
AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
JUNE 7 – JUNE 13, 2014

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CONSUMER FINANCE AND CFPB

[House Committee Approves CFPB Bills In Series of Contested Party-Line Votes](#) **Rob Tricchinelli, Bloomberg BNA (paywalled), 6/11/14**

"A series of bills to restructure the Consumer Financial Protection Bureau, limit its civil penalty fund and change how it collects data on consumers was approved by the House Financial Services Committee in a June 11 vote.

"The committee also approved measures to overhaul how the CFPB examines banks, permit it to issue advisory opinions, and require it to both have a public comment period before publishing guidance and to release the data it uses to draft its research papers. A handful of Democrats supported some of the bills, but voting otherwise fell along party lines."

See [AFR letter](#) on House bills.

[CFPB Faces a "Death of a Thousand Cuts"](#)

Ed Mierzwinski, US PIRG, 6/10/14

"U.S. PIRG and other members of **Americans for Financial Reform** have [urged a no vote on all the bills](#) targeted at weakening the Consumer Financial Protection Bureau (CFPB). The worst of the 9 bills... [HR 3389](#), the so-called CFPB Slush Fund Elimination Act (Capito (WV), eliminates CFPB's ability to compensate victims of so-called 'last-dollar' financial fraudsters.

"Congress, when it established the CFPB in 2010, established a Civil Penalty Fund... It works like this: When a solvent corporate wrongdoer, such as Bank of America, is caught violating the law, the CFPB orders it to pay restitution to its victims. But merely returning ill-gotten gains is not an adequate punishment for corporate wrongdoing. An additional civil penalty provides greater deterrence against further wrongdoing by that firm, and serves as a warning to others. So, recently, when BofA was ordered by CFPB to refund [\\$727 million to its customers for illegal credit card add-on practices](#), CFPB also ordered it to pay an additional \$20 million civil penalty as a punishment... Other firms, including JPM Chase, American Express and Capital One, have made civil penalty fund payments."

See [AFR Statement](#) on House markup.

[How a High-Court Ruling on Tribal Powers May Impact Payday Lending](#)

Rachel Witkowski, American Banker, 6/9/14

“A recent Supreme Court ruling concerning a tribal casino and state authorities has sparked a debate about whether the decision could extend to curtailing payday lenders that claim their affiliation with Native American tribes frees them from state and federal consumer protection laws.

“Although the case did not directly deal with payday lending, the ruling — which upheld tribal sovereignty in the case of a casino — specifically mentioned possible limits to tribal authority by suggesting states could instead pursue individuals. Some consumer advocates said the decision will make it harder for payday lenders to defend themselves by relying on tribal sovereignty.”

[‘Together Louisiana’ to Push Feds For Payday Loan Changes](#)

Michelle Millhollon, The Advocate, 6/12/14

[Mobile Financial Services Input Sought by Consumer Bureau](#)

Carter Dougherty, Bloomberg, 6/11/14

“The U.S. Consumer Financial Protection Bureau today said it is seeking public comment on how consumers, especially the economically vulnerable, are using mobile services to manage their finances.

“‘We want to learn more from the American public about the opportunities and challenges associated with mobile financial products and services, especially as they may affect underserved consumers,’ Richard Cordray, the agency’s director, said in remarks prepared for delivery tomorrow in New Orleans.

“In 2013, 74,000 new customers began using mobile banking services each day, according to the bureau’s notice requesting comment. The information CFPB gathers will be used to ‘inform the bureau’s consumer education and empowerment strategies.’”

[Payday Lending Dominates CFPB Hearing on Mobile Payments](#)

Rachel Witkowski, American Banker, 6/12/14

[U.S. Regulator Studies Mobile Financial Market](#)

Alan Zibel, Wall Street Journal, 6/11/14

[To Protect Service Members, Defense Department Plans Broad Ban on High-Cost Loans](#)

Paul Kiel, ProPublica, 6/4/14

“The Department of Defense, attempting to thwart the ever-changing tactics of high-cost lenders, plans to dramatically broaden a federal law that sought to protect service members by capping the interest rate on loans made to troops.

“When the Military Lending Act was enacted in 2007, it narrowly focused on how much interest lenders could charge on two types of loans: payday and auto-title. But as ProPublica and Marketplace reported last year, [high-cost lenders easily circumvented the law](#), peddling credit from stores that often line the streets near military bases. In a

[newly released](#) report to Congress, the Defense Department acknowledged that the law has proven inadequate and said it is working on new, 'more comprehensive' rules...

"In response to crackdowns by federal and state regulators, high-cost lenders [have been busy transforming their offerings](#) over the past several years. Instead of the typical payday loan, which carries an annual rate above 300 percent and is due in full after two weeks, lenders have [increasingly been offering installment loans](#) that last several months. They, too, can have sky-high annual rates, but the rate on installment loans isn't capped under the MLA. Neither is the rate for open-ended credit: a lender can legally offer a credit line with a 300 percent APR to a soldier."

[Cordray Testifies on CFPB Rules, Data Collection](#) **Video, Bloomberg, 6/10/14**

[New York Attorney General Supports a Bill Regulating Payroll Cards](#) **Rachel Abrams, New York Times, 4/12/14**

"Eric. T. Schneiderman, New York's top prosecutor, is backing a new bill in the state legislature aimed at regulating the use of so-called payroll cards, whose fees, critics say, can severely cut into the paychecks of low-wage workers. The new proposal would require employers to offer other payment options and consumer protections.

