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## AMERICANS FOR FINANCIAL REFORM

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### THIS WEEK IN WALL STREET REFORM April 26 – May 2, 2014

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## ENFORCEMENT

### [Why Only One Top Banker Went to Jail for the Financial Crisis](#)

**Jesse Eisinger, New York Times, 4/30/14**

“Over the past year, I’ve interviewed Wall Street traders, bank executives, defense lawyers and dozens of current and former prosecutors to understand why the largest man-made economic catastrophe since the Depression resulted in the jailing of a single investment banker — one who happened to be several rungs from the corporate suite at a second-tier financial institution.

“Many assume that the federal authorities simply lacked the guts to go after powerful Wall Street bankers, but that obscures a far more complicated dynamic. During the past decade, the Justice Department suffered a series of corporate prosecutorial fiascos, which led to critical changes in how it approached white-collar crime. The department began to focus on reaching settlements rather than seeking prison sentences, which over time unintentionally deprived its ranks of the experience needed to win trials against the most formidable law firms.

“By the time Serageldin committed his crime, Justice Department leadership, as well as prosecutors in integral United States attorney’s offices, were de-emphasizing complicated financial cases — even neglecting clues that suggested that Lehman executives knew more than they were letting on about their bank’s liquidity problem. In the mid-’90s, white-collar prosecutions represented an average of 17.6 percent of all federal cases. In the three years ending in 2012, the share was 9.4 percent.”

### [Two Giant Banks, Seen as Immune, Become Targets](#)

**Ben Protess and Jessica Silver-Greenberg, NY Times, 4/29/14**

“Federal prosecutors are nearing criminal charges against some of the world’s biggest banks, according to lawyers briefed on the matter, a development that could produce the first guilty plea from a major bank in more than two decades. In doing so, prosecutors are confronting the popular belief that Wall Street institutions have grown so important to the economy that they cannot be charged...

“The new strategy underpins the decision to seek guilty pleas in two of the most advanced investigations: one into [Credit Suisse](#) for offering tax shelters to Americans, and the other against France’s largest bank, [BNP Paribas](#), over doing business with

countries like Sudan that the United States has blacklisted. The approach applies to American banks, though those investigations are at an earlier stage.”

### **[Credit Suisse, BNP Paribas Charges Said to Be Considered](#)**

**Tiffany Kary, David Voreacos and Greg Farrell, Bloomberg, 4/29/14**

### **[BNP Paribas Says U.S. Penalties May Top the \\$1.1 Billion It Set Aside](#)**

**Chad Bray, New York Times, 4/20/14**

### **[Bank of America Negotiating Multibillion-Dollar Settlement With Justice Department](#)**

**Danielle Douglas, Washington Post, 4/26/14**

“Bank of America’s legal battles may be nearing an end as it negotiates a multibillion-dollar settlement with the Justice Department to cover a range of probes, a deal that may surpass the [\\$13 billion that JPMorgan Chase](#) paid to the government last year, people familiar with the talks said Friday.”

### **[Doing the Math of a Bank of America Settlement](#)**

**Peter Eavis, New York Times, 4/28/14**

“The bank’s shares were down more than 2 percent on Friday, after a Bloomberg News report on Thursday suggested that the government was seeking [\\$13 billion in penalties](#), on top of \$9.5 billion that Bank of America agreed last month to pay to the Federal Housing Finance Agency. A combined \$22.5 billion payout would be far larger than the estimates of around \$16 billion that Wall Street analysts had reached after using JPMorgan Chase’s settlement with the government last year as a template...

“But anyone hoping for that outcome may be disappointed. To see why requires understanding each of the main components of a mortgage settlement led by the Justice Department.”

### **[U.K. LIBOR and Insider Trading Cases Threatened as Trial Halted](#)**

**Suzi Ring, Bloomberg, 5/1/14**

### **[3 More Former Barclays Employees Face Charges in Libor Inquiry](#)**

**Chad Bray, New York Times, 4/28/14**

### **[Ex-Barclays New York Traders Charged in U.K. Libor Probe](#)**

**Suzi Ring, Bloomberg, 4/28/14**

### **[Britain Bars Former UBS Senior Trader From Financial Industry](#)**

**Jenny Anderson, New York Times, 5/1/14**

## **CONSUMER FINANCE AND CFPB**

### **[New York State Makes New Efforts to Combat Payday Lenders](#)**

**Rachel Abrams, New York Times, 4/29/14**

“Payday lending, which is illegal in New York State, has managed to pop back up through online sites, Native American affiliations and, now, through the use of debit cards. In an effort to end what he sees as another way into borrowers’ accounts,

Benjamin M. Lawskey, New York State's top financial regulator, is sending cease-and-desist letters to 20 companies suspected of making illegal payday loans, 12 of which appear to use debit card information to do so.

"The New York Department of Financial Services and Gov. Andrew Cuomo's office on Tuesday also announced an agreement with Visa and MasterCard to provide information that could help both companies investigate illegal transactions within their networks. Both card processors have a policy of investigating suspicious activity and taking the appropriate steps to stop it."

### **'Operation Choke Point': Way Out of Control**

**William M. Isaac, American Banker, 4/22/14**

"The Justice Department's 'Operation Choke Point' is said to be targeted at online payday lenders that lend into states that prohibit payday lending. But the operation is being pushed far beyond its stated objective of targeting online payday lenders violating state laws and is having potentially devastating impact on lawful check cashing and small loan businesses. This in turn will cut off tens of millions of people from much needed access to money to meet emergency needs..."

