

This Week in Wall Street Reform | Sept. 3–9, 2016

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CONSUMER FINANCE & THE CFPB

[Wells Fargo boots 5300 employees for creating accounts customers didn't ask for](#) | Washington Post

Wells Fargo agreed to pay the largest fine ever collected by the federal government's new consumer protection agency after an investigation found its staff opened more than 2 million fake checking, credit card and other accounts for customers in order to meet sales targets and earn bonuses. The bank, one of the largest in the country, said it has fired 5,300 over the last five years for the conduct.

The case exposes a potential vulnerability in the nation's banking system that has gone largely unrecognized. Banks have spent millions in recent years strengthening their security systems to fight cybercriminals seeking customer data and hackers attempting to exploit weaknesses in the financial world's online tapestry. But the Wells Fargo scheme is striking because those accused included thousands of ordinary workers inside one of the country's largest banks.

[Wells Fargo to Be Sanctioned for Allegedly Aggressive Sales Tactics](#) | Wall St. Journal

The Office of the Comptroller of the Currency, Consumer Financial Protection Bureau and Los Angeles City Attorney plan to announce the civil action and a related settlement Thursday, the people said. The amount of a fine or remedial actions that may result weren't immediately clear. Wells Fargo declined to comment on any discussions with regulators.

Regulators and prosecutors [have been investigating](#) whether Wells Fargo pushed employees too hard to meet sales goals while failing to do enough to prevent questionable behavior, The Wall Street Journal has previously reported. In May 2015, [the Los Angeles City Attorney filed suit](#), alleging the bank pressured its employees to commit fraudulent acts, including opening accounts for people that don't exist.

[Former Wells banker says pressure to sell products was 'living nightmare'](#) | Charlotte Observer

Julie Miller was working in Pennsylvania for Wachovia when Wells Fargo took over the Charlotte bank in 2008 and began changing more than the name on its branches.

Miller said she watched with dismay as Wells Fargo increased her branch's sales goals and lowered bonuses for meeting the new targets. The changes took place around 2011, when her branch converted to the Wells Fargo name, she said.

“It became a living nightmare,” said Miller, 52, who no longer works for Wells Fargo. “They almost doubled our goals and decreased our incentive pay. It drove me to drink.”

[Wells Fargo settlement over phony accounts raises questions about oversight](#) | Washington Post

Wells Fargo, the nation's largest bank, scrambled on Friday to contain the fallout from an investigation that found its employees set up 2 million fake accounts that customers didn't ask for to get bonuses. The bank took out full-page ads in some newspapers to apologize and promised to change the culture that allowed the scheme to fester.

But a Federal Reserve Board member, while not addressing the company's case specifically, said the banking industry at large isn't doing enough to prevent unethical behavior among its employees.

"What I have seen is that too many banks, instead of putting in place a comprehensive system for assuring that all their employees understand what is legal and ethical across the board, only respond when there is a particular problem," Fed Gov. Daniel Tarullo said in an interview with CNBC on Friday.

[Workers tell Wells Fargo horror stories](#) | CNN Money

Relentless pressure. Wildly unrealistic sales targets. Employees leaning on family members and friends to open unnecessary bank accounts.

That's how more than a dozen former Wells Fargo employees described the bank's culture to CNNMoney. Wells Fargo has been accused by federal regulators of [illegal activity on a stunning level](#). Authorities say employees at the bank secretly created millions of unauthorized bank and credit card accounts between 2011 and July 2015, allowing the bank to make more money in fees and meet internal sales targets.

[What Wells Fargo Customers Need to Know](#) | Wall St. Journal

[Wells Fargo Fined \\$185 Million for Fraudulently Opening Accounts](#) | NY Times

[Wells Fargo Just Made the Case For Elizabeth Warren's Bank Agency](#) | Huffington Post

[Wells Fargo Must Pay \\$185 Million After Opening Customer](#) | Slate

[Report Shows Huge Spike in Complaints from Banking Customers](#) | NBC News

American consumers continue to "experience problems" managing their accounts at banks and credit unions across the country, according to a new report from the [Consumer Financial Protection Bureau](#).