"The new proposals come in response to growing concern from regulators and consumer advocates that workers who have no other way of collecting their pay are being unfairly targeted."

[CFPB Isn't Advising DOJ On 'Choke Point,' Cordray Says](#) **Evan Weinberger, Law 360 (paywalled), 6/10/14**

DERIVATIVES, COMMODITIES & THE CFTC

[Commodities Regulator Names New Enforcement Chief](#) **Ben Protes, New York Times, 6/10/14**

"The [Commodity Futures Trading Commission](#) announced on Tuesday that Aitan D. Goelman, a former federal prosecutor turned white-collar defense lawyer, would become the head of its enforcement division. Mr. Goelman, a 45-year-old trial lawyer, will join the agency from the Washington office of Zuckerman Spaeder, where he is a partner...

"Mr. Goelman will inherit a huge docket at the trading commission, both of current cases and promising investigations. The agency, for example, is investigating some of the world's biggest banks for potential manipulation of foreign currencies. It is also wrapping up a series of cases against banks suspected of manipulating a benchmark interest rate known as the [London interbank offered rate](#), or Libor, a crackdown that has already led to settlements with UBS and other banking giants..."

[House Rejects CFTC Funding Shift](#) **Cristina Marcos, The Hill, 6/11/14**

"The House on Wednesday defeated a proposal to allow the Commodity Futures Trading Commission to spend more money on regulatory efforts and less on information technology. Rejected 194-227, Rep. Rosa DeLauro's (D-Conn.) amendment to the 2015

Agriculture appropriations bill would reduce the funds set aside for the CFTC's information technology account from \$52.5 million to \$35 million.

“DeLauro argued the current funding level for the agency ‘purposely sets the Commodity Futures Trading Commission up for failure.’ The Connecticut Democrat said that reducing the IT budget would allow the CFTC to use the funds elsewhere, such as hiring staff to implement regulations.”

[Banks' Overseas Moves Should Get CFTC Investigation, Waters Says](#)

Silla Brush, Bloomberg, 6/13/14

“Wall Street banks should face investigation over recent moves to escape U.S. rules for overseas derivatives trades, according to the top Democrat on the House Financial Services Committee. The Commodity Futures Trading Commission should ‘thoroughly investigate’ recent shifts to avoid Dodd-Frank Act rules mandating price-competition and transparency, wrote Representative Maxine Waters of [California](#) in a letter to Timothy Massad, the agency’s new chairman.

“We must ensure that U.S. banks are not importing unregulated derivatives risk back to the [United States](#) via any changes to the guarantee relationship with their foreign affiliates,’ Waters wrote in the letter dated today.”

ENFORCEMENT

[U.S. Using JPMorgan Penalty to Speed Cases Against Other Banks](#)

Aruna Viswanatha and Karen Freifeld, Reuters, 6/11/14

“The U.S. Justice Department is spending some of the \$13 billion [JPMorgan Chase & Co](#) agreed to pay to settle claims stemming from mortgage misdeeds to speed up similar punishments against other lenders, possibly including [Bank of America Corp](#) and Citigroup, according to people familiar with the matter...”

“The increased activity is a sign that President Barack Obama is trying to follow through on his 2012 pledge to hold more banks accountable for their role in the housing crisis, after prosecutors faced criticism for little high-profile action. Attorney General Eric Holder has also expressed a desire to wrap up more of mortgage securities-related cases this year... The Justice Department's portion of the JPMorgan settlement went to the U.S. Treasury, but the department can keep up to three percent of money it collects for other federal agencies to use for certain purposes...”

[Appeals Court Ruling in Citi Case is a Gift to Big Banks](#)

William Michael Cunningham, American Banker, 6/10/14

“Anyone still waiting for justice with respect to the role that large banks played in the financial crisis had to be disappointed in a New York appeals court’s ruling in a case involving a settlement agreement between Citigroup Global Markets and the Securities and Exchange Commission...”

“In the Citi case specifically, the damage calculation -- \$285 million -- is much smaller than it should have been because the SEC has been captured by the industry. If financial firms know that courts can't step in to block settlements then what's to stop

them from using whatever resources are available to them to ensure that industry-friendly regulators are placed on the SEC commission?"

Goldman Sachs and Bain to Pay \$121 Million to Settle Collusion Case

William Alden, New York Times, 6/11/14

"[Goldman Sachs](#) and Bain Capital have agreed to pay a combined \$121 million to settle a lawsuit that accused them and other firms [of colluding to drive down the prices](#) of takeovers before the financial crisis, according to a court filing on Wednesday...

"[T]he settlement deal also raises the stakes for the remaining defendants, which include some of private equity's biggest firms. [The Blackstone Group](#), [Kohlberg Kravis Roberts](#), TPG Capital, Silver Lake and the [Carlyle Group](#) are scheduled to head to trial in November. Lawyers for the firms have said the case is without merit."

