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## AMERICANS FOR FINANCIAL REFORM

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### THIS WEEK IN WALL STREET REFORM January 18 – 24, 2014

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#### **"WEALTH ADDICTION," INEQUALITY & THE FINANCIAL SECTOR**

##### **The State of Our Union's Inequality**

**Sarah Anderson, Huffington Post, 1/22/14**

"We have not weeded out the overprivileged and we have not effectively lifted up the underprivileged," [FDR lamented](#). 'Both of these manifestations of injustice have retarded happiness.'

"In his 1935 speech, FDR was careful to explain what he meant by "overprivileged." He had no problem with some people earning more than others. What he did have a problem with was 'the acquisition of wealth which, through excessive profits, creates undue private power over private affairs and, to our misfortune, over public affairs as well.' In other words, it ticked him off when those at the top rigged the rules in their favor...

"The 2010 Dodd-Frank financial reform legislation was supposed to prevent Wall Street pay packages that reward excessive risk-taking. More than three years since the law was enacted, however, these modest reforms have not been implemented."

##### **For the Love of Money**

**Jim Polk, NY Times, 1/18/14**

"...Wealth addiction was described by the late sociologist and playwright Philip Slater in a 1980 book, but addiction researchers have paid the concept little attention. Like alcoholics driving drunk, wealth addiction imperils everyone. Wealth addicts are, more than anybody, specifically responsible for the ever widening rift that is tearing apart our once great country. Wealth addicts are responsible for the vast and toxic disparity between the rich and the poor and the annihilation of the middle class. Only a wealth addict would feel justified in receiving \$14 million in compensation — including an \$8.5 million bonus — as the McDonald's C.E.O., Don Thompson, did in 2012, while his company then published a brochure for its work force on how to survive on their low wages. Only a wealth addict would earn hundreds of millions as a hedge-fund manager, and then lobby to maintain a tax loophole that gave him a lower tax rate than his secretary.

"In 2010, in a final paroxysm of my withering addiction, I demanded \$8 million instead of \$3.6 million. My bosses said they'd raise my bonus if I agreed to stay several more years. Instead, I walked away.

“The first year was really hard. I went through what I can only describe as withdrawal — waking up at nights panicked about running out of money, scouring the headlines to see which of my old co-workers had gotten promoted. Over time it got easier — I started to realize that I had enough money, and if I needed to make more, I could. But my wealth addiction still hasn’t gone completely away. Sometimes I still buy lottery tickets.”

### [Some People Can't Live Without Money](#)

**Matt Levine, Bloomberg, 1/21/14**

### [Weil on Finance: Hello, My Name Is Sam and I'm a Wealth Addict](#)

**Jonathan Weil, Bloomberg, 1/21/14**

### [The Undeserving Rich](#)

**Paul Krugman, NY Times, 1/19/14**

“The Occupy movement popularized the concept of the ‘1 percent,’ which is a good shorthand for the rising elite, but if anything includes too many people: most of the gains of the top 1 percent have in fact gone to an even tinier elite, the top 0.1 percent.

“And [who are these lucky few](#)? Mainly they’re executives of some kind, especially, although not only, in finance. You can argue about whether these people deserve to be paid so well, but one thing is clear: They didn’t get where they are simply by being prudent, clean and sober.”

### [Demonizing One Percenters Ignores Their Social Good](#)

**Carrie Sheffield, Forbes, 1/22/14**

“...Yes there are some shoddy financial instruments. But financial services firms could not stay in business if they weren’t adding substantial value. This value provides infinitely more succor in the millennia of human history (and perhaps prevents more wars) than any government handout or NGO. Polk’s sinister portrayal of hedge fund investors and workers doesn’t acknowledge that these people are big boys and girls who understand risk. We want to encourage ‘creative destruction’ by these high net worth folks as a way of creating value for everyone else.”

### [Fined Billions, JPMorgan Chase Will Give Dimon a Raise](#)

**Jessica Silver-Greenberg & Susanne Craig, NY Times, 1/23/14**

“A year after an embarrassing trading blowup led to millions of dollars being docked from [Jamie Dimon](#)’s paycheck, the chairman and chief executive of [JPMorgan Chase](#) is getting a raise.