There are more than 200 million deposit accounts open nationwide — checking, savings and certificates of deposit. Since March 2012, the CFPB has handled approximately 94,000 complaints about these accounts.

[President Obama says to find a new business model](#) | Hill City (S. Dak.) Prevalier News (Carol Walker)

"If you're making that profit by trapping hard-working Americans into a vicious cycle of debt, you've got to find a new business model." - President Barack Obama.

On this point, I have to agree with the president. He's referring to payday loans, the short-term loans which charge \$300 or more in interest, require no credit check but require the borrower to sign a check or document giving the lender the ability to pull payment out of the borrower's account. Sometimes the borrower hands over the title to his or her car.

This is a blog post applauding Obama's statement against payday lending. The author also commends South Dakota for its efforts to regulate payday lending and encourages readers to vote against it on Election Day.

[North County Center Serves as Alternative to Payday Lenders](#) | KMOV-TV (St. Louis)

A non-profit, Reddough Money Center, in Pagedale, Missouri has recently opened as an alternative service to payday lending. Reddough only allows borrowers to take out a maximum of \$500 at a time, with a payback period of 4 to 6 months.

Advocates and local officials held a press conference in Los Angeles to support the CFPB's efforts to rein in payday lending abuses, including those that embroiled Rosa Barragan in years of debt.

[Strengthen rules against predatory lending: Where We Stand](#) | Orlando Sentinel

Florida's payday lending industry has tried to deflect its critics with semantics. When consumer advocates decry sky-high annual percentage rates of interest on payday loans, the industry retorts that its loans don't accrue interest and the fees on them are capped under a 2001 state law at \$10 per \$100 borrowed. However, because the loans are short-term — no more than 31 days; often just 14 — even the capped fees have the equivalent financial impact of paying exorbitant interest to borrow money.

The industry also points out that the 2001 law limits loans to \$500 and prevents borrowers from taking out more than one at a time. It argues Florida's law is "an effective model for the nation" in lieu of the proposed

federal regulations. But that self-serving judgment has been widely disputed by critics — more than 200 consumer and civil rights groups in the state, and CFPB Director [Richard Cordray](#), among others. Testifying before Congress earlier this year, Cordray pointed to typical APRs for payday loans in Florida of more than 300 percent and borrowers routinely taking out nine loans a year.

[Why the feds must regulate payday loans](#) | Arizona Daily Republic (editorial)

Rejecting this product was a 100-percent pro-family and conservative stand. So is Arizona's ban on payday lending. Yes, both limit free enterprise as well as consumer choices, as supporters of the short-term lending industry point out.

But the larger goal of helping families avoid a financial trap is in the best interest of local communities and the state. In the long run, family stability is good for business because financially healthy families support local businesses with their commerce.

This cannot happen if a family's income goes to interest and fees on a predatory loan.

[Payday loan complaints to UK watchdog more than triple](#) | Reuters

[Subprime Lender, Busy at State Level, Avoids Federal Scrutiny](#) | New York Times

[CFPB Enforcement Win Shows State Usury Limits Matter](#) | Center for Responsible Lending

In an action to enforce the Dodd-Frank Wall Street Reform and Consumer Protection Act, the CFPB filed the suit in 2013 against CashCall and its affiliates, which partnered with another company, WesternSky, and claimed that tribal law rather than state law applied to their loans. The federal court disagreed and dismissed CashCall's arguments.

In its ruling, the court notes that CashCall and Western Sky admit to making loans at rates that far exceed permissible usury limits in states such as in Arkansas, Colorado, Minnesota, New Hampshire, New York, and North Carolina. The court further notes that states "have expressed a fundamental public policy in protecting its citizens from usurious loans and unlicensed lenders by enacting statutes that render contracts that violate those policies void and/or uncollectible."

DERIVATIVES, COMMODITIES & THE CFTC

[Federal Reserve asks Congress to limit Wall Street merchant banking](#) | Reuters

U.S. lawmakers should repeal permission granted in 1999 for Goldman Sachs Group Inc (GS.N) and Morgan Stanley to conduct activities like storing and transporting physical commodities that other banks cannot do, the Fed said jointly with two other regulators...