Senior BNP Paribas Executive to Depart Amid Investigation

David Jolly, New York Times, 6/12/14

"A senior BNP Paribas executive who was said to have been targeted by New York State's financial regulator in a major sanctions violations case is stepping down, the French bank said on Thursday. Georges Chodron de Courcel, 64, one of BNP Paribas' three chief operating officers, is retiring after spending 42 years with the bank, the Paris-based institution said in a statement that made no mention of the United States investigation.

"People briefed on the matter told The New York Times last week that the New York State regulator, Benjamin M. Lawsky, [had targeted](#) more than a dozen people, including Mr. Chodron de Courcel, for dismissal as part of an eventual settlement."

Why the BNP Paribas Fine Matters to U.S. Banks

Rob Blackwell, American Banker, 6/6/14

"Aside from the question of 'too big to jail' and the enhanced penalties regulators are demanding for money laundering violations, there are other potentially disturbing issues at play.

"For one, the fact that Hollande raised the issue directly to Obama — who has [pledged to not interfere with the case](#) — shows just how involved the French government is in negotiations over the BNP penalty. It's difficult to imagine Obama going to bat for Bank of America (BAC) or JPMorgan Chase in the same way with a foreign government... That cultural divide has implications for the next financial crisis..."

[Europe Bankers Cringe at Rising U.S. Fines Amid BNP Probe](#)

Elisa Martinuzzi and Ambereen Choudhury, Bloomberg, 6/12/14

“At stake for European banks are their international ambitions and remaining appetite to be in the world’s biggest financial market... Any European retrenchment probably will benefit Wall Street firms such as Goldman Sachs, which said last month that it has been gaining market share in trading.

“‘With diminished competition, large U.S. investment banks could gain an almost monopolistic stranglehold over megadeals originated by multinational U.S.-based companies,’ said [Mark Williams](#), author of ‘Uncontrolled Risk,’ a book on the rise and collapse of Lehman Brothers Holdings Inc., and an executive-in-residence at Boston University.”

EXECUTIVE COMPENSATION

[Meet the Highest-Paid Bank CEOs for 2013](#)

Stephen Grocer, Wall Street Journal, 6/11/14

“Wells Fargo CEO [John Stumpf](#) received \$19.3 million in total compensation to top the list, followed by [Capital One](#) 's Richard Fairbank, who collected \$18.3 million. [J.P. Morgan Chase](#) & Co. CEO [Jamie Dimon](#), who had previously ranked among the top three highest paid CEOs in 2010, 2011 and 2012, slipped to ninth.

“Rankings are limited to only U.S. companies that publicly disclose compensation and are classified by SNL as a bank or a thrift during fiscal 2013. [Goldman Sachs](#) and [Morgan Stanley](#) aren’t included in the list.”

[Walmart's Executive Bonuses Cost Taxpayers Millions](#)

Sarah Anderson and Frank Clemente, Institute for Policy Studies report, 6/4/14

“Walmart has been widely criticized for shifting the costs of its low-wage model onto taxpayers. This report, co-published by IPS and [Americans for Tax Fairness](#), reveals that taxpayers also subsidize much of the cost of Walmart’s executive pay. Specifically, the report calculates the cost of a tax loophole that allows Walmart and other corporations to deduct unlimited amounts from their income taxes for the cost of executive compensation if it is in the form of stock options and other so-called ‘performance pay.’”

[Tarullo Says More Work Needed to Balance Bank Risk Incentives](#)

Craig Torres, Bloomberg, 6/9/14

“Federal Reserve Governor [Daniel Tarullo](#) said more work needs to be done to better align the risk-taking incentives of employees inside financial firms with regulatory interests in preserving safety and soundness.

“Stock-based rewards can ‘intensify the conflict’ between the interests of shareholders and regulators, Tarullo said, as they put a high value on gains from risk-taking. Alternative proposals include some form of debt-in-compensation packages to give risk-takers more exposure to loss and failure, or clawback and forfeiture clauses triggered by government assistance or insolvency, he said.

“Developing a mechanism that balances the goals of regulators while still ‘motivating employees to advance shareholder interests will take some work,’ Tarullo said today in [Washington](#) in a speech to the Association of American Law Schools. ‘Some measure along these lines is key to adjusting incentives so as to promote prudential objectives across the many risk decisions made within the firm.’”

[Use Power of Public Purse to Shrink Pay Gap](#)

Rhode Island Senator Catherine Cool Rumsey, Eco Opinions, 6/6/14

“Recently, Walmart CEO Doug McMillon told Business Insider that he’s an ‘associate,’ just like the retail workers in Walmart stores. Mr. McMillon, however, makes nearly \$10 million a year, while 30,000 of his ‘associates’ make the minimum wage...

“To put the taxpayer cost into perspective, a recent report estimates that low-wage earners at a single Walmart Supercenter in Wisconsin cost taxpayers \$900,000 to \$1.75 million in public assistance provided to their employees annually. The question we as taxpayers need to ask ourselves is, ‘Why should our tax dollars subsidize economic inequality?’

“I have proposed one course of action in the form of legislation ([2014-S 2796](#)) that would give preference in state contracts to companies whose executives are paid salaries that don’t exceed 32 times the salary of their lowest-paid full-time employee. As an example, for a company to have a preference in contracting with our state, if the CEO made \$1.6 million, its lowest earners would need to make at least \$50,000.”