“JPMorgan’s board voted this week to increase Mr. Dimon’s annual compensation for 2013, hashing out the pay package after a series of meetings that turned heated at times, according to several executives briefed on the matter. The raise — the details were not made public on Thursday — follows a move by the board last year to slash Mr. Dimon’s compensation by half, to \$11.5 million.”

### [JP Morgan CEO Complains About his Sweetheart Settlement with Government: “I Think a Lot Of It Was Unfair”](#)

**Alan Pyke, ThinkProgress, 1/23/14**

### [Wary Goldman Reduces Pay Ratio, Even as Profit Rises](#)

**Rachel Abrams, NY Times, 1/15/14**

## BUDGET & FUNDING OF FINANCIAL REGULATION

### [The \\$1 Trillion Question](#)

**Gail Collins, NY Times, 1/17/14**

“Here is an example of a less-good compromise. Republicans give up the idea of killing off the Dodd-Frank reforms of the securities industry. Democrats give up the idea of giving the administration enough money to enforce them properly.”

## CONSUMER FINANCE & CFPB

### [Negotiation Doesn't Help on Dealer Car Loans for African Americans and Latinos](#) **Center for Responsible Lending, 1/23/14**

“African Americans and Latinos pay higher interest rates on dealer-financed car loans than white buyers, even though people of color report more attempts to negotiate a better deal. According to a new report issued today by the Center for Responsible Lending (CRL), 39% of Latinos and 32% of African Americans reported attempts to negotiate their interest rate, compared to only 22% of white respondents—yet buyers of color received higher interest rates.”

See full report, [Non-Negotiable: Negotiation Doesn't Help African Americans and Latinos on Dealer-Financed Car Loans](#)

### [Shop for Car Loans Before Heading to Showroom](#)

**Susan Tompor, Detroit Free Press, 1/18/14**

“... In December, the U.S. Department of Justice and the Consumer Financial Protection Bureau brought to light charges of discrimination in lending that allegedly took place through dealer markups regarding interest rates. More than 235,000 African-American, Hispanic and other minority auto loan borrowers who dealt with Ally Financial were unfairly charged higher interest rates for loans on cars or trucks because of discriminatory practices, according to the federal regulators...”

“The lesson for consumers: Make absolutely certain to be pre-approved for a car loan before shopping for a car.”

### [Remittance Transfer Rule Changes Unlikely](#)

**Barbara S. Mishkin, CFPB Monitor, 1/24/14**

“Industry should not expect to see any material changes to the CFPB’s remittance transfer rule, at least not between now and 2018 when the CFPB is required to review the rule. That’s the view of Isaac Boltansky of Compasspoint, who reached that conclusion based in part on a review of the CFPB’s consumer complaint database. Money remittances are one of the products or services about which consumers can submit complaints using the CFPB’s complaint system.

“According to Mr. Boltansky, Compasspoint’s review indicated that the majority of money remittance complaints were resolved in a way that suggests industry has successfully implemented the remittance transfer rule, thus making it unlikely industry or the CFPB will push for change. (The rule became effective on October 28, 2013.) Compasspoint found that 74% of

the complaints were 'closed with explanation' and only 21% were 'closed with monetary relief.' Mr. Boltansky considers 'closed with explanation' to be one of the best potential outcomes for CFPB complaints because it suggests the company involved was in compliance with applicable rules. In contrast, he considers 'closed with monetary relief' to be the worst potential outcome because it suggests that an error was made."

