AMERICANS FOR FINANCIAL REFORM

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THIS WEEK IN WALL STREET REFORM

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CFPB and Consumer Issues

Administration can't quell critics of Dodd-Frank
Josh Boak (Politico)
March 28, 2012

"So much for the administration's efforts to make peace with the U.S. Chamber of Commerce over Dodd-Frank. Leading Democrats, including CFPB head Richard Cordray went in front of the organization Wednesday as part of an all-day summit about the financial markets, but the host didn't seem to budge: U.S. Chamber president Tom Donohue called the bureau the 'mother of all regulators' with 'virtually unlimited power to effectively dictate what financial products can be offered and at what cost.' In other words, expect lawsuits challenging the financial reforms, soon and often. Other parts of Dodd-Frank like the Volcker Rule and attempts to police 'too big to fail' banks also got ripped at the sixth annual U.S. Chamber summit on capital markets. The expected basis of the lawsuits-based on a U.S. Court of Appeals ruling last summer on a case filed by the U.S. Chamber-is whether regulators conducted an adequate analysis of the costs and benefits before enforcing rules from Dodd-Frank. Groups like the U.S. Chamber say the price tags of the regulations would in some instances outweigh the benefits. Gary Gensler, the chairman of the Commodity Futures Trading Commission, also failed to sway the group with his pitch. By regulating Wall Street's most shadowy markets that companies use to hedge risk, the agency would save money for many of the U.S. Chamber's three million members." Click here for more.

Click here to read the prepared remarks by Richard Cordray and **click here** to read the prepared remarks by Gary Gensler.

CFPB guidelines too subjective, GOP says
Ruth Mantell (MarketWatch)
March 29, 2012

"The rules for monitoring the financial products used by consumers are too subjective, Republican U.S. lawmakers said Thursday at a hearing with the recently appointed director of the federal government's new watchdog. The Consumer Financial Protection Bureau, created by a larger financial-overhaul law, is charged with protecting individuals from unfair, deceptive, or abusive acts and practices, among other directives. But this standard is too vague, charged Rep. Spencer Bachus, a Republican of Alabama and chairman of the U.S. House Committee on Financial Services. For example, he said, consumers have different levels of financial knowledge. 'In some cases, the ability of a consumer to understand' could determine whether a product is below the CFPB's standard, Bachus told Richard Cordray, the CFPB's director. Click here for more.

Click here to view/read testimony from the hearing entitled "The Semi-Annual Report of the Consumer Financial Protection Bureau."

U.S. Agency Seeks Tougher Consumer Privacy Rules
Tanzina Vega and Edward Wyatt (NYT)
March 26, 2012

"The government's chief consumer protection agency said on Monday that it intended to take direct aim at the vast industry that has grown up around the buying and selling of information about American consumers. The agency, the Federal Trade Commission, called on Congress to enact legislation regulating so-called data brokers, which compile and trade a wide range of personal and financial data about millions of consumers from online and offline sources. The legislation would give consumers access to information collected about them and allow them to correct and update such data. The agency also sent a cautionary signal to technology and advertising companies regarding a 'Do Not Track' mechanism that allows consumers to opt out of having their online behavior monitored and shared. It warned that if companies did not voluntarily provide a satisfactory Do Not Track option, it would support additional laws that mandate it." Click here for more.

Two GOP Senators Block Bank-Confidentiality Bill
Victoria McGrane (WSJ –subscription required)
March 29, 2012

"Two Senate Republicans are blocking quick passage of a bill aimed at calming banks' fears about turning over sensitive legal documents to a new consumer watchdog agency. The bipartisan bill would ensure that confidential legal documents that banks hand over to the new Consumer Financial Protection Bureau would remain confidential. Banks fear that without the legislation trial attorneys and other third parties could use the documents against banks in lawsuits. The House passed the legislation on Monday by voice vote, and Senate Democrats hoped they could easily pass the same bill this week without a roll-call vote. But two Republican senators, who objected to a similar move in February, still refuse to acquiesce because they want to be able to offer amendments seeking changes to the Dodd-Frank financial-overhaul law, said one aide. The lawmakers blocking the legislation haven't identified themselves in public. Any senator can object to a vote on legislation or a nominee, potentially forcing a supermajority vote to overcome the objection. The standoff leaves the measure stalled and its fate uncertain." Click here for more.

Consumer Financial Protection Bureau files amicus brief in truth in lending case
CFPB press release
March 27, 2012

"The Consumer Financial Protection Bureau (CFPB) has filed an amicus brief in the United States Court of Appeals for the Tenth Circuit in Denver, Colo., arguing that certain borrowers who did not receive important disclosures mandated by the Truth in Lending Act (TILA) may cancel their loans so long as they notify the lender of their intent to cancel within three years. 'We are committed to making sure that borrowers can exercise their rights to the full extent allowed under this law,' said CFPB Director Richard Cordray. 'The consumer's right to cancel gives lenders a powerful incentive to provide the disclosures that consumers need to make good financial choices.' The amicus—or "friend of the court"—brief can be found here."

Joe Nocera: Government's Not Dead Yet
Joe Nocera (NYT column)
March 26, 2012

"I met up recently with my old mentor, Charlie Peters, the founder, editor and driving force behind The Washington Monthly, where I worked in the late-1970s. Charlie is a supreme idealist who believes deeply in the good that government can do. He saw it growing up with Roosevelt's New Deal and then again as a member of Sargent Shriver's Peace Corps, where he served as the agency's first director of evaluation. Now 85, Charlie still believes that that government can make a difference in people's lives. Knowing that many Americans have turned against this idea, he is writing a book 'to give evidence that it has happened — and to show it can happen again,' he told me. The New Deal and the Great Society were eras when 'money was not the driving force in choosing a career,' he said. 'Passion was. People wanted to be able to do something about the country's most pressing problems — and government was the place to do that.'" As Charlie spoke, it occurred to me that there is one agency in today's government where you can still see that passion: the Consumer Financial Protection Bureau. Last week, I went to Washington to spend some time with some of the bureau's new employees." Click here for more.