[How Obama Can Increase Taxes on Carried Interest](#)

Victor Fleischer, New York Time, 6/12/14

“President Obama could change the tax treatment of carried interest with a phone call to the Treasury Department. But the White House will need a precise understanding of the regulatory landscape to make a change that is fair, easy to administer, and will hold up in court.

“The administration has increasingly relied on executive branch rule-making authority to make policy without waiting for a gridlocked Congress to act. The White House has made significant changes to education policy, immigration policy, environmental standards and climate change policy, and, most recently, student loans. And it has the legal authority to unilaterally change the tax treatment of carried interest...

“Out of deference to Congress, the Treasury Department has traditionally avoided making policy in areas where the legislative branch may act. ‘But when the legislative process is as broken as it has become today,’ said Daniel N. Shaviro, a law professor at New York University, ‘it’s simply inevitable that administrations will care less about such comity, and be more willing to advance their policy views in controversial areas through the unilateral exercise of regulatory authority.’”

[London’s Top Firms Pay 37% More in Bonuses, Survey Says](#)

Ambereen Choudhury, Bloomberg, 6/11/14

[Meg Whitman Restructures Her Way to a Bigger Bonus](#)

Video, Bloomberg, 6/13/14

[The Reason CEO Pay is so High Right Now has Little to do with Greed](#)

Richard Feloni, Business Insider, 6/12/14

“[U.S. stocks are at all-time highs](#), and so it follows that many CEOs of the nation's biggest corporations are making more money than they were a few years ago.

“Furthermore, inequality is down from the boom years of the late 90s, where the average pay of an S&P 500 CEO hit a high of 350 times that of the median household income, according to the [University of Chicago's Booth School of Business](#).”

[Great Men, Great Pay? Why CEO Compensation is Sky High](#)

Nancy Koehn, Washington Post, 6/12/14

“[W]hile it is tempting to vilify the senior ranks of corporate America, most of the executives I have studied, interviewed and worked with during the past two decades... are upstanding, forward-looking individuals with a sense of proportion and responsibility about their organizations and their roles. Most are not trying to ‘take the gold off the table’ for themselves or deny their employees fair pay.

“They are, however, operating in a system that presumes the contribution of a good senior executive is very, very high. It is a system that rests on the Great Man theory of history: a school of thought that attributes virtually all important developments through time to heroic individuals... Such lionization is misplaced. Operating a sustainable enterprise, as any executive, manager or employee knows well, is inherently a team sport.”

FEDERAL RESERVE

[Senate Advances Fed Nominees Brainard, Powell and Fischer](#)

Kristina Peterson, Wall Street Journal, 6/10/14

“The Senate ended debate on the nominations of Lael Brainard on a 59-35 vote and **Jerome Powell, on a 58-36 vote, to spots on the central bank’s seven-seat board.** Ms. Brainard had served as undersecretary for international affairs at the Treasury Department until last November. Mr. Powell has served on the Fed board since 2012 and is up for a new term.”

[Fed Appoints New Consumer Affairs Director](#)

Kristin Broughton, American Banker, 6/6/14

“The Federal Reserve said Friday that it has [appointed](#) Eric S. Belsky to serve as director of its Division of Consumer and Community Affairs.

“He is currently the managing director at Harvard's Joint Center for Housing Studies and a lecturer at the school's Graduate School of Design. He has also previously served as the director of housing finance research at Fannie Mae.”

FINANCIAL TRANSACTION TAX & HIGH-FREQUENCY TRADING

High-Speed Trading to Be Examined by Levin at Hearing Next Week

Cheyenne Hopkins, Bloomberg, 6/10/14

“High-frequency trading will face high-profile scrutiny next week when exchanges, brokerages and institutional investors come before a Senate panel looking for evidence of conflicts of interest in U.S. stock markets.

“The Permanent Subcommittee on Investigation, led by Senator Carl Levin, is holding a June 17 hearing to examine the impact of conflicts on [consumer confidence](#), he said in a statement yesterday. The panel will focus on how brokers balance the obligation to give customers best execution against services they provide for other brokers and trading venues, according to the statement.

“Lawmakers are increasing pressure on regulators and prosecutors to rein in computerized and algorithmic traders who account for about half of U.S. stock trades. Traders like those highlighted by Michael Lewis in his book ‘Flash Boys’ have been linked by critics to a May 2010 stock-market disruption and volatility during the [European debt crisis](#).”

No High-Frequency Crackdown in SEC Blueprint for Control

Dave Michaels, Bloomberg, 6/7/14

“The U.S. Securities & Exchange Commission’s plan, unveiled by White in a speech this week, advanced some new ideas while borrowing heavily from existing proposals and measures that already have support on Wall Street. While stock exchanges, rapid-fire traders and private trading venues known as dark pools all would come under new scrutiny, White didn’t embrace the kind of tighter restraints that have been enacted in countries such as [Australia](#) and Canada...”

“[T]he chairman stopped short of endorsing calls to scrap exchanges’ maker-taker pricing model, a system of rebates and fees exploited by some high-frequency trading firms. Intercontinental Exchange Inc. chief executive officer [Jeffrey Sprecher](#), whose Atlanta-based company owns the New York Stock Exchange, has said maker-taker encourages trading aimed only at reaping the rebate payments.”