See [response](#) from Rob Randhava of the Leadership Conference on Civil and Human Rights.

### **Banks Face Mounting Pressure to Police Morality**

**Video, American Banker, 4/29/14**

### **Bank, Credit Union Regulators Split Over Payday Loan Products**

**Rachel Witkowski, American Banker, 5/1/14**

"It's rare to see any financial regulator these days praise an institution for offering products similar to payday loans. But that's exactly what National Credit Union Administration Chairman Debbie Matz did last week when she commended a credit union in Ohio for offering small-dollar advances and other products for struggling depositors as it was seeking a significant charter expansion to reach 1.8 million people."

### **Banks Fight Proposed Ban of Remote Checks from Telemarketers**

**Kevin Wack, American Banker, 4/29/14**

### **House Panel Subpoenas CFPB Officials On Discrimination Claims**

**Peter Schroeder, The Hill, 4/29/14**

### **House Panel Votes to Subpoena CFPB Officials**

**Alan Zibel, Wall Street Journal, 4/29/14**

### **Bill Would Give CFPB Business Perspective It Lacks**

**Editorial, Investors Business Daily, 5/1/14**

## DERIVATIVES, COMMODITIES & THE CFTC

### [Global Swap Regulators Holding Closed-Door Talks With Industry](#)

**Silla Brush and Jim Brunsten, Bloomberg, 4/29/14**

“Regulators including the U.S. Commodity Futures Trading Commission and the [Hong Kong](#) Securities and Futures Commission met in [Washington](#) yesterday to discuss the cross-border reach of derivatives rules... The latest wrinkle arises from the rules that Dodd-Frank applies to trades in overseas affiliates that operate with the financial guarantee of their parent U.S. firm. Non-guaranteed affiliates are subject to less scrutiny than overseas branches or guaranteed affiliates, the agency said in July guidance.

“The largest swap dealers have been removing those guarantees from affiliates or specific transactions so they can trade with each other in the interdealer market without being subject to CFTC rules mandating price competition, according to three other people familiar with the transactions who also asked for anonymity.

”You could potentially use this to unravel big chunks of Dodd-Frank,” said Marcus Stanley, policy director for **Americans for Financial Reform**, a coalition that includes the AFL-CIO labor union. The CFTC should institute a default presumption that affiliates are guaranteed by their parent company unless a bank can prove otherwise, he said.”

### [Big U.S. Banks Make Swaps a Foreign Affair](#)

**Katy Burns, Wall Street Journal, 4/28/14**

“As regulators tighten rules on the U.S. swaps market, large American banks are maneuvering to take some of the business overseas. Banks including Bank of America Corp., Citigroup Inc., Goldman Sachs Group Inc., J.P. Morgan Chase & Co. and Morgan Stanley are changing the terms of some swap agreements made by their offshore units so they don't get caught by U.S. regulations, according to people with knowledge of the situation.

“The moves mean the U.S. parent bank is no longer the guarantor of some swaps issued by its foreign affiliate. Instead, any liability for those swaps lies solely with the offshore operation... Having swaps come under European oversight is more attractive because derivatives trading rules on the Continent aren't likely to be implemented until 2016 at the earliest, allowing the swaps mostly sold in London to be conducted in relative secrecy. Even then, some bankers anticipate the European rules won't be as strict.”

### [Banks' Overseas Swaps Moves Drawing CFTC Attention](#)

**Silla Brush and Jesse Hamilton, Bloomberg, 4/25/14**

“The banks' move is the latest step in Wall Street's efforts to curb the reach of CFTC rules designed to have most credit-default, interest-rate and other swaps traded on new platforms called swap-execution facilities. The venues are designed to boost competition and transparency in swap prices.”

### [U.S. Commodity Regulators Looking Into Banks' Swaps Move](#)

**Katy Burne and Andrew Ackerman, Wall Street Journal, 4/29/14**

### [Financial Watchdog Held Hostage For Gold](#)

**Daniel Wagner, Center for Public Integrity, 5/1/14**

“A key government agency that oversees financial derivatives could remain without a permanent leader until the man nominated to run it shows he plans to crack down on investment scams involving precious metals.

“Sen. Bill Nelson, D-Fla., said Wednesday that he will block the nomination of Timothy Massad to chair the Commodity Futures Trading Commission until they can have “a conversation” about the scams in which firms pressure investors, especially the elderly, to put their money in precious metals like gold and silver...”

### [CFTC Sets Dates for Putting Swap Package Trades on New Platforms](#)

**Silla Brush, Bloomberg, 5/1/14**

“The U.S. Commodity Futures Trading Commission moved to require more swaps starting this month to be bought and sold on new trading platforms designed to boost price competition between banks and other financial firms.

“The CFTC laid out deadlines starting May 16 for when package transactions including multiple swaps must occur on the swap-execution facilities operated by firms including ICAP Plc (IAP), GFI Group Inc. and Cie. Financiere Tradition SA. The agency said transactions that involve swaps and U.S. Treasury securities must meet the requirement on June 16, while other types of deals were given until mid-November.”

## **EXECUTIVE COMPENSATION**

### [The Man Pushing CEO Pay to the Stratosphere](#)

**Elliot Blair Smith, Fiscal Times, 4/29/14**

“[Ira] Kay — square-shouldered with small, round eyeglasses — is a managing director of New York-based Pay Governance LLC, which represents board compensation committees at one out of every 10 Standard & Poor’s 500 corporations. Were shareholders to envision one person to champion their interests, it might well be this son of a used-car salesman. Kay’s family struggled for money as he grew up in a lower middle-class neighborhood of Long Island. His Russian-immigrant grandfather sewed women’s dresses in a union shop for decades, and he dreamed of becoming a trade organizer, once he’d earned his Ph.D. in labor economics.