Michelle Singletary: Improving your financial literacy is a good investment
Michelle Singletary (Washington Post column)
March 27, 2012

"Survey after survey continues to conclude that consumers don't have a good grasp of personal finance issues. There are good intentions behind these surveys. Their purpose is to find out how to create financial literacy programs to help people understand the importance of saving and investing, the devastating results of taking on too much debt, and how to avoid becoming a victim of fraud. Tax returns are a treasure trove of information for identity thieves. In fact, April has been designated as National Financial Literacy Month. Last year, in a proclamation about setting some time aside to learn more about your finances, President Obama said: 'As we recover from the worst economic crisis in generations, it is more important than ever to be knowledgeable about the consequences of our financial decisions. . . . The financial crisis was fueled by a lack of responsibility from Wall Street to Washington. It devastated ordinary Americans, many of whom were caught by hidden fees and penalties or saddled with loans they could not afford. Preventing a recurrence will require both better behavior and oversight on Wall Street and more informed decision-making on Main Street

and in homes across our country.' In other words, they — the bankers — did some awful things, but individuals have to ultimately take personal responsibility for their financial decisions. Do you have any plans to observe National Financial Literacy Month? If not, I suggest you go to the Consumer Financial Protection Bureau Web site at www.ConsumerFinance.gov and take the agency up on its "ask us anything" new feature. It's an interactive online tool that allows you to submit financial questions, from credit cards to debt collection to reverse mortgages." Click here for more.

Senate committee takes its turn on m-payments
James Wester (Mobile Payments Today)
March 29, 2012

"Mobile payments continues to get a critical eye from U.S. legislators. Last week a House subcommittee held a hearing on the topic. This week it was the upper house's turn. On Thursday, the Senate Committee on Banking, Housing and Urban Affairs convened a hearing entitled 'Developing the Framework for Safe and Efficient Mobile Payments' at the Dirksen Senate Office Building. The U.S. Senate Committee on Banking, Housing and Urban Affairs has jurisdiction over banking, insurance, financial markets and securities. Witnesses called before the committee included Sandra F. Braunstein, the director of the Division of Consumer and Community Affairs (DCCA) of the Board of Governors of the Federal Reserve System, and Kenneth C. Montgomery, first vice president and COO of the Federal Reserve Bank of Boston. In his opening remarks, committee Chairman Tim Johnson (D-SD) said the hearing represented an opportunity for the committee to learn about the growth of mobile payments and the current framework of rules this market operates under. He said that as the committee's jurisdiction extends over all financial services and payment systems, the committee needs to ensure there are no gaps in the rules and that the mobile payment market is safe and efficient." Click here for more.

Click here to view/read testimony from the hearing entitled "Developing the Framework for Safe and Efficient Mobile Payments."

Consumer Reports: Prepaid debit cards booming, but beware
Consumer Reports press release
March 29, 2012

"A new Consumer Reports analysis of prepaid cards has found that although fees are beginning to come down, they aren't always disclosed upfront. Moreover, prepaid cards offer weaker consumer protections than those provided by traditional debit cards linked to bank checking accounts. Marketed as alternatives to credit cards and bank debit cards, prepaid cards appeal primarily to consumers who may not qualify for or feel comfortable using bank accounts or credit cards. Bearing familiar logos like Visa, MasterCard, or Discover, the cards can be used to make purchases in stores and online, receive direct deposits, pay bills online, and obtain cash at an ATM. However, in an analysis issued today, Consumer Reports found that the cards lack the guaranteed protections we take for granted with debit and credit cards, including what happens if your card is lost or stolen or used for unauthorized transactions or if the bank behind it fails. What's more, prepaid cards are often loaded with fees, many of which aren't disclosed at the point of sale." Click here for more.

New credit union fosters hope
Cori Anne Natoli (News Journal – Delaware) CORI ANNE NATOLI
March 17, 2012

*"Seven years and 11 pairs of scissors later, the ribbon across a Wilmington East Side credit union door was cut in unison Friday by state and local officials, marking a grand opening and ray of hope for the city's lower-income residents. 'This growth is because of every single one of you," an animated and overjoyed Rashmi Rangan, **Delaware Community Reinvestment Action Council** executive director, told partners, officials and community members who helped DCRAC realize the dream of building a credit union. Stepping Stones Community Federal Credit Union is designed to provide access to credit for low-income 'Delawareans who live, work, worship' or attend school in Wilmington." Click here for more.*

More coverage: WHYY's Newsworks, News Journal editorial on Stepping Stones, Ribbon cutting for Stepping Stones Community Federal Credit Union, and Channel 6 ABC.

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Shadow Markets and Systemic Risk

AFR Letter to the House: Oppose HR 2779 & HR 2682

Click here to view the letter opposing HR 2779 and HR 2682 went to the House These bills are inaccurately being presented as 'technical amendments' necessary to correct minor issues in the Dodd-Frank Act. Both proposed bills are unnecessary and potentially harmful attempts to micromanage the work of regulators in implementing the Dodd-Frank Act.

House Votes Overwhelmingly to Ease Financial Rules
Alan Fram (AP)
March 27, 2012

*"To the chagrin of consumer groups, the House gave overwhelming bipartisan approval Monday to two bills easing requirements that President Barack Obama's overhaul of financial regulations impose on some exotic financial instruments blamed for helping trigger the 2008 financial crisis. …Consumer advocates said the two bills could lead to abuses. For example, the bill addressing transactions between related companies refers to swaps between 'affiliates.' Marcus Stanley, policy director for **Americans for Financial Reform**, said he worried that corporate lawyers would try broadening the use of that term to include more and more companies. 'It's ridiculous to put this broad exemption into statute,' Stanley said. Bartlett Naylor, financial policy advocate for **Public Citizen**, blamed the upcoming congressional elections. 'Unfortunately in an election year, the default position in my opinion is to curry favor with your major source of funding,' Naylor said." Click here for more.*

Is Dodd-Frank being rolled back while no one is looking?
Suzy Khimm (Washington Post)
March 28, 2012

*"It's par for the course for the GOP-controlled House to pass bills that few people notice and that ultimately go nowhere. But it's rare for legislators to join hands across the aisle to roll back parts of President Obama's signature legislative achievements. That's what happened on Monday, when the House passed two little-noticed bills that changed the derivatives rules under the Dodd-Frank Act. … But critics of the bills, like **Americans for Financial Reform**, believe that the legislation could make substantive changes to Dodd-Frank that would increase risk and instability in the marketplace. By exempting end-users from margin requirements, corporations and Main Street firms could make bigger, riskier trades using derivative swaps, as they won't be required to have cash reserves on hand in case the deals went bad. 'This can cause a liquidity crisis at the very time that the company is most vulnerable, resulting in a death spiral,' Wallace Turbeville, a former Goldman Sachs vice president who now advocates market reform, wrote in 2010 during the Dodd-Frank debate." Click here for more.*

NYT editorial: A Long Road to Regulating Derivatives
NYT editorial
March 24, 2012

