks hide behind the rhetoric of 'helping community banks' to push their de-regulatory agenda."

Representative Blaine Luetkemeyer (R-MO) will soon be re-introducing legislation that would direct the Financial Stability Oversight Council (FSOC) to decide whether banks should comply with the Dodd-Frank regulations based on five factors, including size and global activity.

[JPMorgan tops list of risky banks – U.S. government study](#)

Douwe Miedema, Reuters, 2/18/15

[Does Regulation Fix Excessive Risk Taking by Financial Firms?](#)

Christopher Skroupa, Forbes, 2/18/15

[Fed's Powell: Leveraged Lending Risks Unlikely to Bring Down Big Banks](#)

Ryan Tracy, Wall St. Journal, 2/19/15

[Swiss to Tighten Leverage Rules for Big Banks This Year](#)

Jeffrey Voegeli & Elena Logutenkova, Bloomberg Business, 2/18/15

[Nearly 60,000 Consumers Tell the FCC: Don't Allow Robocalls to My Cell Phone](#) This goes  
in consumer

Press Release, National Consumer Law Center, 2/19/15

[JPMorgan tops worst-case list of potential bank failures, Treasury reports](#)

Reuters via Tribune Review, 2/17/15

## **OTHER TOPICS**

[Banks Rev Up Small-Business Lending Amid Critics, New Competitors](#)

John Reosti, American Banker (paywalled), 2/16.15

[Are the Big Banks Open for Small Business Lending?](#)

Slideshow, American Banker

[City Governments Reignite Debate Over Public Banks](#)

Kristin Broughton, American Banker, 2/12/15