“Yet Kay is an unabashed proponent of blockbuster pay for management...”

### [Barclays Dealmaker McGee Quits as U.S. Head](#)

**Steve Slater, Reuters, 4/29/14**

“Hugh ‘Skip’ McGee, one of the British bank Barclays’ ([BARC.L](#)) highest earners, has quit as head of its Americas business, the bank saying he did not want to oversee the task of establishing a new holding company required under tougher U.S. rules.

“The departure of the former Lehman Brothers dealmaker coincides with pressure on Barclays Chief Executive Antony Jenkins to cut staff pay after shareholders last week rebelled against a decision to increase bonuses.”

## FEDERAL RESERVE

### [Senate Banking Clears Fed Picks](#)

**Peter Schroeder, The Hill, 4/29/14**

“A Senate panel on Tuesday easily approved three nominees from President Obama to serve on the Federal Reserve. By a voice vote, the Senate Banking Committee signed off on Stanley Fischer, Lael Brainard and Jerome Powell to serve on the Fed board. Their nominations now head to the full Senate.

“If confirmed, Fischer, who previously headed Israel’s central bank, would serve as the Fed’s vice chairman under Chairwoman Janet Yellen. Brainard would join the Fed as a governor, and Powell would receive a full 14-year term to the central bank after joining it in 2012.”

### [Reid Sees U.S. Senate Confirmation for Fed Nominees by June](#)

**Kathleen Hunter and Jeff Kearns, Bloomberg, 4/30/14**

### [Yellen Says Fed Seeking Smarter Oversight of Community Banks](#)

**Jeff Kearns and Michelle Jamrisko, Bloomberg, 5/1/14**

“Chair [Janet Yellen](#) said the [Federal Reserve](#) will tailor its supervision of community banks to reduce their regulatory burden, and that small lenders shouldn’t face the same sort of oversight as the biggest financial firms.”

### [Deutsche Bank Learns What Happens in Vegas Can Land at the Fed](#)

**Robert Schmidt, Bloomberg, 5/2/14**

“When [Deutsche Bank AG](#) foreclosed on a Las Vegas parcel in the depths of the 2008 crisis, it decided to double down. The bank spent \$4 billion on a hotel and casino with private terraces, high-end restaurants and a multi-level nightclub to create one of the Strip’s hottest destinations. One detail the bank didn’t account for when it opened the Cosmopolitan of Las Vegas: a labor dispute that has reached from Nevada into the bank’s dealings with the [Federal Reserve](#) in Washington.

“The tenacious union that represents the hotel’s culinary workers hasn’t stopped at the usual tactics of picketing, sit-ins and traffic blockades. It has lobbied the Fed to tighten oversight of Deutsche Bank and launched a website that among other things encourages bank insiders to report allegations of wrongdoing to regulators.”

## FINANCIAL TRANSACTION TAX & HIGH-FREQUENCY TRADING

### [EU Nations Seeking Transaction Levy Remain Stuck on What to Tax](#)

**Rebecca Christie, Bloomberg, 4/28/14**

“European Union nations that want a financial-transaction tax remain deadlocked on what trades they should include, as the clock runs down before next month’s European Parliament elections.

“The 11 participating countries remain divided on whether to tax all derivatives, only equity derivatives or no derivatives at all, EU documents show. Finance ministers from

[Germany](#), [France](#), [Italy](#) and Spain, as well as the U.K., which has opted out of the tax, meet in Paris today.

“Proponents of the FTT, led by France and Germany, are trying to reach an agreement before the election in a bid to woo voters. The governments are now debating a phased approach that could target a wider range of trades in future years.”

### **Citadel Says Lewis Book Tars Markets That Are Better Than Ever**

**Matthew Leising, Bloomberg, 4/29/14**

### **Excesses of High-Speed Trading Are a Direct Result of SEC Micromanagement**

**Bradley J. Bondi, Forbes, 4/29/14**

## **INVESTOR PROTECTION AND THE SEC**

### **SEC Commissioner Takes on 'Too Big to Bar'**

**Jonathan Weil, Bloomberg View, 4/29/14**

“[Kara Stein](#), one of the newest members of the Securities and Exchange Commission, has issued a must-read [public statement](#) explaining a dissenting vote she cast that goes to the heart of the debate over how to punish too-big-to-fail financial institutions that repeatedly break the law.

“Last week, per its usual practice, the SEC approved a [waiver](#) to let Royal Bank of Scotland Group Plc continue doing business as usual. It did so despite the recent [criminal conviction](#) of the bank's Japanese subsidiary for manipulating the London interbank offered rate, along with a deferred-prosecution agreement for the parent company, which paid a \$100 million fine. The SEC vote was 3-2, with dissenting votes by Stein and Commissioner [Luis Aguilar](#). At least on paper, fraud violations, whether criminal or civil, normally should result in the disqualification of companies as ‘well-known seasoned issuers,’ a designation that allows companies to speed up the process for registering their securities offerings. However, the SEC's [routine practice](#) over the years has been to [grant waivers](#).

“Stein, who joined the SEC last August, is fed up with this. ‘I fear that the commission’s action to waive our own automatic disqualification provisions arising from RBS’s criminal misconduct may have enshrined a new policy -- that some firms are just too big to bar,’ Stein wrote.”