In December 2014, Goldman sold its controversial Metro Metals warehousing unit to Swiss private equity group Reuben Brothers.

[Regulators Make New Push, and Goldman Could Take the Brunt](#) | Wall St. Journal

[SEC Rule to Limit Derivatives Alarms Industry](#) | Morning Consult

A Securities and Exchange Commission proposal to place caps on registered investment firms' exposures to derivatives is showing the hallmarks of a classic Washington battle — the industry is trying to tamp down advocacy groups' requests for broad regulations. Although the SEC hasn't announced its plans, lobbyists who have been watching the derivatives rule expect the agency to move forward in the coming months. Watchdog groups like Better Markets and **Americans for Financial Reform** have championed the proposal..."

EXECUTIVE PAY

[How Wall Street's CEO bonus loophole cost the US government \\$1bn](#) | The Guardian

Here's a figure that could have you reaching for an EpiPen, assuming you [can afford one](#): one billion dollars. That's how much additional revenue the Institute for Policy Studies calculates the federal government might

have collected over a four-year period if it weren't for a pesky loophole that allows US corporations to deduct performance-based compensation from what they have to pay in corporate taxes each year.

The [just-released study](#) comes amid the latest example of how basic salary on share price performance leads to bad decisions that have negative effects on society at large: Mylan, the drug company whose decision to hike the price of the lifesaving EpiPen has triggered a sky-high share price and a [massive pay day](#) for its CEO, Heather Bresch.

The IPS's report is the latest in a series devoted to excessive executive compensation and wealth inequality, the research firm takes aim at the loophole as it relates to Wall Street's banks

HEDGE FUNDS AND PRIVATE EQUITY FUNDS

[License to defraud](#) | The Hill (Jim Baker)

By a vote of 261-145, the House of Representatives today approved H.R. 5424 – the [Investment Advisers Modernization Act](#). This little-noticed and cryptically named piece of legislation would be a huge gift to the \$4 trillion private equity fund industry, but one that would put the rest of us at risk. It would “modernize” the private equity world by rolling back the clock and eliminating important elements of fund oversight and fraud protection.

H.R. 5424 would reduce the amount of information that private equity and hedge fund managers have to disclose either to investors or to the Securities and Exchange Commission (SEC). They don't disclose enough information as it is. But thanks to some modest requirements imposed on them by the Dodd-Frank Act, we know more now than we used to, and nothing we've learned so far has been reassuring.

[House Votes to Make Private Equity Life Easier Amid Fines](#) | Bloomberg

U.S. House lawmakers voted to relax oversight of the \$2.4 trillion private equity industry just as its biggest players face record fines.

Apollo Global Management LLC, Blackstone Group LP, KKR & Co. and others have been scrutinized by regulators and penalized in recent months for failing to reveal some fee practices to clients. Disclosures about those firms' holdings would be rolled back under the proposal, which was approved Friday in a 261-145 vote by the House of Representatives.

The legislation would “roll back the clock” to the years before private equity firms were subject to “elementary oversight measures that numerous documented abuses have shown to be necessary for investor protection,” the Consumer Federation of America and **Americans for Financial Reform** wrote in a joint [letter](#) in June. “It would act to return private funds to the shadows.”

[Private Equity tries to chip away at Dodd-Frank with House bill](#) | NY Times

“The bill's opponents — including [Rep. Maxine] Waters and the advocacy group **Americans for Financial Reform** — question why Congress would undo some restrictions on private equity just as the S.E.C. was identifying problems in the industry. In particular, the opponents have raised concerns about a provision that would reduce the amount of information that large private equity fund managers report to regulators...”

[Dangerous House Bill to Deregulate Private Equity Could Enable New Fraud](#) | AFR blog

[Private equity could regret scaling Capitol Hill](#) | Reuters (Gina Chon)

Buyout firms are on the front foot on Capitol Hill. They've successfully promoted legislation to roll back U.S. regulatory disclosures required under the post-crisis Dodd-Frank legislation, even as they settle cases over misleading investors. If the bill passes, however, there's a risk of repercussions...