"If there is one lesson from the financial crisis that should be indelible, it is that unregulated derivatives are prone to catastrophic failure. And yet, nearly four years after the crash, and nearly two years since the passage of the Dodd-Frank law, the multitrillion-dollar derivatives market is still dominated by a handful of big banks, and regulation is a slow work in progress. That means Americans, and the economy, remain at risk. Properly regulated, derivatives — financial instruments that hedge risk — help to stabilize the economy. Unregulated, they are all too easily converted into tools for vast speculation, as demonstrated by their role in inflating the real estate bubble, amplifying the bust and provoking the bailouts. Unreformed, they will cause havoc again. …Unfortunately, in today's political environment, even absurd arguments have the power to delay or derail vital reforms. Republican lawmakers, with some Democratic support, have proposed legislation to roll back the rules on open trading even before regulators have finalized them. Rules that have been finalized are increasingly subject to protracted legal challenges by the financial industry. And regulators are routinely reduced to pleading with Congressional appropriators for chump change to carry out their duties. It is up to President Obama, who takes credit on the campaign trail for reforming Wall Street, to provide full-throated support for implementing and enforcing the Dodd-Frank rules. Otherwise the law will be a reform in name only." Click here for more.

AFR Letter: Oppose HR 3283

[Click here](#) to view the letter to the House urging members to oppose HR 3283. HR 3283 would allow U.S. banks to evade Dodd-Frank derivatives regulation by dealing through their foreign subsidiaries. This could fatally undermine derivatives oversight.

Swaps Bill Offers Dodd-Frank Dodge, Consumer Group Says
Melanie Waddell (AdvisorOne)
March 27, 2012

*Consumer groups are coming out against [H.R. 3283](#), the Swaps Jurisdiction Certainty Act, which was being marked up on Tuesday by the House Financial Services Committee. The groups say it would effectively allow U.S. financial firms with an international presence, like Citibank and JPMorgan Chase, 'to avoid Dodd-Frank derivatives regulation simply by dealing through their foreign affiliates.' In a March 27 [letter](#) to members of the committee, **Americans for Financial Reform** writes that the swaps bill, introduced last October by Rep. Scott Garrett, R-N.J., chairman of the House Financial Services Subcomittee on Capital Markets, 'would undermine' the regulatory regime for derivatives laid out by Congress in the Dodd-Frank act 'by exempting any derivatives transaction between a U.S. swap dealer and a non-U.S. entity from all the major protections contained in Title VII of the Dodd-Frank Act,' with the one exception being reporting requirements to regulators." [Click here for more.](#)*

Tweaks to Wall Street overhaul law starting to move
Dave Clarke and Alexandra Alper (Reuters)
March 27, 2012

*"Support is growing in Congress for tweaks to the 2010 Dodd-Frank financial oversight law, a possibility that until recently seemed remote given partisan acrimony over the law, as well as between Republicans and Democrats. None of the proposed bills would make major changes to the law and they could still become bogged down in the Senate, where even bipartisan legislation can face a gauntlet of challenges. … Meanwhile, on Monday the House voted by wide margins to pass two bipartisan bills designed to constrain the CFTC as it writes rules mandated by Dodd-Frank to oversee the $700 trillion over-the-counter derivatives market. One bill, which passed the House 357 to 36, would shield swaps between affiliates of the same company from clearing, execution, capital and margin requirements. The bill would still require the exempted swaps to be reported to a data repository. Another bill would exempt commercial end users -- such as utilities, manufacturers and airlines -- from posting margin, or cash reserves, on swaps. It passed 370 to 24. Also on Monday the House passed legislation that would provide greater legal safeguards for information that banks share with the new Consumer Financial Protection Bureau. Moving the House bills through the Senate will be more challenging. Senate Banking Committee Chairman Tim Johnson has said he is willing to move 'technical' fixes to Dodd-Frank but has warned it will be difficult to do so if they became a magnet for partisan priorities. …Also on Tuesday the Financial Services Committee approved a bill to limit the international reach of new U.S. swaps and derivative rules. The legislation attracted Democratic support but also concerns that it may go too far in limiting regulators' oversight. Democrats promised to seek changes when it is put up for a vote by the full House. The group **Americans for Financial Reform**, a strong backer of Dodd-Frank, warned the bill would allow U.S. banks to evade oversight. 'In addition to seriously undermining the basic transparency and accountability requirements in the U.S., such a 'race to the bottom' would be a serious blow to the entire international effort to make derivatives markets safer,' the group said in a statement." [Click here for more.](#)*

Mark Gongloff: Dodd Frank Act Under Assault Again
Mark Gongloff (Huffington Post)
March 27, 2012

"Amnesia is bipartisan. The one thing, apparently, that can get Democrats and Republicans working together is a desire to wreck protections for the economy and investors that were put in place not long ago. The House [overwhelmingly passed on Tuesday](#) the so-called JOBS Act, which purports to make it easier for small companies to raise money by [removing some investor protections put in place](#) after the dot-com bubble and bust and the Enron accounting scandal that occurred just a decade ago. President Obama threw his weight behind the bill, which will mainly provide jobs for criminals, financial journalists and criminologists, [Jesse Eisinger of ProPublica](#) and [William Black of the University of Missouri](#) have written. … The House financial services committee is considering a bill, H.R. 3283, that would give banks a massive loophole for

*gambling with risky derivatives. You know, those things that were at the heart of the financial crisis, which is why we're having to bother with Dodd-Frank in the first place. H.R. 3283 would let U.S. banks trade derivatives, such as credit default swaps, overseas without having to build up any extra capital to protect against a meltdown in those derivatives. 'This would create an overwhelming temptation to move swaps business overseas, indeed to the foreign jurisdictions where regulation was most lax compared to the U.S.,' **Americans For Financial Reform**, a coalition of labor, consumer and other groups, wrote [in a letter](#) to the House today." [Click here for more.](#)*

AFR Letter: Oppose HR 2586

[Click here](#) to view the letter that was sent to the Hill in opposition to HR 2586, the "Swaps Execution Facility Clarification Act". HR 2586 would undermine a key element of derivatives reform – the attempt to create transparent, competitive markets for previously 'dark' over-the-counter (OTC) derivatives.