### **U.S. SEC Official Slams Agency Over Deal Struck with RBS**

**Sarah N. Lynch, Reuters, 4/29/14**

### **Is It Time to Broaden the Definition of Insider Trading?**

**Peter J. Henning, New York Times, 4/28/14**

“William A. Ackman and Valeant Pharmaceuticals’ hostile bid for Allergan is giving the public a close look at how nonpublic information can be used without breaking insider trading rules... [A]s Mr. Ackman was quick to point out, knowledge of Valeant’s intentions came to him legally, and indeed for the very purpose of trading on it. He highlighted the legal advice of Robert S. Khuzami, the former director of enforcement at

the Securities and Exchange Commission, who gave the strategy a clean bill of health under the securities laws.

“And he is right that there was no illegal insider trading, even if confidential information was used to profit on the trade. The real test of determining illegal insider trading lies in establishing a breach of duty of trust and confidence by the trader.”

### **[SEC Fires First Shots Since 'Flash Boys' With NYSE Fine](#)**

**Sam Mamudi, Bloomberg, 5/2/14**

“The New York Stock Exchange’s \$4.5 million penalty for oversight violations represents the Securities and Exchange Commission’s first salvo since [Michael Lewis](#) reignited scrutiny of market structure...

“NYSE, which was bought by [IntercontinentalExchange Group Inc. \(ICE\)](#) last year, agreed to settle allegations that it failed to formulate or ignored [rules](#) governing everything from how traders connect computers to when prices are disseminated to floor brokers. It’s only the fifth time the SEC has imposed a monetary punishment on a U.S. exchange.”

### **[SEC Chief: 'The Markets Are Not Rigged'](#)**

**Peter Schroeder, The Hill, 4/29/14**

“The head of the Securities and Exchange Commission on Tuesday pushed back against a new book that claims the financial markets are ‘rigged’ by high-frequency traders. ‘The markets are not rigged,’ SEC Chairwoman Mary Jo White told the House Financial Services Committee. ‘The U.S. markets are the strongest and most reliable in the world.’

“White assured lawmakers that high-tech trading practices are not giving investors an unfair edge, and said the SEC is closely examining the trades for potential problems.”

### **[Bogus Fund Fees Cited by SEC's White in Push to Boost Budget](#)**

**Dave Michaels, Bloomberg, 4/29/14**

“[Hedge funds](#) and private-equity firms have created bogus service providers to boost fees they charge to portfolio companies and investors, U.S. Securities and Exchange Commission Chair Mary Jo White told lawmakers.

“Private funds also have mis-assigned some fees and expenses to companies in which they hold stakes, White said today at a House Financial Services Committee hearing on her agency’s 2015 budget request. More than half of about 400 private-equity firms examined by SEC staff inflate fees and expenses charged to companies in which they hold stakes, according to a person familiar with the matter.”

### **[SEC Chair: We've Found 'Bogus' Private Equity and Hedge Fund Fees](#)**

**Dan Primack, Fortune, 4/29/14**

### **[Northern Trust Reports SEC Subpoena on Securities Lending](#)**

**Christopher Condon, Bloomberg, 4/29/14**

### **[Labor Department Proposal Could Limit Choice For Retirement Investors](#)**

**Kenneth Bentsen, The Hill, 4/30/14**

## **MORTGAGES, FORECLOSURES & HOUSING**

### **Big Banks Erred Widely on Troubled Mortgages, U.S. Regulator Confirms**

**Michael Corkery, New York Times, 4/30/14**

“The latest analysis found that at least 9 percent of the errors discovered in the review involved banks improperly denying loan modifications that would have prevented foreclosures. The report also found that more than half of the errors related to administrative flaws and improper fees charged to homeowners during the foreclosures process.”

### **Senators Express Concern on Reverse Mortgage Rules**

**Rachel Abrams, New York Times, 4/30/14**

“[Charles] Schumer, Democrat of New York, and [Barbara] Boxer, Democrat of California, said they were disturbed to read that ‘an increasing number of heirs are facing foreclosure on their homes after receiving inaccurate and confusing information on their options following a reverse mortgage borrower’s death.’”

“Reverse mortgages allow borrowers age 62 and older to borrow against the future value of their home, and do not need to be paid back until the borrower moves or dies. Should the borrower die, heirs are entitled to 30 days to decide what they want to do with the property, and have up to six months to put financing in place. They are also entitled to satisfy reverse mortgages by paying 95 percent of the value of the home when the loan becomes due.”

### **Slow Going on Overhaul of Mortgage Finance**

**Shaila Dewan, New York Times, 4/29/14**

“The Senate effort is supposed to limit taxpayer exposure by dismantling the two companies and offering government backing that would kick in only after the private sector absorbed the first 10 percent of any mortgage losses. The bill would create a federal regulator, the Federal Mortgage Insurance Corporation, whose acronym, the policy wonks have decreed, would be pronounced ‘fimick.’ It would create a fund for low-income housing, as Fannie and Freddie were supposed to do, and would add incentives for mortgage guarantors to serve broad portions of the market, including low-income families, by charging them lower fees.”

### **Senators Delay Action on Fannie Mae Amid Democrats’ Rift**

**Cheyenne Hopkins and Clea Benson, Bloomberg, 4/30/14**

“Senators including Merkley, Chuck Schumer of [New York](#) and [Elizabeth Warren](#) of [Massachusetts](#) are seeking changes such as stronger protection for lending in disadvantaged communities and greater limits on the ability of large banks to dominate the origination and securitization of mortgages.