Predatory Trading Rules Considered in Canada

Esteban Duarte and Eric Lam, Bloomberg, 6/13/14

“The Ontario Securities Commission may consider measures to regulate high-frequency trading if evidence of predatory activity is found as it reviews its market-structure policies, Chairman Howard Wetston said...”

“The Ontario Securities Commission, which regulates securities trading in the province, is awaiting the results of a study from the Investment Industry Regulatory Organization of Canada investigating the impact of high-frequency trading practices on the Canadian market. IIROC said May 27 it commissioned the third phase of a study on the impact of trading driven by computer algorithms. The study will assess whether those practices are hurting the quality of the market, Wetston said.”

INVESTOR PROTECTION AND THE SEC

Brokers Fight Rule to Favor Best Interests of Customers

Tara Siegel Bernard, NY Times, 6/12/14

“Brokers are not necessarily required to act in their customers’ best interest, even if they are advising on their retirement money. While that would seem to be a basic consumer protection, in Washington and on Wall Street it has proved to be wildly contentious.

“Amid fierce pushback from the financial services industry, the Labor Department, which oversees retirement plans, recently delayed releasing a revised proposal that would require a broader group of professionals to put their clients’ interest ahead of their own when dealing with their retirement accounts. The department said it would release the proposed rule in January, according to its [regulatory agenda](#), instead of this August...

“They have really been stymied by the financial industry, which is spending millions of dollars to fight this rule,’ said Karen Friedman, executive vice president and policy director at the Pension Rights Center, a nonprofit consumer group. “All the Labor Department is trying to do is modernize a rule that is out of date.”

Wall Street Fights for Our Right to Pay 5% Fund Fees

Ben Steverman, Bloomberg, 6/5/14

“...Too many Americans are still steered into financial products that are far more profitable for salespeople than for clients, and pay high fees and commissions. With basically anyone able to assume the ‘financial adviser’ title, whether at a brokerage or an independent firm, many investors remain baffled about whom they can trust.

“Yet many major financial players appear more intent on lobbying lawmakers to maintain the status quo than changing the way investors are treated. A strong fiduciary rule, requiring all advisers to put clients’ interests first, would help investors navigate an increasingly complex financial landscape. After years of opposition by Sifma and other industry groups, late last month the Department of Labor once again quietly delayed re-proposing that rule until January 2015. That came after previous fiduciary rules were stalled several times by the department and the Securities and Exchange Commission...”

Support Eroding for U.S. Money Funds Rule as SEC's White Pushes Vote

Dave Michaels, Bloomberg, 6/13/14

“One year after the U.S. Securities and Exchange Commission proposed new protections for money-market mutual funds, support is eroding for the agency’s plan to rein in the riskiest of them. In recent days, two of the agency’s five commissioners have voiced objections to parts of the proposal, with one member arguing the plan goes too far and the other saying it may create new risks. The dissent has raised the possibility that a vote on the proposal, currently targeted for late July, could be delayed further.

“The SEC is under growing pressure from the Federal Reserve and other U.S. and global regulators to make money funds - which manage more than \$2 trillion in savings by individuals and institutions - less vulnerable to investor runs.

“SEC Chair Mary Jo White continues to push for a vote. In a speech to an industry group last month, she said the proposal remains ‘front and center’ and the commission will vote in the ‘very near term.’”

Sen. Brown to SEC: Stop Giving Banks a Pass on Wrongdoing

Andrew Ackerman, Wall St. Journal, 6/13/14

“A key Senate Democrat is criticizing the Securities and Exchange Commission for granting special waivers and reprieves to financial firms involved in significant misconduct. Sen. Sherrod Brown (D., Ohio) said SEC waivers have become “the rule rather than the exception,” citing two recent cases involving [Credit Suisse Group](#) and [Royal Bank of Scotland Group](#) that allowed both firms to receive reprieves or special treatment for their U.S. operations that would have otherwise been crimped because of illegal conduct elsewhere at the firms.

“Removing privileges enjoyed by large firms will promote better behavior, increase accountability, and demonstrate to the financial markets that certain firms do not enjoy special treatment by virtue of their size,’ Mr. Brown wrote in a letter to SEC Chairman [Mary Jo White](#) Friday.”

SEC Commissioner Kara Stein Declares War on SEC Chair Mary Jo White

Yves Smith, Naked Capitalism, 6/13/14

“A relatively new SEC Commissioner, Kara Stein, has decided to depart from the usual polite behavior regulatory overseers and is making noise about SEC decisions and policies that she finds to be dubious...”

“Stein has called out numerous SEC failures of nerve in her brief tenure as commissioner. For instance, in April she issued [a withering dissent](#) on the SEC’s waiver of having Royal Bank of Scotland lose its status as a ‘well-known seasoned issuer’ as provided in both legislation and SEC rules, when it was convicted for interest rate manipulation. This standing is valuable because, among other things, it allows securities issues to float offerings at will, rather than wait for the SEC to review and approve their offering documents...”

Brokers Need More Capital for Crisis, SEC’s Stein Says

Dave Michaels, Bloomberg, 6/13/14

“The biggest Wall Street brokerages should face stricter capital requirements as regulators search for tools to limit the impact of a firm’s failure on the broader financial system, a member of the U.S. Securities and Exchange Commission said.