AG Committee Chairs Push Gensler on Swaps
Ben White (Politico's Morning Money)
March 30, 2012

" House Agriculture Chairman Frank Lucas and Senate Agriculture Chairwoman Debbie Stabenow wrote to CFTC Chairman Gary Gensler on the proposed definition of swap dealer: "We do remain concerned that the breadth of the proposed rule further defining "swap dealer" will result in the registration of many entities that Congress never intended to be regulated as dealers." Full letter: http://bit.ly/HjTBZU"

Banks Stress Over Fed Test Methods
Dan Fitzpatrick and Victoria McGrane (WSJ – subscription required)
March 26, 2012

"Executives at some of the 19 large banks whose 'stress test' results were released this month have a message for the Federal Reserve: Show me the math. The Fed held five conference calls over two days with the banks last week that were dominated by questions about how the Fed arrived at the capital levels it projected banks would maintain in a steep downturn, said people familiar with the situation. Healthy institutions want to understand why there were some large gaps between their own capital estimates and the Fed's, according to people close to those banks. Some of the five lenders that didn't pass the test say questions about the Fed's scoring complicate reapplying for approval to raise dividends or buy back stock, said people close to those companies. 'Every bank I know had numbers that were better than the Fed's numbers,' said one person close to several banks. The Fed hasn't kept everything secret. Last November it published test assumptions, such as a 13% unemployment rate in a U.S. recession. But the Fed is resisting full disclosure of its methodology, hoping to retain the flexibility to make future changes and prevent the banks from gaming the numbers, according to people familiar with the process. The central bank is writing rules that will frame how annual stress tests are conducted in coming years, a step mandated by the Dodd-Frank financial-overhaul law. The questions come even though the results released March 13 are widely perceived to have built confidence in the U.S. banking system—in contrast to a series of tests in Europe that were derided by some investors as too easy. Many banking firms won Fed approval to pay tens of billions of dollars in increased dividends and share buybacks, and bank stocks rose following release of the results. Fed Chairman [Ben Bernanke](#) told lawmakers last Wednesday that the results showed big U.S. banks 'essentially were able to meet a reasonable level of capital even following the losses associated with' a major economic downturn that might accompany a severe crisis in Europe. Even so, the rollout of results was marred by possible leaks, miscommunications about when the information could be disclosed and mistakes in some of the Fed's loss projections for particular banks." [Click here for more.](#)

Senate Confirms FDIC, OCC Nominees — With an Unexpected Twist
Kevin Wack and Joe Adler (American Banker- subscription required)
March 29, 2012

"Before leaving for recess Thursday, the Senate confirmed Martin Gruenberg, Thomas Hoenig and Jeremiah Norton to seats on the board of the Federal Deposit Insurance Corp. while also approving Thomas Curry as comptroller of the currency. But in an unusual move, the Senate did not confirm Gruenberg as chairman of the FDIC, or Hoenig as the agency's vice chair. Instead, the chamber left Gruenberg as the agency's vice chairman, allowing him to continue to lead the agency in an acting capacity. The situation sparked immediate head-scratching as Washington, as industry observers tried to dissect what was going on. The move, which

occurred by unanimous consent of the Senate, represents a middle ground between the across-the-board approval of financial regulatory nominees that Senate Democrats were seeking and a refusal to move forward on any nominees by Senate Republicans given lingering anger over President Obama's controversial recess appointment of Richard Cordray to the Consumer Financial Protection Bureau. But it also likely reflects the political realities of a presidential election year. Confirming Gruenberg as chair of the FDIC would have left him as leader of the agency for several years, well into a potential Republican administration, should the party's presidential candidate win the election this year. By confirming Gruenberg for a board seat — but not the chairmanship — Republicans have guaranteed his ability to lead the agency in an acting capacity for the foreseeable future, but left themselves the flexibility to nominate their own FDIC chairman if they win the White House." *Click here for more.*

Senate committee backs 2 nominees for Fed's board, but quick confirmation appears uncertain
Associated Press
March 29, 2012

"A Senate committee on Thursday approved President Barack Obama's two nominations to fill vacancies on the Federal Reserve's board. But prospects for a quick confirmation in the full Senate are uncertain. On a voice vote, the Senate Banking Committee backed the nominations of Jeremy Stein, a Harvard economics professor, and Jerome Powell, an investment banker who served in the George H.W. Bush administration. Stein, a Democrat, and Powell, a Republican, in hopes that pairing nominees from both parties could overcome Republican objections. The Fed board hasn't operated with a full seven members since 2006. But one Republican senator, David Vitter of Louisiana, a critic of the Fed's policies under Chairman Ben Bernanke, has expressed opposition. That won't necessarily block the nominees' confirmation. But it means the Senate won't vote before its two-week break starts this weekend." *Click here for more.*

Senator Johnson: Statement on Senate Confirmation of Key Financial Regulators
Press release
March 29, 2012

"…It is vital that we have strong leaders in place at our financial regulators as we continue our economic recovery, continue implementation of the Wall Street Reform Act, and are faced with challenges from the crisis in Europe,' said Chairman Johnson. 'I'm glad that the Senate was able to set aside partisan politics and approve these individuals.' 'Marty Gruenberg has done excellent work as both Acting Chairman and Vice Chairman of the FDIC ever since he was first confirmed with bipartisan support in 2005. I am confident that his intellect and years of experience in financial services, including distinguished service on the staff of the Senate Banking Committee, make him superbly qualified to continue to serve at the FDIC. 'Tom Curry has been a strong, effective Director at the FDIC for the past seven years, and his experience as both a state and federal regulator will serve him well as the next Comptroller of the Currency. 'As the former President and CEO of the Federal Reserve Bank of Kansas City from 1991 to 2011, Mr. Hoenig is well prepared to serve on the FDIC board. I know Mr. Hoenig will be a strong voice for rural communities and the need to preserve the community banking model. 'Mr. Norton's diverse experience having worked in both the public and private sectors will give him the perspective and knowledge he needs to be an effective FDIC board member.' The Senate also approved the nomination of Maurice Jones to be the Deputy Secretary of the Department of Housing and Urban Development and Christy Romero, to be Special Inspector General for the Troubled Asset Relief Program. 'Throughout the nomination process Mr. Jones has proved to be well qualified to serve as the Deputy Secretary of the Department of Housing and Urban Development (HUD) and HUD is fortunate to have him joining the team,' said Johnson. 'I have been extremely impressed with Ms. Romero and the American taxpayer is lucky to have her leading the way as the Special Inspector General for TARP. Since Senator Johnson became Chairman in February 2011, the Banking Committee has reported out and the Senate has confirmed 23 of the President's nominees." *This is the entire statement.*

Hedge Funds Register, FSA Anti-Bribery Survey, CFPB: Compliance
Carla Main (Bloomberg)
March 30, 2012

"The U.S. Securities and Exchange Commission will oversee hundreds more private advisers at hedge funds and private equity firms than it first predicted, expanding the reach of one of the most controversial requirements of the Dodd-Frank Act. The managers of such investment funds face a deadline today to register with the SEC. The agency expects to receive about 1,300 registration applications, according to SEC spokeswoman Judith Burns. That is about a 70 percent increase from the 750 advisers the agency said as

recently as July that it expected to register. Burns didn't explain why the number is higher than the agency estimated earlier. The 2010 financial regulatory overhaul included the registration provision for hedge fund and private equity advisers so the SEC could have a better understanding of what had been an opaque corner of finance. The surge in registrations reflects the gaps in the SEC's knowledge of the sector, said Cornelius Hurley, the director of the Morin Center for Banking and Financial Law at Boston University (43751MF)." Click here for more.