“Schumer is seeking automatic increases in the size of loans that qualify for government backing in high-cost areas including New York. Other senators are divided over the scope of a proposal by Kansas Republican Jerry Moran that would exempt some banks from scrutiny by the new regulator created by the bill, the Federal Mortgage Insurance Corp.”

### **Senate Banking Delays Housing Finance Markup For A Few Days**

**Vicki Needham & Peter Schroeder, The Hill, 4/29/14**

### **Wells Fargo Joins Lenders Lowering Credit Standards**

**Jody Shenn, Dakin Campbell and Kathleen M. Howley, Bloomberg, 5/1/14**

“Lenders are also relaxing requirements in response to a drop in demand for mortgages. In 2013, a surge in borrowing costs undercut the refinancing boom. Interest rates on 30-year fixed-rate mortgages rose from a record low of 3.31 percent in November 2012 to 4.58 percent in late August, according to Freddie Mac surveys. Rates fell last week to 4.33 percent...”

“Home prices that have risen 28 percent since a 10-year low in 2012 have also stymied lending, particularly to first-time buyers. Cash purchases mostly by investors have filled the void, accounting for 33 percent of sales in March compared with 12 percent in mid-2009, according to the National Association of Realtors.”

### **CFPB Tweaks Rules to Offer More Mortgage Credit**

**Benjamin Goad, The Hill, 4/30/14**

“The Consumer Financial Protection Bureau (CFPB) announced plans Wednesday to change the agency’s stringent new mortgage standards to allow borrowers more access to credit. A pair of tweaks to a slate of regulations [enacted in January](#) is designed to ensure nonprofits can continue offering mortgages to underserved populations and allows lenders greater leeway in meeting the government’s new definition of a ‘qualified mortgage’.”

### **Fannie Mae Would Need New Bailout in Downturn, FHFA Says**

**Clea Benson, Bloomberg, 5/1/14**

### **Stress Tests Forecast \$190 Billion in Losses at Fannie Mae, Freddie Mac in Severe Downturn**

**Nick Timiraos, Wall Street Journal, 5/1/14**

### **Soured Mortgages Attract Institutional Dollars**

**Matthew Goldstein, New York Times, 4/27/14**

“A Wall Street executive who helped [Goldman Sachs](#) make more than a billion dollars betting against mortgages now wants to buy up troubled home loans. Donald R. Mullen Jr., who was the architect of Goldman’s trade against the housing market just before the financial crisis, is seeking to raise as much as \$1 billion for a new fund...”

“RealtyTrac, a firm that monitors housing sales and foreclosures, reports that in February, institutional investors accounted for 5.9 percent of single-family home purchases in the United States, down from 8.22 percent in January 2013, when institutional buying of homes was at its most feverish.”

### **Funds for Troubled Mortgages Are on the Rise**

**Matthew Goldstein, New York Times, 4/30/14**

### [Mortgage Whistleblower Stands Alone as U.S. Won't Join Lawsuit](#)

**Jef Feeley and David McLaughlin, Bloomberg, 4/28/14**

“Two years after Lynn Szymoniak helped the U.S. recover \$95 million from [Bank of America Corp.](#) and other lenders for mortgage-fraud tied to the housing bubble, the whistle-blower said the government is ignoring a chance to collect more money for identical claims against other banks.”

### [Principal Reductions in Mortgage Workouts are Essential to Reducing the Discriminatory Impact of Foreclosures](#)

**Barbara van Kerkhove and Ruhi Maker, Empire Justice Center, 4/7/14**

“Requiring mortgage servicers to do principal reductions – based on the true (i.e., reduced) value of homes in impacted areas – will help us get back on track by keeping more owners in their homes, reducing foreclosure-associated vacancies, stabilizing impacted neighborhoods, and thus reducing the disproportionate impact of foreclosures and foreclosure-related vacancies on African American and Latino homeowners and neighborhoods. Banks and servicers wouldn't be losing anything, they'd just be recognizing the lost value of their assets that had already occurred.

“True value assessments done in conjunction with principal reductions would result in a greater number of successful loan modifications and keep more owners from losing their homes. But to do *true* value assessments, the impact of higher *concentrations* of foreclosures must be taken into account...”

## **REVOLVING DOOR & POLITICAL POWER OF WALL STREET**

### [The Citigroup Clique](#)

**Elizabeth Warren, Politico, 4/29/14**

“In recent years, Wall Street institutions have exerted extraordinary influence in Washington's corridors of power, but Citi has risen above the others in exercising a tight grip over the Democratic Party's economic policymaking apparatus. Fischer, after all, is just the latest Citi alumnus to be tapped for a high-level government position. Starting with Robert Rubin – a former Citi CEO – three of the last four Treasury secretaries under Democratic presidents have had Citigroup affiliations before or after their Treasury service. (The fourth was offered, but declined, Citigroup's CEO position.) Directors of the National Economic Council and Office of Management and Budget, as well as our current U.S. trade representative, also have had strong ties to Citigroup...”

“Small, tight-knit groups consolidate their power through hiring. Too many people get jobs based on *who* they know – not *what* they know. And in too many cases, the group in power is confident that not just insiders, but *their* insiders, are best for the key jobs. The Citigroup clique has produced some effective public servants, but it has crowded out too many others who might have brought a different perspective to their service. It is bad for the country when so many top officials and advisers just happen to be part of their small club and so many others happen to be unqualified or the ‘wrong fit’.”