#### [Director Cordray on Newsmakers](#)

**C-SPAN, January 17, 2014**

#### [Cordray on On the Money](#)

**CNBC, January 17, 2014**

#### [CFPB Needs Course Correction on Consumer Credit](#)

**Jane Daugherty, American Banker, 1/21/14**

## **DERIVATIVES, COMMODITIES AND THE CFTC**

#### [CFTC Boosts Scrutiny of Swap-Data Rules to Help It Spot Whales](#)

**Silla Brush, Bloomberg, 1/21/14**

"The U.S. Commodity Futures Trading Commission is moving to revamp oversight of swap-market data after a member said the agency's information wouldn't help detect a loss like [JPMorgan Chase & Co. \(JPM\)](#)'s London Whale trades. Public comment is being sought on ways to improve the CFTC's access to price, volume and other information held in new databases, the agency said in a statement today. The databases, run by companies including [CME Group \(CME\)](#) Inc. and the Depository Trust and Clearing Corp., are a Dodd-Frank Act requirement meant to help regulators see financial-system risks.

"For the commission to enforce the significant Dodd-Frank reforms, the agency must have accurate data and a clear picture of activity in the marketplace,' Democrat Mark P. Wetjen, the CFTC's acting chairman, said in the statement. The agency set up a new internal working group to review its access to data."

#### [CFTC to Address Data Problems Clouding Swaps Transparency](#)

**Andrew Ackerman, Wall St. Journal, 1/21/14**

"U.S. commodity regulators are taking steps to resolve a series of data problems that have hobbled their efforts to see more clearly into the multitrillion-dollar swaps market.

"The Commodity Futures Trading Commission said Wednesday it is forming a staff working group to review how the agency collects swaps data and to assess how banks and other firms adhere to existing reporting and record-keeping rules set by the agency. The review comes after the CFTC last month said [reporting errors had caused it to misreport the overall size of the swaps market.](#)"

#### [Century-Old London Gold Fix Said to Face Overhaul Amid Scrutiny](#)

**Suzi Ring, Liam Vaughan & Nicholas Larkin, Bloomberg, 1/21/14**

"Banks are considering an overhaul of [London](#)'s century-old gold benchmark used by miners, jewelers and central banks to buy, sell and value the precious metal, according to a person with knowledge of the process.

“The five banks that oversee the so-called London gold fixing -- [Barclays Plc \(BARC\)](#), [Deutsche Bank AG \(DBK\)](#), Bank of Nova Scotia, [HSBC Holdings Plc \(HSBA\)](#) and [Societe Generale SA \(GLE\)](#) -- have formed a steering committee that’s seeking external firms to advise how the process could be improved, according to the person, who asked not to be identified because the review isn’t public.”

### **[Banks Still Vulnerable Over Derivatives](#)**

**Wall St. Journal, 1/20/14**

“You can’t judge a book by its cover, let alone a report by a bunch of banking regulators. A perfect example came last week. Watchdogs from 10 European and North American countries released one of the most hard-hitting, and worrying, studies on the financial industry since the 2008 crisis. Their conclusion: [Many large banks and their regulators are still unprepared](#) to deal with troubles in the immense market for derivatives.

“But instead of shouting their concerns from the rooftops, the regulators buried them under the boring guise of a ‘Progress Report on Counterparty Data,’ emblazoned with their own drab-looking logos. Yet, [the nine-page study](#) is worth reading, especially if you are a shareholder in one of the 19 big banks it covers (all the big firms are represented).”

### **[Senate Panel Expected to Advance CFTC Nominee Massad](#)**

**Andrew Ackerman, Wall St. Journal, 1/21/14**

## **ENFORCEMENT**

### **[Holder Says More Wall Street Cases in Pipeline](#)**

**Kevin Cirilli, Politico Pro (paywalled), 1/24/14**

“U.S. Attorney General Eric Holder defended the Justice Department’s record of pursuing cases against Wall Street in the aftermath of the 2008 financial crisis in an interview set to air on MSNBC’s ‘The Cycle’...

“‘Let me make this very clear: There are no institutions that are too big to indict,’ Holder told MSNBC’s Ari Melber. ‘There are no individuals who are in such high level positions that they cannot be indicted, criminally investigated... I think people need to just be a little patient,’ Holder told Melber. “I know it’s been a while. But we have other things that are in the pipeline.”