Volcker Rule

Bank Lobby's Onslaught Shifts Debate on Volcker Rule
Robert Schmidt and Phil Mattingly (Bloomberg)
March 26, 2012

*"The fight over the Volcker rule is shifting in Wall Street's favor. After a four-month lobbying blitz led by firms including Goldman Sachs Group Inc. (GS), JPMorgan Chase & Co. (JPM) and Credit Suisse Group AG (CSGN), U.S. regulators and lawmakers are signaling they're receptive to delaying and revising their plan to stop banks from making speculative trades on their own accounts. Representative Barney Frank, a Massachusetts Democrat and co-author of the 2010 law mandating the ban, urged regulators last week to simplify their first draft, while a bipartisan group of senators proposed pushing back its effective date. Banking executives have long seen the rule as one of the most threatening parts of the Dodd-Frank regulatory overhaul, an assault on a lucrative line of business that comes branded with a name, that of ex-Federal Reserve Chairman Paul Volcker, garnering worldwide respect. Compliance and capital costs alone could reach $1 billion annually, the U.S. Office of the Comptroller of the Currency has said. To make their case in Washington, banks and trade associations have been pressing a coordinated campaign to get regulators from five federal agencies to scale back the draft of the proprietary-trading rule issued in October, according to public and internal documents and interviews. They recruited money managers, industrial companies, municipal officials and foreign governments to their side. 'The regulators are under a lot of pressure,' said Marcus Stanley, policy director of **Americans for Financial Reform**, an advocacy coalition that filed a comment letter urging that the draft rule be strengthened rather than watered down. Stanley, a former congressional aide, said that his side has at most a couple of dozen people working the agencies and Congress. Meantime, he said, hundreds of banking representatives are enlisting their customers by warning that the rule's fallout will be higher costs and less-liquid markets.'…Proponents of the rule say tough restrictions are the best way to ensure that the banks don't use privileges like federal deposit insurance to subsidize their own profit-making and make risky trades of the kind that contributed to the 2008 credit crisis. U.S. Senator Jeff Merkley, the Oregon Democrat who with Senator Carl Levin, a Michigan Democrat, put the rule in Dodd- Frank, said there's no evidence it would choke off liquidity in the markets. 'The banks are using every strategy they possibly can' to 'confuse the issue,' Merkley said. Bartlett Naylor, who works on financial policy at the Washington-based advocacy group **Public Citizen**, said his small band of Volcker supporters is highlighting the recent New York Times op-ed article by ex-Goldman Sachs derivatives salesman Greg Smith to show the need for a strong rule. The article, which Goldman Sachs said it disagrees with, accuses the firm of making trades against its clients' interests to boost profits. 'It comes from an insider who declares something that everyone knows or certainly has a suspicion of,' said Naylor. 'We have talked to everybody about it, and nobody we're talking to hasn't already heard about it.' Click here for more.*

Public Citizen: Lawmakers Seeking to Weaken Volcker Rule Receive More Than Four Times as Much From Industry as Those Asking for Stronger Measure
Public Citizen press release
March 27, 2012

"Members of Congress who submitted comments asking federal agencies to weaken the proposed regulations for the Volcker Rule have on average received more than four times as much in campaign contributions from the financial sector as those who asked agencies to strengthen the rule, a Public Citizen study released today shows. To read the report, visit: http://citizen.org/industrys-messengers-volcker-rule-report."

Volcker Rule Could Mean Higher Energy Prices, Fewer Jobs: Study
Karina Frayter (CNBC)
March 28, 2012

*"Proposed regulation to prohibit proprietary trading by banks, **known as Volcker Rule**, could result in higher energy prices and fewer jobs, according to a new study. The study, which was conducted by **information and analytics provider IHS**, examines the impact the implementation of the Volcker Rule would have on the energy industry, which heavily relies on banks for commodity risk management and intermediation services. 'The findings indicate that the regulations, as currently envisioned, could create a significant ripple effect through the energy economy that would reduce production, increase the cost of electricity and gasoline and ultimately affect jobs,' says the study. The report was commissioned by Morgan Stanley**,** one of the big banks lobbying to ease the regulation. But IHS maintains its analysis, content and conclusions are entirely independent. …However, **Americans for Financial Reform**, an advocacy coalition supporting the legislation, took issue with the report. 'This is just the latest in a series of industry-funded studies ordered up by financial market interests expressly to undermine the Volcker Rule,' executive director Lisa Donner told CNBC in response to a question. 'They don't want to have to stop the profitable and risky proprietary trading that the Volcker rule bans, and they are grasping at straws to protect the status quo.'" Click here for more.*

Reformers React
Ben White (Politico's Morning Money)
March 29, 2012

"Lisa Donner, Executive Director of Americans for Financial Reform, stated: 'This is just the latest in a series of industry-funded studies ordered up by financial market interests expressly to undermine the Volcker Rule. They don't want to have to stop the profitable - and risky - proprietary trading that the Volcker rule bans, and they are grasping at straws to protect the status quo. This study is particularly unbelievable since Goldman Sachs itself has argued the reverse of these conclusions in other contexts: they have said that speculation is increasing the cost of gas.'"

John Parsons: The quickest way to a conclusion, … jump.
John Parsons (Betting the Business blog)
March 28, 2012

"Earlier today, the consulting firm IHS released a report decrying the horrible consequences that the Volcker Rule would have for the US energy industry and the economy. It's a hatchet job. Why? There are 2 essential fallacies at the heart of the IHS report. And many other ones, too, but let's focus on the essential ones. First, the report assumes its conclusion. The Volcker Rule bans banks from proprietary trading. But the Volcker Rule does not ban anyone else from proprietary trading. The IHS report assumes that when banks stop proprietary trading, no one else will step in and do so. That's a ridiculous assumption. Let's look at other industries where governments sometimes regulate which institutions may and may not operate – take alcohol sales, for example. Suppose a state were to ban grocery stores from selling alcohol. Does that mean alcohol would not be sold? Obviously not." Click here for more.