Critics are starting to rally. The **Americans for Financial Reform** group, pension giant CalPERS, the AFL-CIO union and other influential groups oppose the bill. They say it would exploit investors and threaten retirement savings. Senator Elizabeth Warren has also panned the proposal and is positioned to fight against it when it reaches her chamber.

If the bill makes it through the Senate despite opposition, it could galvanize other efforts to rein in the buyout industry.

[House passes bill to curb private-equity rules](#) | Wall St. Journal

The legislation, which lacks a companion bill in the Senate and is opposed by the Obama administration, faces long odds of becoming law. Its likelihood of enactment hangs on the possibility of its provisions being added to a must-pass spending bill Congress often advances at the end of the year.

[California fee-transparency bill awaits governor's signature](#) | Wall St. Journal

A California bill requiring the state's pension funds to secure detailed fee disclosures from private-equity firms is awaiting the signature of Gov. Jerry Brown, in a sign of the mounting pressures the industry faces to become more transparent.

The bill, AB 2833, which requires public funds in the state to report how much they pay in annual fees, expenses and carried interest for each private-equity fund and hedge fund they back, received unanimous support in the state assembly. Gov. Brown has about a month to sign the bill into law.

[Which 35 House Dems Just Joined the GOP's Latest Attack on Dodd-Frank?](#) | Daily Kos

[House passes bill to ease stock sale disclosures](#) | The Hill

The House on Thursday passed a bill meant to ease capital access for small company stock sales, which Democrats fear would put investors at risk with limited information. The bill, approved 236-178 along party lines, combines three measures passed out of the House Financial Services Committee that would roll back Securities and Exchange Commission (SEC) disclosure and advertising regulations for companies with smaller stock offerings.

See [joint letter of opposition](#) to HR 5424.

MORTGAGES & HOUSING

[Caliber Home Loans Embraces Borrowers With Spotty Credit](#) | The New York Times

[U.S. House passes "slush funds" bill co-sponsored by Rep. Trent Franks](#)

Rep. Trent Franks (R-AZ) that would prevent the U.S. Department of Justice (DOJ), and all other government agencies, from requiring defendants to donate money to outside groups as part of their settlement agreements with the federal government.

The bill, H.R. 5063, the Stop Settlement Slush Funds Act of 2016, targets a loophole that allows settlement agreements reached with the Department of Justice to include payments to groups unaffected by the action being settled.

See [joint letter of opposition to HR 5063](#) from AFR and 16 allies, and letter from [Leadership Conference on Civil and Human Rights](#).

MUNICIPAL FINANCE

[Legislators and Community Leaders Meet With SEC](#) | Grass Roots Collaborative

On Friday, State Representative Andrade, Chicago Alderman Ramirez-Rosa, and community leaders met with Federal Securities and Exchange Commission Regional Director David A. Glockner, and asked that the SEC investigate predatory interest rate swap deals that have caused taxpayers to pay out billions of dollars to Wall Street banks.

"Right now we have Chicago students who are not getting the investment they deserve as a direct result of these interest rate swap deals," stated Alderman Rosa. "Chicago and CPS together lost \$1.4 billion after being sold these potentially fraudulent Wall Street gimmicks. I sincerely hope that the SEC will listen to us and do

what Mayor Emanuel refused to do by taking the necessary legal action to protect our students and our city's taxpayers.”

For years, Wall Street banks pitched cities and local governments on complicated financial deals called interest rate swaps promising big savings over simple loans. When their promises proved false, cities, states and school districts cut public services and vital programs in order to pay back Wall Street banks. These toxic swap deals contributed to budget shortfalls that led to schools closing in Chicago, water shutoffs in Baltimore, and devastating environmental and health issues in Los Angeles. These same bad deals also helped lead to the bankruptcy of Jefferson County, Alabama and Detroit, Michigan.