### **[Justice Department Turns Up Heat in Online Lending Probe](#)**

**Kevin Wack, American Banker, 1/22/14**

A tentative \$1.2 million settlement between the Department of Justice and a small North Carolina bank earlier this month sent a warning signal to at least 50 other companies — the list includes both banks and third-party payment processors — that have received subpoenas in the probe.

“At the same time, the DOJ’s investigators are feeling increased heat themselves, as congressional Republicans are questioning the motives behind the investigation. In a recent letter to Attorney General Eric Holder, House Oversight Committee Chairman Darrell Issa requested documents from Justice and suggested that its probe is a veiled attempt to stamp out even legal online lending — not a push to choke off fraudsters’ access to the payments system, as investigators insist. Issa’s letter echoes some of the arguments made in recent months by online lenders...”

"It is entirely appropriate for DOJ to target banks that flagrantly ignore their legal obligations and turn a blind eye to fraud," Lauren Saunders, managing attorney at the National Consumer Law Center, wrote.

## FEDERAL RESERVE / CAPITAL REQUIREMENTS

### [Exporting U.S. Rules for Foreign Banks](#)

**Peter Eavis, NY Times, 1/22/14**

"More than three years ago, Congress passed a sweeping overhaul of the financial system that was supposed to leave no big bank untouched. Staggeringly, though, half of the large banks on Wall Street are able to avoid crucial parts of the overhaul — simply because they are foreign... Now, however, the American authorities appear poised to snatch that advantage away...

"Whether the foreign banking rule gets done is a big test,' said Marcus Stanley, policy director at **Americans for Financial Reform**. And if the rules do have teeth, it will end an intriguing game of cat and mouse, in which some overseas banks have taken elaborate steps to escape the reach of regulators...

"Considering the number of problems with American banks that have occurred in London subsidiaries, I would appreciate seeing the Europeans raise the bar for foreign operations of American banks,' Mr. Stanley said. 'That would be a win for the American taxpayer.'"

### [Judges Thrust Into Debit-Card War](#)

**Peter Schroeder, The Hill, 1/20/14**

"Banks and retailers are locked in a legal war over the fees charged to merchants for swiping a debit card. The battle has raged since 2010, when Congress passed the 'Durbin Amendment' to the Dodd-Frank financial reform law and required regulators to set limits on how much banks can charge merchants for swipe transactions.

"The Federal Reserve complied, only to see its 21-cent swipe fee limit overturned in court. Now the Fed is appealing to try and reinstate the regulations, rather than go through the years-long process of rewriting them."

### [Boston Fed's Latest Role: Community Organizer](#)

**Nelson Schwartz, NY Times, 1/20/14**

"Economists do not tend to be social activists. And that is especially true if they work for the [Federal Reserve](#), let alone run one of its 12 regional banks. But [Eric S. Rosengren](#), president of the Federal Reserve Bank of Boston, is not afraid to stand out. In December, he was the only Fed policy maker to vote against the central bank's decision to begin tapering its stimulus efforts.

"He is also pushing his branch of the central bank to get more involved in the New England economy, not just collecting data and hobnobbing with Boston bankers and corporate executives but also spearheading an effort to turn around some of Massachusetts' most depressed cities."

### [How to End the Fed's Rule-Making Secrecy](#)

**Scott Garrett, Wall St. Journal, 1/21/14**

## **MORTGAGES / FORECLOSURES / HOUSING**

### **Senators Ask Watt and FHFA to Fund Affordable Rental Housing**

**Jon Prior, PoliticoPro (paywalled), 1/24/14**

“A group of 33 Senators asked Federal Housing Finance Agency Director Mel Watt in a [letter](#) yesterday to contribute revenue from Fannie Mae and Freddie Mac to rental housing programs that the lawmakers say have largely been ignored since they were created by Congress in 2008.

“The letter was led by Democratic Sens. Jack Reed, Barbara Boxer, Elizabeth Warren, and Independent Sen. Bernie Sanders. They said that the National Housing Trust Fund and the Capital Magnet Fund could add needed money to develop affordable rental properties at a time when the poorest Americans are finding a shortage of housing options.

“The lawmakers added that Watt should not wait for Congress and the administration to reach an agreement on legislation to overhaul the housing market to fill the funds...”