Commodity Speculation

NYT Business Day Live – Oil Speculation featuring Professor Michael Greenberger
NYT
March 26, 2012

*"A court case raises questions about Goldman Sachs's handling of clients' stock sales; a former commodities regulator discusses oil speculation; a series of raids aim to break up computer crime rings. Produced by Nadia Sussman, Pedro Rosado, Shayla Harris, Sean Patrick Farrell". **NOTE: Professor Michael Greenberger talks about the CFTC and oil speculation starting at 4:45.** Click here for more.*

Americans angry with Obama over gas prices
Patricia Zengerle (Reuters)
March 27, 2012

"More than two-thirds of Americans disapprove of the way President Barack Obama is handling high gasoline prices, although most do not blame him for them, according to a Reuters/Ipsos online poll released on Tuesday. Sixty-eight percent disapprove and 24 percent approve of how Obama is responding to price

increases that have become one of the biggest issues in the 2012 presidential campaign. In the past month, U.S. fuel prices have jumped about $0.30 per gallon to about $3.90 and the Republicans seeking to replace the Democrat in the November 6 election have seized upon the issue to attack his energy policies." [Click here for more.]

Goldman commodities crown slips as traders exit
Dmitry Zhdannikov (Reuters)
March 29, 2012

"At least 20 commodities traders, several senior, have left Goldman Sachs in the past months, dealing a blow to Wall Street's long-time king of commodities as talent moves to better paying trading houses and hedge funds. The departures, according to around a dozen insiders and trading sources, mirror the exodus of traders from rival banks over the past two years. The outflow is driven by shrinking profits and tighter regulation of banking, which gives funds and trading houses greater scope to trade and to reward success. Goldman said the departures will not have an impact on its standing in commodities. 'We are not downsizing our commodities business. It remains a core part of our franchise,' a spokesman for Goldman said. Goldman sources stress the only departure at the most senior partner level was that of Jeff Resnick, the global head of trading in commodities, who resigned after many years at Goldman without joining any other firm. However, several managing directors - one level below partners - have left Goldman recently. "Every year there is a trimming of staff at the analyst, vice-president and director level but the number of managing directors leaving commodities strikes me as higher than I've noticed in the past," said Will Ainger, co-editor of SparkSpread, a publication that tracks the moves of people in commodities businesses. Among managing directors, Ben Green joined trader Mercuria's metals desk; Macquarie has hired Arun Assumall as head of new commodity products; Europe's oil trading head Taimur Hassan went to a hedge fund; U.S. power trading head Raj Sethi, U.S. oil trading head Andre Eriksson, European power and gas specialist Phil Beatty and Australian power expert Troy Wilson resigned. On levels below partners and managing directors, Mercuria hired Liam Brown for its metals desk, Graham Capital Management recruited Laura Hunt as a power trader, Vitol hired Tom Baker for its oil desk, Koch took on Michelle Lei as an oil analyst. Oil derivative trader Ben Jacobs will join a hedge fund, London-based emissions trader Andrew Mugadu and coal trader Bruno Roch resigned. Some had worked for Goldman for 10-15 years. 'Many of those are proven successful senior people so it is very hard to imagine they have been all fired,' said a former senior commodities trading business employee at Goldman. Goldman has this month begun a new round of staff cuts in its trading and investment banking to reduce costs following the elimination of 2,400 positions last year, sources familiar with the matter said earlier this month. Recent staff cuts have been less drastic than in March 2011, when 5 percent of its trading staff was let go. Goldman is known to create staff cuts lists early in the year and send at-risk employees a signal through low bonuses that are handed out in February. Those who do not get the hint are let go in mid-to-late March. 'Some very decent guys just weren't paid properly. So they said: 'Screw it' and went to funds," another insider said. Goldman is believed to employ around 400 traders in its commodities trading division, which generated $1.6 billion last year, according to regulatory filings, down from as much as $4.5 billion in 2009. Banks dramatically expanded their trading operations in the early 2000s to capitalize on booming commodities prices. But new regulations being introduced after the 2008 financial crisis drastically limit risky investments with their own capital, known as proprietary trading, or with clients' money. Insiders say Goldman has long made a point of crediting the unrivalled scale and scope of its trading operation, rather than the skill of individuals, as the key ingredient of its success. The latest departures will test that assertion. 'Goldman did a very good job of convincing people that it wasn't the trader, it was the chair,' one senior commodity executive said. 'Other companies are coming along and are ready to pay more for that talent.' A former Goldman insider said that new rules on limits on the amount a bank is allowed to hold in derivatives in certain commodities, known as position limits, meant that banks would inevitably have to scale down their businesses. 'They are not getting "hedge exemptions" for using commodity futures to hedge large synthetic commodity index portfolios for investor clients, nor when hedging large OTC (over-the-counter) derivative deals with oil and metals producers,' he said. Hedge exemptions from futures position limits are easier for oil companies or trading companies with large physical assets that can point to an exact amount of stored oil in a tank that is being hedged by futures, or to similar stockpiles in metals. "Goldman's platform has had a large proprietary component. The percentage of payouts at trading companies are difficult to compete with for prop guys," said the head of trading at a large rival of Goldman." [Click here for more.]

MF Global

MF Global Employees Say They Are Cooperating With Investigation
Azam Ahmed (DealBook/NYT)
March 28, 2012

"Three of the four executives at MF Global called to testify before a House panel on Wednesday said that they were cooperating with federal authorities. Christine Serwinski, the chief financial officer for the firm's North America operations, has spoken to regulators on two occasions. Laurie Ferber, the firm's general counsel, is also cooperating with authorities. She said she was expecting to be interviewed on April 6. Lawyers for Henri Steenkamp, MF Global's chief financial officer, have also been in contact with authorities. It is unclear to the extent to which Edith O'Brien, who worked in the firm's treasury operations, is cooperating. Ms. O'Brien left the hearing shortly after saying she would decline to answer questions, invoking her Fifth Amendment right against self-incrimination. During the hearing, the criticism of the firm's executives took a rather bipartisan tone. Democrats and Republicans alike mocked the executives before them." Click here for more.

MF Global employee takes the Fifth Amendment
Tim Mak (Politico)
March 28, 2012

"The MF Global employee whose publicly released memo first put former CEO Jon Corzine's testimony before Congress into question invoked her Fifth Amendment rights before a congressional panel on Wednesday. Edith O'Brien, an assistant treasurer for MF Global, declined to answer questions before the House Financial Services Committee's Oversight and Investigations Subcommittee and was dismissed. 'I'm disappointed because of your answer… and I'm hopeful that you'll reconsider and come back and testify before this committee,' said the subcommittee chairman, Rep. Randy Neugebauer (R-Texas). According to a memo released last Friday, O'Brien last year wrote an email that said that a transfer of funds 'per JC's [Jon Corzine's] direct instruction'" would cover an overdraft in MF Global's London-based JPMorgan Chase account, which appears to contradict Corzine's previous statements. 'I did not instruct anyone to lend customer funds to anyone,' Corzine insisted in testimony before Congress last year." Click here for more.