POLITICAL INFLUENCE OF WALL STREET

[Introducing the new sheriff of Wall Street](#) | Financial Times

The bad news, for Ms Warren's supporters, is that new laws will be hard to pass. The good news is that the existing laws, including Dodd-Frank and the SEC's governing legislation, already give future appointees all the authority they will need. What they do not believe they need is Wall Street experience. Marcus Stanley, policy director of the union-backed **Americans for Financial Reform...** speaks for many progressives in stating: "We are reversing the status quo of many decades."

REGULATION IN GENERAL

[Independent financial regulators shouldn't be subject to White House whims](#) | The Hill (former Sen. Carl Levin

As someone who has worked hard for better financial regulations, I am particularly concerned with proposals to subject rules by independent financial regulators, such as the Securities and Exchange Commission (SEC), to the political process of the Office of Management and Budget (or OMB, which is under the control of the White House).

To see how this might work, let's first consider the financial crisis of 2008-2009. In response, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which directed financial regulators to issue a host of rules to end Wall Street abuses and reduce financial risks. Now, six years after the law was passed, many of these rules haven't yet been adopted. Some have [never even been proposed](#). Some have been proposed, but [watered down and laden with loopholes and complexities](#) not intended by Congress. Others have been adopted, but are tied down in court challenges.

[OMB's Resource Management Offices and Agency Policy Control](#) | Eloise Pasachoff (blog)

The Office of Information and Regulatory Affairs (OIRA), part of the White House's Office of Management and Budget (OMB), is often called "the most important government office you've never heard of," for its vast but secretive oversight over agencies' regulations. Yet within OMB can be found an even lesser known but equally influential set of offices: the Resource Management Offices (RMOs), which together oversee the budget and related policy work of essentially the entire administrative state. These RMOs span five different policy areas: national security; natural resources; health; education, income maintenance, and labor; and "general government." About 200 employees work in the RMOs, as compared to the approximately 40 staff members who work in OIRA. The administrative law community ought to pay closer attention to the RMOs' role in the budget process and the way it serves as a mechanism for centralized control of agency policy choices.

RETIREMENT SECURITY & FIDUCIARY DUTY RULE

[Senators unveil bill to help small businesses offer retirement plans](#) | The Hill

STUDENT LOANS & FOR-PROFIT EDUCATION

[ITT Technical Institutes Shuts Down After 50 Years in Operation](#) | Washington Post

ITT Educational Services, one of the largest operators of for-profit technical schools, ended operations at all of its ITT Technical Institutes on Tuesday, citing government action to curtail the company's access to millions of dollars in federal loans and grants, a critical source of revenue. When the department announced the round of

restrictions, Education Secretary John B. King Jr. said that “looking at all of the risk factors, it’s clear that we need increased financial protection and that it simply would not be responsible or in the best interest of students to allow ITT to continue enrolling new students who rely on federal aid funds.”

[Everything ITT students need to know now](#) | Denver Post

The abrupt closure of ITT Technical Institutes on Tuesday left 35,000 students without degrees that many took on debt to complete. None of the options available to those students are simple and each comes with its own set of drawbacks...

“The best solution for students who are eligible is to take the closed-school discharge,” said Alexis Goldstein, senior policy analyst at **Americans for Financial Reform**. “ITT’s programs were over-priced for what students got in return, and many schools will not take the credits they earned at ITT anyway.”

[ITT Tech Students Should Take Their Money And Run, Experts Say](#) | NBCNews.com

“It’s best for folks to cut their losses,” Alexis Goldstein, a senior policy analyst at **Americans for Financial Reform**, told NBC News in a phone interview. She said students have had a lot of problems getting good schools to accept ITT Tech credits.

“Get that debt canceled and get that weight lifted,” said Goldstein. “Otherwise you might not be able to transfer that many credits — and still have to pay tens of thousands of dollars in loans to a school that no longer exists.”

[Students Still Have Options After ITT Tech Abruptly Closes](#) | Washington Post

“The best solution for students who are eligible is to take the closed-school discharge,” said Alexis Goldstein, senior policy analyst at **Americans for Financial Reform**. “ITT’s programs were over-priced for what students got in return, and many schools will not take the credits they earned at ITT anyway.”