### **Protecting Homebuyers in the New Year**

**David Bunton: Huffington Post, January 21, 2014**

### **Treasury Official: Don't Expand HARP**

**Jon Prior, PoliticoPro (paywalled), 1/22/14**

“A top Obama administration housing official on Wednesday said that a program designed to help underwater homeowners save on their mortgage payments should not be expanded. The Home Affordable Refinance Program was launched in 2009 and it has helped nearly 1 million borrowers who owe more on their mortgage than their home is worth to refinance into a lower interest rate loan. The program only applies to mortgages backed by Fannie Mae or Freddie Mac.

“Consumer advocates have been pressing the government to expand the program to allow homeowners who took out a loan after May 31, 2009, to qualify for assistance, and many of these groups were hoping that the confirmation of the new regulator for Fannie and Freddie, Federal Housing Finance Agency Director Mel Watt, would lead to the change.”

### **Despite Fewer Foreclosure Starts, Distressed Sales Rose in 2013**

**Krista Franks-Brock, DSNews, 1/23/14**

## **STUDENT LOANS**

### **US Senator Warren: Let Students Refinance Their Loans**

**Associated Press, 1/22/14**

### **The Sallie Mae Saga: A Government-Created, Student Debt Fueled Profit Machine**

**Deanne Loonin, National Consumer Law Center report, January 2014**

“In 1972, President Nixon created the Student Loan Marketing Association, or “Sallie Mae” — a government-sponsored enterprise (GSE) empowered by the government to use U.S. Treasury money to buy government-backed student loans from banks. Sallie Mae benefited for more than 30 years from its close government connections and became a fully private company in 2004,

growing into the dominant force in the student loan world. The business has been extraordinarily profitable.

“Given a for-profit company’s imperative to do what is best for its investors, it is especially critical that the government conduct rigorous oversight of its private contractors. Unfortunately, the growing number of government investigations and consumer complaints show that government supervision has been lax.”

## SYSTEMIC RISK

### Regulatory Tweak Allows Zions to Keep Most Trups CDOs

**Andrew R. Johnson, Wall St. Journal, 1/21/14**

“Zions Bancorp said Tuesday it will take a smaller charge than previously expected following a move by regulators last week to tweak a portion of the Volcker rule that affected a specific type of security held by the bank.

“The Salt Lake City-based regional bank said it would be able to retain a "substantial majority" of the investments, thanks to the regulators' change, and now expects to take a pretax charge of \$135 million to \$145 million for the fourth quarter.”

### Return to Old-School Banking

**Katya Grishakova, American Banker, 1/21/14**

“The two primary functions of banking should be to take deposits and to make loans; all other services should be supplementary to these two primary activities. I wish banks would refocus more on traditional services. This is particularly true when it comes to making loans, given all that money from the Federal Reserve sitting on the banks' balance sheets...”

“Unfortunately, it seems the current-day banking model adheres to the following pattern: Interest rates are low; investment opportunities are scarce. Profits are lower. Something must be done! Let's ramp up the fees on poor customers.”

*“(Katya Grishakova left the financial industry after spending more than a decade at various Wall Street firms. She is now a board member of ACT NOW, a New York progressive organization.)”*

## OTHER TOPICS

### Recession’s True Cost Is Still Being Tallied

**Eduardo Porter, NY Times, 7/21/14**

“How much did it all cost? In July, three economists at the Federal Reserve Bank of Dallas, Tyler Atkinson, David Luttrell and Harvey Rosenblum, gave it a shot, at least as far as [the United States economy](#) goes... Most strikingly, their examination offers a panoramic view of the variety of ways in which the financial crisis diminished the nation’s standard of living. At a bare minimum the crisis cost nearly \$20,000 for each American. Adding in broader impacts on workers’ well-being — an admittedly speculative exercise — could raise the price tag to as much as \$120,000 for every man, woman and child in the United States. With this kind of money we could pay back the federal debt or pay for a top-notch college education for everyone.