### [US Plutocracy and the Dodd-Frank Sausage Machine](#)

**JP Sottile, Consortium News, Truth Out, 4/27/14**

“During the first two years of a rulemaking process that [still isn't complete](#), logs [obtained by the Sunlight Foundation](#) showed that Goldman Sachs pleaded its case during 181

rulemaking chinwags. Jamie Dimon's JP Morgan Chase attended 175 meetings with regulators. Morgan Stanley sat in on 150 meetings. And Bank of America hung out with regulators 122 times.

"On the other side, the [Consumer Federation of America](#) aired their concerns at 34 meetings and [Americans for Financial Reform](#) sat at the conference table with well-heeled decision-makers just 32 times. Those first two years were crucial, since that's when [many of the rules](#) were written by the Department of the Treasury, the Fed and the Commodities Futures Trading Commission (CFTC).

"By 2013, a bevy of banks, private equity firms, law firms and trade associations were, according to [another Sunlight Foundation analysis](#), present at 90 percent of the Fed's meetings, at 82.7 percent of those held by the Treasury Department and at 74.8 percent of the meetings held at the CFTC. And 'pro-reform' groups? They were present at 13.7 percent of Treasury's get-togethers, at 3.3 percent of the Fed's meetings and reform advocates sat in on just 4.4 percent of the CFTC's meetings concerned with, among other things, the exotic financial instruments and dangerous derivatives trading that catalyzed the crash of 2008."

### [Key Justice Dept. Official Is Latest to Join Law Firm](#)

**Ben Protess, New York Times, 4/28/14**

"Covington, the firm where [Eric H. Holder Jr.](#) practiced law before becoming attorney general, will announce on Tuesday that Mythili Raman is the latest former senior Justice Department official to join its ranks. Ms. Raman, who will be a partner in Covington's white-collar crime and litigation practices, led the Justice Department's criminal division until last month.

"After departing the criminal division, where she oversaw investigations into some of the world's biggest banks, Ms. Raman followed a well-trod path to Covington. She is the fourth recent criminal division prosecutor to join Covington and the fifth senior official under Mr. Holder to do so. Lanny A. Breuer, her predecessor as chief of the criminal division, is now Covington's vice chairman."

## **STUDENT LOANS AND FOR-PROFIT SCHOOLS**

### [Troubling Student Loans](#)

**Editorial, New York Times, 4/28/14**

"College students who borrow from private lenders often assume that private and federal student loans work the same way. The two could not be more different..."

"Federal regulators clearly have a lot to do to address what amounts to a student loan crisis. (Total student indebtedness is now about \$1.2 trillion.) They can begin by preventing contracts that unfairly burden borrowers in the private market who owe \$150 billion. Terms should be clearly stated. Borrowers should be notified that their loans are at risk. And in no case should a borrower in good standing be shoved into default."

### [Tightening Rules on For-Profit Colleges](#)

**Editorial, Washington Post, 4/27/14**

“Rising student debt poses a serious problem, as do colleges that mislead students, take advantage of taxpayer-funded student aid or do a poor job of preparing students for work. But as much as we would like to believe that the Obama administration is serious about tackling these issues, we are troubled by [proposed regulations that target for-profit colleges](#) while largely letting the rest of higher education off the hook. The likeliest effect of the rule would be to make it more difficult for poor Americans to earn a secondary degree.”

“A [proposal unveiled last month by the Education Department](#) would cut off financial aid to career-oriented programs whose graduates have high student-loan debt relative to their incomes. This is the administration’s second attempt to impose the so-called gainful-employment rule. This measure was bitterly opposed by the for-profit education sector, which successfully sued to [block the first version](#) in 2012. The regulations, also criticized by both Democrats and Republicans in Congress, are now open for public comment.”

### [ITT Moves to Block Consumer Bureau Claim](#)

**Inside Higher Ed, 5/2/14**

### [Reining in the Predatory Nature of For-Profit Colleges](#)

**Sarah Ann Schade, Arizona Law Review,**

### [For-Profit Colleges Spend Big on Lobbyists to Fight Obama Regulation](#)

**David Halperin, Huffington Post, 4/28/14**

With the May 27 [deadline](#) approaching to submit comments to the U.S. Department of Education, big for-profit colleges are pulling out all the stops to gut the Obama Administration's proposed "gainful employment" rule, which is aimed at curbing predatory career training programs. Taking some of the \$33 billion a year they've been getting from taxpayers, the industry is spending big on lobbyists, with a continued heavy emphasis on hiring former Members of Congress and ex-Capitol Hill staffers. Buttressed by a steady flow of [campaign contributions](#) from the for-profit college industry to legislators, these lobbyists lean on their former Capitol Hill colleagues to lean on the White House to water down the rule, as [happened](#) in [2011](#) with a prior version of the regulation (which the industry then managed to get [thrown out entirely](#) by a federal judge).

### [For-Profit College Offers Students Pizza to Lobby Against Obama Regulation](#)

**David Halperin, Huffington Post, 4/28/14**

### [Your College Education Might Be A Better Investment For Goldman Sachs Than It Is For You](#)

**Ashley Kieler, The Consumerist, 4/24/14**

“While you may not know it from the amateurish quality of the for-profit college ads that litter daytime and late-night TV, many of these schools are owned by multibillion-dollar conglomerates offering big returns to their high-profile backers. ‘For-profit schools are

quite profitable, especially the larger schools like Phoenix or Corinthian,' Suzanne Martindale, a staff attorney for Consumers Union, tells Consumerist. 'To make money, all they need to do is enroll students — they get to keep the financial aid, including loans, which students are on the hook for later.'