“The agency should update its capital rules for large broker-dealers such as those owned by [Goldman Sachs Group Inc. \(GS\)](#), [JPMorgan Chase & Co. \(JPM\)](#) and [Morgan Stanley \(MS\)](#) to help prevent a repeat of the 2008 financial crisis, when similar firms became heavy users of the Federal Reserve’s emergency-lending facilities, Commissioner Kara M. Stein said yesterday. The SEC’s rules should better account for the risk posed by short-term funding markets on which brokers rely, Stein said... SEC Commissioner Daniel M. Gallagher also has called for updating the capital rules without restricting the use of secured funding such as repurchase agreements, or repos.”

'Dark Pools' Face New SEC Probe

Scott Patterson, Jean Eaglesham and Bradley Hope, Wall Street Journal, 6/9/14

“After years of unchecked growth in off-exchange trading, regulators are increasingly concerned that the level of activity in dark pools is harming investors. SEC Chairman Mary Jo White said in a speech Thursday that the agency is examining whether the

amount of trading in dark pools and other off-exchange trading venues ‘risks seriously undermining’ the quality of the U.S. stock market.”

[SEC in New Probe Into 'Dark Pools'](#)

Geoffrey Smith, Fortune, 6/10/14

[Dark Pools Take Larger Share of Trades Amid SEC Scrutiny](#)

Sam Mamudi, Bloomberg, 6/13/14

MORTGAGES, FORECLOSURES & HOUSING

[How House Democrats Are Caving on Key Mortgage Rules](#)

Zach Carter, Huffington Post, 6/9/14

“House Republican leaders Eric Cantor and John Boehner are about to secure the passage of a bill that chips away at consumer mortgage protections created by President Barack Obama's 2010 Wall Street reform bill. And they have Democrats to thank for it.

“The bill would allow mortgage companies to charge consumers higher fees for title insurance and other processing costs associated with a loan, while still qualifying for special perks the government gives to high-quality loans. Cantor expects to bring the bill to the floor on Monday under congressional rules for ‘non-controversial’ legislation, i.e., bills that are likely to pass with overwhelming support. The process requires a two-thirds vote for passage, rather than a simple majority, and prevents lawmakers from amending the legislation...

“As part of the new definition, the Consumer Financial Protection Bureau put a cap on the total upfront fees that mortgage companies can charge to consumers, setting the limit at 3 percent of the loan's value. The bill facing a vote Monday would exclude a host of common fees from that 3 percent calculation, effectively allowing companies to charge consumers more money, while still maintaining the regulatory perks of a QM loan.”

[Bank of America Mortgage Settlement Is Said to Be Deadlocked](#)

Jessica Silver-Greenberg, Ben Protess and Michael Corkery, New York Times, 6/10/14

“The talks stalled on Monday after the bank’s latest offer — more than \$12 billion to resolve state and federal investigations into its sale of mortgage investments that later imploded — fell far short of prosecutors’ demands, according to people briefed on the matter. The Justice Department, which had imposed a Monday evening deadline for the bank to deliver its near-final offer, has sought a settlement worth roughly \$17 billion, which would be the largest payout by any bank to date...

“For the Justice Department — Tony West, the department’s No. 3 official, is leading the negotiations — the sticking point is both the size of the settlement and the method of doling out the money. Bank of America wants to earmark a large chunk of the money for various forms of assistance to consumers rather than paying it in the form of a cash penalty, the people said. The Justice Department has also pushed for consumer relief, but also wants the bank to pay more in cash.”

[BofA Mortgage Talks Said to Stall as U.S. Prepares Suit](#)

Tom Schoenberg and Hugh Son, Bloomberg, 6/12/14

“The [Justice Department](#) broke off negotiations earlier this week because it was dissatisfied with the bank’s offer to pay more than \$12 billion, which included at least \$5 billion in consumer relief, according to the person, who asked not to be identified because the discussions are private.”

[Mortgage Settlement Could Be Just the Purge BofA Needs](#)

Kate Berry, American Banker, 6/6/14

[U.S. Tells Citi to Raise Mortgage Settlement Offer](#)

Devlin Barrett and Christina Rexrode, Wall St. Journal, 6/13/14

“The Justice Department has warned Citigroup Inc. that it plans to file a lawsuit as early as next week against the bank if the firm doesn't significantly raise its offer of less than \$4 billion to settle investigations into how the bank securitized mortgages, according to people familiar with the talks.

“The warning came in a Monday-night phone call between senior Justice Department officials and lawyers for the bank... The bank has offered less than \$4 billion to end the Justice Department's probe of how it packaged faulty mortgages into securities for investors in the run-up to the 2008 financial collapse, while the Justice Department is seeking a figure closer to \$10 billion...”

[A Second Chance to Help Families Save Their Homes](#)

Jennifer Taub, NY Times, 6/13/14

“It’s a familiar story. Regulator sues mortgage firms, demanding that they stop abusing homeowners facing foreclosure. This time, however, it’s different. The defendants in this case are not banks. Instead, they are the government-sponsored enterprises [Fannie Mae](#) and [Freddie Mac](#).