Click here to read testimony from the hearing entitled "The Collapse of MF Global: Part 3."

MF Global Wasn't Well Regulated, Isaac Says
The Washington Post with Bloomberg
March 29, 2012

"William Isaac, chairman of Fifth Third Bancorp and a former chairman of the Federal Deposit Insurance Corp., talks about the investigation into MF Global Holdings Ltd.'s bankruptcy. Isaac, speaking with Betty Liu on Bloomberg Television's "In the Loop," also discusses the outlook for U.S. banks." Click here for more.

MF Collapse Spooked Big Investors, Fed Finds
Alan Zibel and Jamila Trindle (WSJ – subscription required)
March 29, 2012

"The collapse of securities firm MF Global Holdings Ltd. MFGLQ -1.92% has caused big investors to make sure that their assets are better-protected against a trading partner's potential failure, a Federal Reserve survey said. The central bank on Thursday released the results of its quarterly Senior Credit Officer Opinion Survey, a report introduced in 2010 that looks at credit conditions for big investors in the securities financing and derivatives markets. The report found that the October 2011 collapse of MF Global has sparked increased worries among investors." Click here for more.

International

Dudley Doesn't See New Fed Buffers for U.S. Against Europe
Cheyenne Hopkins and Joshua Zumbrun (Bloomberg)
March 27, 2012

"Federal Reserve Bank of New York President William Dudley said Europe has made significant progress in fiscal cutbacks and he doesn't expect more Fed efforts to insulate the U.S. from the region's debt crisis.

'While difficult work still lies ahead, countries in the euro area have made meaningful progress toward achieving long- term fiscal sustainability,' Dudley said in testimony today at a House Financial Services subcommittee hearing. 'I do not anticipate further efforts by the Federal Reserve to address the potential spillover effects of Europe on the United States.'" Click here for more.

Click here to view/read testimony from the hear Hearing entitled "Federal Reserve Aid to the Eurozone: Its Impact on the U.S. and the Dollar."

Euro zone agrees to temporary boost to rescue capacity
Paul Carrel and Francesca Landini (Reuters- Copenhagen)
March 30, 2012

"Euro zone finance ministers agreed on Friday on a temporary increase in their financial rescue capacity to prevent a new flare-up of Europe's sovereign debt crisis, but markets may judge it too small to be convincing. Austrian Finance Minister Maria Fekter said the 17-nation currency area would combine two rescue funds for a year to make more money available in case of emergency. She put the total figure at some 800 billion euros, but that appeared to include money already spent to conjure up a more impressive headline number for investors." Click here for more.

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Foreclosures and Housing

Foreclosure Deal Credits Banks for Routine Efforts
Shaila Dewan and Jessica Silver-Greenberg (NYT)
March 27, 2012

"In February, JPMorgan Chase donated a home to an Iraq war veteran in Bucoda, Wash., and Bank of America waived the $140,000 debt that a Florida man still owed after the sale of his foreclosed home. Over the last year, Wells Fargo has demolished about a dozen houses in Cleveland. Banks do things like this — real estate transactions that do nothing to prevent foreclosure — all the time. But beginning this month, they can count such activities as part of their new commitment to help people stay in their homes. That commitment comes under the landmark $25 billion foreclosure abuse settlement between the government and five major banks announced last month. The settlement promises that of the $25 billion, the banks will give $17 billion 'in assistance to borrowers who have the intent and ability to stay in their homes,' according to a summary of the settlement. But more than half of that money can be used in ways that will not stop foreclosures, including some activities that are already standard bank practices." Click here for more.

US regulator points finger over Freddie and Fannie
Shahien Nasiripour in Washington (FT – registration required)
March 26, 2012

"The US regulator overseeing state-controlled home loan financiers Fannie Mae and Freddie Mac has said that the companies are being pushed to accept losses to keep big US banks from writing down their holdings. In an interview with the Financial Times, Edward DeMarco, acting Federal Housing Finance Agency director, said policy makers who are pushing his agency to allow Fannie Mae and Freddie Mac to reduce borrowers' mortgage balances, are deliberately shielding big banks from taking losses on distressed housing debt. The dispute revolves around the kind of loans financed by Fannie Mae, Freddie Mac and big US lenders – and who will foot the bill for writing down the mortgage principal owed by borrowers with negative equity. Fannie Mae and Freddie Mac finance home purchases by buying loans from lenders that are fully secured by properties. During the US property bubble, US banks gave loans to borrowers who used the equity in their homes as collateral. But when the property bubble burst – homes in the US have lost a third of their value since 2006 – millions of homeowners with so-called 'second mortgages' found themselves deeply underwater. …'If you do principal forgiveness, who is it benefiting?' Mr DeMarco asked. 'Doing principal forgiveness is what would protect the big banks.' Click here for more.

Gretchen Morgenson: A Bailout by Another Name
Gretchen Morgenson (NYT)
March 24, 2012

"ED DeMARCO is a marked man. Edward DeMarco of the Federal Housing Finance Agency faces pressure to make Fannie Mae and Freddie Mac reduce principal on troubled mortgages. The acting director of the [Federal Housing Finance Agency](#) and overseer of [Fannie Mae](#) and [Freddie Mac](#), Mr. DeMarco is a soft-spoken, career public servant — and under fire. In the thankless job of conservator for the loss-ridden mortgage finance giants, he has a duty to ensure that the companies operate in the best interests of the taxpayers who own them. That means working to keep a lid on the companies' losses, which now total $183 billion. But in recent weeks, Mr. DeMarco has come under increasing pressure to chuck his obligation to taxpayers and make Fannie and Freddie write down principal on mortgages held by troubled borrowers. He says, with reason, that such a program would run counter to his legal obligation to pursue only those activities that pose the least cost to taxpayers." [Click here for more.](#)

Felix Salmon: Gretchen Morgenson's bizarre defense of Ed DeMarco
Felix Salmon (Reuters)
March 25, 2012