"One successful for-profit education investor is finance giant Goldman Sachs. Following the collapse of the U.S. housing market, the firm saw a new investment opportunity in the form of a 43% stake in Education Management Corporation, the company behind schools like Brown Mackie College, Argosy University and The Art Institutes."

#### **Deputy Treasury Secretary Sarah Bloom Raskin Talks About Student Loan Debt Speech at U. of Md. Baltimore, Treasury Department, 4/29/14**

"An estimated 60 percent of undergraduates who received four-year degrees in 2012 finished with some student debt, as compared with 30 percent of graduates in 1993. These numbers also are affected by the type of school a student attends, whether it's a public community college, a private four-year school, or a for-profit school. The vast majority of student loans today are financed by the federal government. At private and for-profit schools, greater percentages of students rely on federal student loans to finance their education than at public colleges. For example, during the 2011-2012 school year, 17 percent of students attending public two-year schools took out federal loans, compared with 61 percent of those attending two-year, for-profit schools. In all, at the end of 2013, there were more than 40 million student loan recipients and approximately \$1.1 trillion in debt outstanding associated with federal student loan programs."

## **SYSTEMIC RISK**

#### **Volcker Rule Tweaked In Change To Dodd-Frank Cristina Marcos, The Hill, 4/29/14**

"Legislation to loosen the Volcker rule and allow banks to keep collateralized loan obligations (CLO) was easily approved by the House on Tuesday in a voice vote. The bill would allow banks to keep any collateralized loan obligations that were issued before 2015, even though the Dodd-Frank financial reform law prohibits banks from making such investments."

#### **House OKs Bill to Ease Volcker Curbs on CLOs, Give Banks More Time to Divest Rob Tricchinelli, Bloomberg BNA (paywalled), 4/29/14**

"Despite the bipartisan praise for the bill, it did not have unanimous support. 'Let's not think that somehow the Volcker rule has killed CLOs,' Rep. Michael Capuano (D-Mass.), one of the three no votes in committee, said. 'There will be no fire sale. There has been no fire sale. As we speak, the sale of CLOs is at a historic high.'

"Nonprofit such as Better Markets and **Americans for Financial Reform** have also opposed a CLO rollback, saying it would undermine the Volcker rule at the benefit of large banks, which dominate the CLO market. According to data compiled by Better Markets, three large banks account for 71 percent of all bank holdings of CLOs."

See [AFR letter](#) of April 29.

### [U.S. House Oks Bill To Exempt Some Securities From Volcker Rule](#)

**Emily Stephenson, Reuters, 4/29/14**

### [Leveraged Loans: CLO Issuance Hits Post-Meltdown Record \\$11.8B In April](#)

**Tim Cross, Forbes, 5/1/14**

### [JPMorgan Says Lender Curbs Daily Risk in Triparty Repos](#)

**Rick Green, Bloomberg, 4/28/14**

“[JPMorgan Chase & Co. \(JPM\)](#), one of two banks that dominate clearing in the \$1.8 trillion tri-party repurchase agreement market, said it curtailed daily credit risk that regulators blamed for fueling the 2008 financial crisis.

“All clients have been moved to a system that includes rolling settlement, simultaneous exchange of cash and collateral and creation of a secured committed clearance advance facility, JPMorgan said today in a statement. Collectively, the changes provide the bank with more protection against losses while reducing the need of Wall Street dealers for intraday loans.

“The [Federal Reserve](#) has been urging JPMorgan and [Bank of New York Mellon Corp.](#) to speed improvements in repo markets, which are used by the Fed’s primary dealers for short-term funding. The system neared collapse in 2008 amid the demise of Bear Stearns Cos. and Lehman Brothers Holdings Inc. Bankers had pledged to finish upgrades by 2016, prompting the Fed to say industry-led efforts were too slow.”

### [Bank of America Finds a Mistake: \\$4 Billion Less Capital](#)

**Peter Eavis and Michael Corkery, New York Times, 4/28/14**

### [What Bank of America’s Accounting Mistake Can Teach the Market](#)

**Mayra Rodríguez Valladares, New York Times, 4/30/14**

“Given the size and complexity of these big banks, there is no such thing as a small error. Bank of America’s accounting error led it to overstate its capital levels by \$4 billion.

“If Bank of America took five years to discover the true nature of its exposure to risk in structured products from Merrill Lynch, then what about the other big banks? Do they have strong enough management of their risks and good internal controls to detect accounting problems? Especially with structured products, it is worth analyzing whether the auditors — both internal and external — are getting enough information on how the banks value and measure their risks.”

### [Bill Unveiled to Shield Insurers from Dodd-Frank](#)

**Ben Weyl, CQ, 4/29/14**

“A bipartisan group of senators unveiled legislation Tuesday to shield insurance companies from bank-centric capital requirements under Dodd-Frank. The [new proposal](#) comes from Maine Republican Susan Collins, Ohio Democrat Sherrod Brown and Nebraska Republican Mike Johanns.

“Their bill would clarify that the Federal Reserve, when creating minimum capital requirements for systemically important financial institutions, is not required to include companies engaged in insurance activities overseen by state regulators.”

### **Bank of America Suspends Buyback and Dividend Increase**

**Michael Corkery, New York Times, 4/28/14**

“Bank of America said on Monday that it was suspending its share buyback program and a planned increase in its dividend after it discovered flaws in the information it submitted to the Federal Reserve as part of the stress test process.