“Last week, the Massachusetts attorney general, Martha Coakley, [sued the mortgage giants](#) and their regulator and conservator, the Federal Housing Finance Agency. The complaint, filed in in Suffolk Superior Court on June 2, requests that they comply with a 2012 Massachusetts law called An Act Preventing Unlawful and Unnecessary Foreclosures.

“[The filing](#) alleges that the defendants are unlawfully blocking the sale of homes to altruistic entities like Boston Community Capital. This nonprofit organization buys homes in foreclosure for fair market value and sells them back to the former owners with a more affordable fixed-rate mortgage.”

[Western Asset Bespoke Mortgages Feeding Non-Agency Demand](#)

Alexis Leondis and Jody Shenn, Bloomberg, 6/9/14

“The bond firm, with \$469 billion in assets, will take on the role typically played by Wall Street banks, specifying to lenders the mortgages it wants them to make -- from interest-only to those with higher debt-to-income ratios -- then buying them. Other firms such as Caliber Home Loans Inc. are also seeking to capitalize on demand for loans that don’t meet requirements for taxpayer-backed programs or qualified mortgages, known as QM loans...”

[Foreclosures Skyrocket in Northeast, West Coast](#)

Trey Garrison, Housing Wire, 6/10/14

“Foreclosures of all types were filed on 109,824 residential properties in May, a 5% decrease from the previous month and a 26% decrease from May 2013, which brought it to the lowest monthly level since the early days of the housing bubble and crash in December 2006.

“The quick read – Northeastern and West Coast markets are having the most trouble with rising foreclosure activity, along with Chicago. The healthiest markets are in the flyover states, the sand states and the Sunbelt. Florida is still healing but still hurting.”

REVOLVING DOOR & POLITICAL POWER OF WALL STREET

[A Legislative Assault on the Financial Stability Oversight Council](#)

Stephen J. Lubben, New York Times, 6/10/14

“Two new bills are pending in the House that relate to the Financial Stability Oversight Council and its ability to designate which parts of the financial system are ‘too big to fail’ and thus in need of greater regulatory scrutiny. Both show how political the entire issue has become... But its real aim is clearly to muck up the workings of the council, which was created as part of the Dodd-Frank financial overhaul law.

The council is supposed to coordinate all the various federal regulatory agencies and has the power to decide which parts of the financial system need extra regulation. Those subject to extra regulation are also potentially subject to liquidation, should they fail, under the new Orderly Liquidation Authority of Title II of Dodd-Frank... In short, this bill is aimed at thwarting the council, at least until it can be removed altogether.”

STUDENT LOANS AND FOR-PROFIT SCHOOLS

[Buy a House or Pay Off College? \\$1.2 Trillion Student Debt Heats Up in Capital](#)

Janet Lorin, Bloomberg, 6/10/14

“President [Barack Obama](#) issued an executive order yesterday to expand a program easing student-loan payments. He also endorsed Warren’s bill, which would help former graduate students like Day, whose federal loans typically carry higher rates than those on undergraduate loans, with some as high as 8.5 percent.

“The bill, co-sponsored by Democratic senators including [Al Franken](#) of [Minnesota](#) and [Dick Durbin](#) of [Illinois](#), would be paid for by imposing new taxes on wealthy individuals. It would let borrowers refinance using 2013-2014 interest rates set for their type of loan. For example, someone who took out an undergraduate Stafford loan in the 2011-2012 year at a 6.8 percent [interest rate](#) could refinance at the 2013-2014 rate of 3.86 percent...”

Obama's Student Loan Program Has A Downside

Claire Zillman, Fortune, 6/10/14

“First, those 5 million borrowers that will gain access to lower loan payments under Pay As You Earn are already eligible for a similar, if slightly less generous, plan: a 15% cap on loan payments instead of a 10% one. In fact, all student loan borrowers qualify for some sort of income-based repayment program and few take advantage of these benefits. [According to the New York Fed](#), 1.7 million people were enrolled in government repayment plans that base payments on income in the fourth quarter of 2013—just 10% of all student loan borrowers. Monday’s executive order will do little to ease the burden of student loans if borrowers continue to ignore such programs...

“Then there’s always the chance that any upside from these initiatives will come at the expense of other federally funded programs, such as Pell Grants, which provide grant aid to low-income undergraduates based on need. ‘When the amount of money is limited, there will of course be some tradeoffs,’ says Matthew Chingos, a fellow at the Brown Center on Education Policy at the Brookings Institution.”

How Obama's Executive Order Helps Student Borrowers -- and Where It Falls Short

Maggie McGrath, Forbes, 6/9/14

Elizabeth Warren Student Loan Bill Stalls

Maggie Severns and Allie Grasgreen, Politico Pro, 6/11/14

“The Senate on Wednesday voted not to move forward on a bill from Sen. Elizabeth Warren that would have allowed an estimated 25 million people with older student loans to refinance that debt at current, lower interest rates. Democrats are vowing to keep the issue alive and bring it back for another airing this year.

“We’re not giving up,” Warren said at a press conference shortly after the vote, slamming Republicans for blocking the bill.

“Warren’s bill sparked a fierce debate in the Senate, where Republicans said [Democrats are cynically capitalizing on student loan debt](#) for election-year gains.”