“The portrait of loss, tentative as it is, suggests that even the most far-reaching measures might be justified to ensure it never happens again. But you wouldn’t know that from the current debate.”

### **Financial Reform Remains a Work in Progress**

**Simon Johnson, NY Times, 1/23/14**

“Of all the arguments put forward by big banks and their allies in recent years against financial reform, the line that surfaced last week was arguably the most strange. Wall Street has been reformed, according to this view: There was a great battle, and we (the big banks) lost. There is, consequently, nothing more to do.

“In contrast to that position, I suggest that the decisive battles lie ahead. Some regulatory changes are in the works, but these are relatively limited and all would be easily reversible if attitudes change.”

### **Why Wall Street Wants You to Think it Lost the War Over Regulation**

**Michael Hiltzik, Los Angeles Times, 1/20/14**

“Talking up your opponent’s skills is a tactic that permeates sports, politics and business. The idea is to lower expectations of your own success so your subsequent victory looks even more spectacular and defeat (if it comes) less demoralizing... A sterling example of the form was delivered the other day by Politico, in an analysis headlined "How Washington Beat Wall Street...”

“You couldn’t ask for a more perfect distillation of what Wall Street wants you to believe. But the truth is that the financial sector still wields excessive control over the economy, the big players have grown even bigger, and the regulators have been systematically emasculated.”

### **Mom and Pop Flock to Options Market**

**Kaitlyn Kiernan, Wall St. Journal, 1/22/14**

“Small investors stepped up their options trading last year, even as a steady bull market in stocks meant hedge funds and other big traders pulled back. Retail investor trading volume rose 12% to a daily average of 3.9 million contracts in 2013, a TABB study released Tuesday said, after seeing a slight decline the prior year.

“Last year, retail investors accounted for 23.7% on total industry volume, TABB said, up from 21.8% the prior year. But some of the rise in the share of trading by small investors reflects less trading by big institutional players, such as hedge funds. With the stock market staging a virtually uninterrupted rally last year, the need for hedging portfolios by big investors fell.”

### **Are Financial Markets Safer? Davos Crowd Say Yes, But More to Do**

**Reuters, 7/22**

### **Banks Sit Out Riskier Deals**

**Gilian Tan, Wall St. Journal, 1/21/14**

### **U.K. Loses Court Fight Over EU Powers to Ban Short-Selling**

**Stephanie Bodoni and Jim Brunsten, Bloomberg, 1/22/14**

### **Bitcoin Backers Seek FDIC-Style Insurance**

**Joe Adler, American Banker, 1/22/14**

## [How Should Agencies Do Cost-Benefit Review of Financial Regulation, and How Should Courts Scrutinize That Review?](#)

**Brian Wolfson, Public Citizen, 1/21/14**

Those are the subjects of [Cost-Benefit Analysis of Financial Regulation: Case Studies and Implications](#), by law professor John Coates. Here is the abstract:

“Some members of Congress, the D.C. Circuit, and legal academia are promoting a particular, abstract form of cost-benefit analysis for financial regulation: judicially enforced quantification. How would CBA work in practice, if applied to specific, important, representative rules, and what is the alternative? Detailed case studies of six rules – (1) disclosure rules under Sarbanes-Oxley Section 404, (2) the SEC’s mutual fund governance reforms, (3) Basel III’s heightened capital requirements for banks, (4) the Volcker Rule, (5) the SEC’s cross-border swap proposals and (6) the FSA’s mortgage reforms – finds that precise, reliable, quantified CBA remains unfeasible.

“Quantified CBA of such rules can be no more than ‘guesstimated,’ as it entails (a) causal inferences that are unreliable under standard regulatory conditions; (b) using problematic data, and/or (c) the same contestable, assumption-sensitive macroeconomic and/or political modeling used to make monetary policy, which even CBA advocates would exempt from CBA law. Expert judgment remains an inevitable part even of what advocates label ‘gold-standard’ quantified CBA, because finance is central to the economy, is social and political, and is non-stationary. Judicial review of quantified CBA can be expected to do more to camouflage discretionary choices than to discipline agencies or promote democracy.”