In [a statement](#), the bank attributed the error to an incorrect adjustment related to the treatment of structured notes assumed in its acquisition of Merrill Lynch in 2009. As a result of the error, the bank said, its capital levels are lower than what it had disclosed to the Fed...

“Bank of America had planned to buy back \$4 billion in stock and raise its quarterly dividend to 5 cents a share from 1 cent. It said it would resubmit a capital action plan but warned that it would most likely be less than the one it was just required to suspend, suggesting that investors could expect a smaller dividend increase or stock repurchase plan.”

### **EU Stress Test Features Bond Rout, Eastern Europe Shock**

**Sonia Sirletti and Jeff Black, Bloomberg, 4/28/14**

### **Britain Outlines Stress Test for Its Banks**

**Jenny Anderson, New York Times, 4/29/14**

### **Deutsche Bank Attacks Basel Plan's Threat to Repo Market**

**Jim Brunsten, Bloomberg, 4/29/14**

## **OTHER TOPICS**

### **Top Clinton Aides Blew a Chance to Avert the Financial Crisis**

**Peter Coy and Silla Brush, Bloomberg, 5/1/14**

“The U.S. economy and the stock market were booming on April 21, 1998, when the heaviest hitters of the Clinton administration met to discuss a controversial topic: whether the government should regulate a profitable but risky corner of the financial markets. Treasury Secretary Robert Rubin, the former Goldman Sachs (**GS**) co-chairman, attended. So did his deputy, Larry Summers, and Alan Greenspan, chairman of the Federal Reserve. The meeting's odd woman out was Brooksley Born, the little-known chairwoman of a little-known agency, the Commodity Futures Trading Commission (CFTC), who exhorted her colleagues to consider regulating privately traded derivatives such as swaps contracts.

“It's no secret she lost. Her defeat that day left regulators not only powerless but clueless about the explosive growth in credit default swaps during the decade that followed, which allowed speculators to bet on an ever-rising housing market. The subsequent bust in 2008 caused the most devastating economic downturn since the Depression.

“Now nine pages of handwritten notes from that pivotal meeting have emerged, documenting for the first time what happened behind closed doors. Written by an unidentified person in small, neat script, they were released by the Clinton Library on

April 18, along with thousands of other pages of documents, but were largely overlooked in the media's scramble for tidbits about President Clinton, Vice President Al Gore, and Hillary Clinton."

### **[Spring Brings Thaw In Debate Over Changes To Dodd-Frank Law](#)**

**Peter Schroeder, The Hill, 5/1/14**

"Democrats pushed through a new system of regulations with virtually no Republican support in 2010, and for years rejected any changes to the law on the grounds that it would open the door to legislative sabotage by Wall Street and the big banks.

"But that's changing now, with critics of the law increasingly finding bipartisan support for minor and targeted changes..."

"Many do not expect Dodd-Frank to truly see changes until after the midterm elections. For one, control of the Senate is up for grabs and could alter how Dodd-Frank is handled. Furthermore, the House and Senate Banking panels have their hands full with a number of more pressing issues, including housing finance reform or reauthorization of the Terrorism Risk Insurance Program..."

### **[Is a Banking Ban The Answer?](#)**

**Paul Krugman, New York Times, 4/26/14**

"[Atif Mian and Amir Sufi](#) draw our attention to proposals to either mandate or create strong incentives for 100-percent reserve banking, coming from [Martin Wolf](#) and, more surprisingly, [John Cochrane](#). Equally surprising — at least to me — is that Cochrane seems more aware of the difficulties of the issue.

"The basic idea both writers share is that banks as we know them — institutions that issue promises to pay money on, or almost on, demand, while holding liquid assets that cover only a fraction of that potential demand — are inherently subject to runs, self-fulfilling losses of confidence. So they propose that we aim to eliminate such institutions; there would still be things we call banks, but they would simply be custodians of government-issued liquid assets.

"Wolf, unless I'm reading him wrong, seems to identify the whole issue with one particular form of short-term debt — bank deposits. This seems an oddly narrow view given the nature of the 2008 crisis, which involved very few runs on deposits but a massive run on shadow banking, especially repo — overnight lending that in a fundamental sense fulfilled the functions of deposit banking but also created the same kind of risks. Cochrane gets this, and calls for a 'Pigouvian tax' — i.e., the kind of tax economics textbooks tell us we should have on pollution — imposed on any form of 'run-prone short-term debt'."

### **[How Private Equity Firms Defraud Investors by Extracting 'Fees' From Their Portfolio Companies](#)**

**Eileen Appelbaum, Forbes, 4/29/14**

"Staff at the SEC has reviewed about 400 private equity funds. What did they learn? [According to Bloomberg](#), the SEC found that in about half the cases, general partners of the PE funds have collected fees and expenses from companies owned by the funds without telling the pension plans and other fund investors about the fees. In a civil case filed last month against one PE firm, the SEC charged that the firm collected

more than \$3 million in fees that it used for its own office and other expenses – money that should have been disclosed and shared with investors in the PE fund. Some 200 PE firms were found to have engaged in such abusive behaviors.”

### **U.S. Bank Regulator OCC Plans To Raise Fees For Banks**

**Emily Stephenson and Douwe Miedema**, Reuters, 4/28/14

“A top U.S. bank regulator on Monday proposed raising the fees big [banks](#) pay to fund the agency, as the burden and workload for bank supervisors increases after the financial crisis.”