Sallie Mae Spin-Off Registers to Lobby

Megan R. Wilson, The Hill, 6/10/14

“A controversial company vying for a billion-dollar Department of Education contract has registered to lobby, according to recently filed disclosure forms. Navient Solutions recently spun off from the student loan company Sallie Mae, taking over its loan servicing and collections business...

“Navient and Sallie Mae settled with the Department of Justice and the Federal Deposit Insurance Corporation to the tune of \$139 million last month, with neither admitting any wrongdoing. The Department of Education has a combined \$300 million in contracts with Navient already, but it announced in May that the company is in the running for a \$880 million contract with the department, according to federal records cited by media reports.”

For-Profit Schools are More Flexible & Convenient than Community Colleges, but can Land You in Debt Hell

Ashlee Kieler, Consumerist, 6/7/14

Elizabeth Warren Faces Right-Wing Stooge: Here's Who's Quietly Funding Her Top Critic

David Dayen, Salon, 6/11/14

“Since Sen. Warren entered public office last year, [Matthew] Chingos [of the Brookings Institution] has been one of her most persistent critics on higher education issues, calling her proposals ‘embarrassingly bad’ and ‘not as progressive as it seems.’ Chingos, with his affiliation with a centrist think tank, often gets cited in the media as an objective source in the student loan debate.

“However, it’s always worth following the money. And Chingos gives you that road map at [his own website](#), where he lists eight research grants he has received, totaling \$1.34 million in all, from several conservative organizations. This includes \$500,000 from the Lumina Foundation, which has close ties to Sallie Mae, the corporation that stands to lose the most from Sen. Warren’s refinancing bill.”

Research Agenda for For-Profits

Inside Higher Ed, 6/9/14

“The University of Southern California’s Pullias Center for Higher Education on Friday released a proposed [research agenda](#) on the for-profit sector. The five-page document grew out of a meeting the center hosted in April. The event featured five [papers](#) with different perspectives on for-profits, which sought to ‘move beyond hyperbole’ by confronting the competing narratives about the sector.

“The 30 participants from the April conference reached a consensus about a research agenda to address the most most pressing and fundamental policy questions about the scope, cost, quality and accessibility of for-profits. The resulting paper describes how to better track the performance of for-profits as well as changes that could improve their student outcomes. It also asks questions that seek to get at the differences between for-profits and traditional colleges.”

SYSTEMIC RISK

EU Weighs Scaled-Back Resolution Levies for Small Banks

Jim Brunsten and Birgit Jennen, Bloomberg, 6/12/14

OTHER TOPICS

What Cantor’s Fall Means to Financial World

Kevin Cirilli, The Hill, 6/10/14

“House Majority Leader Eric Cantor canceled a scheduled speech he was to give Wednesday morning before the National Association of Manufacturers, as policymakers scramble to sort through what his stunning political loss means for the financial sector.

“Cantor was expected to discuss a host of conservative policy initiatives at NAM's annual summit, but now he will be replaced by Sen. Chris Coons (D-Del.), according to a source familiar with the matter. No explanation was given by the source...”

Why Wall Street Will Mourn Eric Cantor (but not for long)

Jacob Davidson and Pat Regnier, Money, 6/11/14

“Few on Wall Street would welcome the prospect of the U.S. government defaulting on its debts, and another round of brinksmanship could cause major headaches for investors. The 2011 deadlock caused Standard and Poor's to downgrade the U.S.'s credit rating from triple-A status, and led to a [historic plunge](#) in the Dow. However, the debt ceiling does not come up again until March 2015.

“But on the big regulatory issues, such as the post-crisis Dodd-Frank law imposing new rules on banks, and the powers of the Consumer Financial Protection Bureau, not much has really changed. By and large, across the Tea-Party-to-Establishment spectrum, the GOP sings from the same hymn book—they want these White House-backed laws rolled back.”

Treasury's Miller, Who Led Volcker Rule Work, Stepping Down

Ian Katz, Bloomberg, 6/13/14

“[Mary Miller](#), the U.S. Treasury Department official who led implementation of new financial regulations including the Volcker rule, is leaving the department in early September...”

“Miller often coordinated the work of regulators implementing the Dodd-Frank financial overhaul law since 2010. She led officials from five U.S. agencies on the Volcker rule, which is intended to limit risks from proprietary trading at banks. The rule named for former Federal Reserve Chairman [Paul Volcker](#) was completed in December after three years of negotiations.

“In August 2011, Miller was at the center of a dispute in between the Obama administration and [Standard & Poor's](#) over the firm's first-ever downgrade of U.S. creditworthiness. Treasury officials found what they called a \$2 trillion ‘basic math error’ in S&P's explanation.”

In Tough Market, Investment Banks Seek Shelter or Get Out

Steven M. Davidoff, New York Times, 6/10/14

“The world of [Goldman Sachs](#), [Morgan Stanley](#) and the rest of the investment banks is being remade, squeezed by new regulations and record low volatility in the markets...”

“Banks are being affected not only by poor economic conditions, but also by the constraints placed upon them by the Dodd-Frank Act, Basel III and other regulatory changes. These new rules have restricted the ways investment banks can make money, as through proprietary trading, and more important, they have also imposed higher capital requirements.”