[Late to the Fight Against Predator Schools](#) | NY Times (editorial)

The federal government’s failure over decades to regulate [for-profit colleges](#) freed the schools to prey on veterans, minorities and the poor by saddling students with crushing debt and giving them worthless degrees in return. This is all the more outrageous because the schools rely on the federal student aid system for virtually all of their revenue.

The Obama administration has taken steps to get these schools off the federal dole. But regulators need to intervene decisively — and as soon as possible — when evidence of fraudulent conduct emerges. They must also reach out to students who are entitled to have their loans forgiven when a school defrauds them or shuts down while they are enrolled.

See [AFR statement](#) on closing of ITT.

[For-profit colleges facing tough times](#) | San Diego Union Tribune

[Is the federal government trying to take down the for-profit college industry?](#) | Washington Post

[Student loans propped up failing for-profit schools](#) | The Herald (WA) (editorial)

[Curtain closes on ITT, a bad actor among for-profit colleges](#) | Kansas City Star (editorial)

[For-profit colleges have milked government, students for too long](#) | Kansas City Star (Mary Sanchez)

[Downfall of ITT Technical Institutes Was a Long Time in the Making](#) | NY Times

[With closure of ITT, make public colleges top priority: Where We Stand](#) | Orlando Sentinel (editorial)

[Community colleges making a play to recruit former ITT Tech students](#) | KPCC Radio (CA)

[What's next for ITT students and their half-billion dollars in debt?](#) | Indiana Business Journal

[Everything ITT students need to know now](#) | The Washington Post

[ITT Tech Students Should Take Their Money And Run, Experts Say](#) | NBC

[What's Next for ITT Tech's Students and Their Half a Billion in Debt?](#) | Bloomberg

[ITT closes: what it means for for-profit schools, their students, and taxpayers](#) | The Christian Science Monitor

[The End for ITT Tech](#) | Inside Higher Ed

[ITT Executives Have Only Themselves to Blame for the Company's Demise](#) | New America blog

[Why ITT Tech's closing leaves a big mess](#) | Marketplace

[Students left in lurch as for-profit college collapses](#) | San Francisco Chronicle

[ITT Educational Services closes its campuses](#) | Boston Globe

[ITT Tech shuts down all its schools; one student says he's 'angry times 10 million'](#) | Los Angeles Times

[ITT Technical Institute Shuts Down After Government Cut Off New Funding](#) | The Wall Street Journal

[For-profit schools shouldn't prey on low-income students](#) | Scottsbluff (Neb.) Star Herald

SYSTEMIC RISK

[Black Lives Matter wants Clinton to restore Glass-Steagall](#) | Washington Post (Maurice Weeks)

Groups involved with the Movement for Black Lives see it as a key way to advance economic racial justice... The absence of an impermeable boundary between commercial and investing functions both instigated and then accelerated the 2008 financial crisis, forcing millions to lose their homes and jobs...

Home ownership is one of the most stable and reliable ways to acquire wealth in America, and the massive loss of homes among black and brown communities during the 2008 crisis will take decades to recover from. A new Glass-Steagall would help prevent banks from getting bigger and riskier, stopping them from coming back to black and brown neighborhoods and destroying even more wealth.

OTHER TOPICS

[Creating conditions for sustainable financial management innovation](#) | The Hill (Blog, Dave Van Niekerk)

As is the case with any industry revolutionized by technology, the financial technology or FinTech sector, was initially faced with little regulation. Then came the inevitable question – would regulation level the playing field between the new technologically driven players in the sector and longstanding traditional finance institutions?

[Out of the SEC, Into the Whistleblower Industrial Complex](#) | Wall Street Journal

The former head of the Securities and Exchange Commission's whistleblower program is joining a law firm that represents those same tipsters—an unusual turn of the revolving door that highlights the potential profitability of legal work that didn't even exist a few years ago.

Government officials typically go into private practice to defend the companies they previously might have investigated. Sean McKessy, who left his post as the first chief of the SEC's Office of the Whistleblower in July, is taking the riskier path of the plaintiffs' bar by joining Washington-based Phillips & Cohen LLP.