"Ed DeMarco, the regulator in charge of Fannie Mae and Freddie Mac, has many critics, [myself](#) [1] included, who would love him to allow Frannie to do principal reductions where it makes sense. But now he's managed to find a defender. In [Gretchen Morgenson](#) [2], of all people. Morgenson's column today is utterly bizarre. She starts off by painting DeMarco as a 'career public servant', 'under fire' in a 'thankless job'. This is a phrase she seems to reserve for DeMarco alone: she made sure to describe him as a "career public servant" [in 2010](#) [3], as well as in [her book](#) [4]. And as far as I can tell, she's described no one else that way. And there are many career public servants, up to and including Tim Geithner, who can't stand DeMarco and who think he is being deliberately obstructionist here. Morgenson then defends DeMarco from critics like Barney Frank and Elijah Cummings: What the proponents of principal reductions at Fannie and Freddie don't talk about is what a transfer of wealth from taxpayers (again) to large banks such a program would represent. Morgenson is actually serious about this: the headline on her column is "A Bailout by Another Name". And when she says bailout, she doesn't mean a bailout of deadbeat homeowners, who would see their net worth jump overnight as a bunch of their obligations were written off at a stroke. No, she means a bailout of banks." [Click here for more.](#)

Peter S. Goodman: Fannie Mae, Freddie Mac Resistance To Principal Reduction Costs Taxpayers
Peter S. Goodman (Huffington Post)
March 26, 2012

" After two years of bewildering futility, John and Linda DeCaro thought they had finally found a way to hang on to their home. They could no longer afford their mortgage payments and had slipped into delinquency. They could not refinance to take advantage of low-interest rates because they were among the nearly 11 million American homeowners who are "underwater," meaning that they owed the bank more than their house was worth. Bank of America had already initiated foreclosure proceedings. Then in the spring of 2011, a nonprofit lender, Boston Community Capital, presented a potential fix, one it has used to aid some 200 underwater borrowers in Massachusetts over the last two years. The bank would buy the DeCaros' home at market value -- about $87,000, which was barely half of their mortgage balance -- and then sell it back to them for a little more, providing a manageable loan. Bank of America affirmed the sale price as fair value. But one powerful obstacle stood in their way: Freddie Mac, the government-controlled mortgage giant, owned the DeCaros' loan. Freddie has a policy of refusing to approve so-called short sales -- those where the purchase price is lower than the mortgage balance -- unless the buyer signs a legal document promising not to resell the property to the original homeowner. The document bars the buyer from even renting the home to the initial owner." [Click here for more.](#)

New Bottom Line: Pressure Mounts on Pres. Obama to Fire FHFA Acting Director DeMarco
New Bottom Line press release
March 26, 2012

"[Mounting pressure](#) on President Obama to fire FHFA Acting Director Ed DeMarco has forced DeMarco to shift to a new defense. Community and online groups, Congress members, and federal and state officials have called for DeMarco's removal unless he drops his ideological opposition to principal reduction. In an interview with [the Financial Times yesterday,](#) DeMarco introduced another red herring, trying to make the

case that reducing principal for underwater homeowners with Fannie Mae and Freddie Mac mortgages would 'be a windfall for the big banks.' Big banks should be forced to face reality and write off their second mortgages as well as write down their firsts. But the Obama Administration must demand that DeMarco use his bully pulpit to force that action in part by opening Fannie and Freddie to principal reductions and using his position to make the banks write off their seconds, not hide behind faux-concern as an excuse to once again do nothing." *Click here for more.*

Kathleen Pender: Harp 2 mortgage-refinance program
Kathleen Pender (SF Chronicle column)
March 25, 2012

"Harp 2 got into full swing last week after Fannie Mae and Freddie Mac updated their automated underwriting systems to handle the government's new refinance program for underwater borrowers. As a result, more lenders are now offering loans under the expanded Home Affordable Refinance Program, and qualified borrowers can shop around; they are no longer limited to refinancing with the company servicing their existing loan. The basic requirements are minimal. You must have a source of income, be current on your payments and have a loan that was purchased by Fannie or Freddie before June 1, 2009. Your loan balance must be at least 80 percent of your home's value but there is no upper limit. If you already refinanced under Harp, you are ineligible. You might have to meet some additional Fannie or Freddie requirements - such as minimum credit score or maximum debt-to-income ratio - depending on which agency owns your loan and whether you go with your existing servicer or a new one. (The requirements can be stricter with a new servicer.) Banks are free to add their own requirements, and some have. Wells Fargo spokesman Jim Hines says, 'We also employ minimum credit standards to ensure customers have capacity to repay the mortgage.' Some banks, including Chase and Bank of America, are not refinancing loans under Harp 2 that they do not already service." Click here for more.

Adam Levitin: Principal Reduction and Strategic Default
Adam Levitin (Creditslips.org)
March 26, 2012

"Moral hazard, moral hazard, moral hazard.... How often have we heard that as a reason for why principal reductions can't be done. As if it were the worst thing in the world. As an initial matter, we don't have to do principal reduction in a way that creates moral hazard, such as making principal reduction contingent on default and no strings attached. (To put it another way, we don't have to be stupid about the way we do principal reduction.) One solution would be principal reductions contingent on level of negative equity, not on default. Another would be to offer principal reductions only to those who have already defaulted (I don't like this because it penalizes those who kept paying, but the point is that it avoids moral hazard inducement). Another possibility would be to make principal reductions contingent upon paymentshared appreciation, which doesn't have to be a 50-50 split. Instead, it could be that initial appreciation goes all to the lender and then it starts to shift to the borrower. But let me suggest something counterintuitive and heterodox. Principal reduction is a case in which we WANT to encourage moral hazard. To understand why, you need to start with the understanding that our goal here is macroeconomic, not moral. The goal is stabilizing the housing market and the the economy, not balancing the moral cosmos and bringing harmony to the Force (not that there's anything wrong with that)." *Click here for more.*

Adam Levitin: Calling DeMarco's Bluff? Use the GSEs' Market Power to Force 2d Lien Write Downs
Adam Levitin (Creditslips.org)
March 26, 2012

"There's been mounting pressure on the acting head of the FHFA, Ed DeMarco to order Fannie Mae and Freddie Mac to undertake principal reductions. DeMarco's pushed back, arguing that it's not fair for the GSEs to write-down principal when there are second liens on some of the loans that are on banks' books and the banks aren't doing write-downs (see here and here and Felix's critique here). DeMarco is arguing for strict observance of absolute priority. He notes that reducing the GSEs' first lien balances at taxpayer expense effects a bailout of the banks as it bouys the likelihood that their second liens will be repaid. DeMarco's correct about a write-down of the firsts alone being a bailout of the banks. But his argument for doing nothing doesn't hold up for two reasons. First, there are plenty of GSE loans without seconds. There's no reason not to do write-downs on those loans. And second, the GSEs have the market power to force the banks to write down seconds as a term of doing business with the GSEs. If DeMarco's serious about dealing with negative

equity, he'll start running the GSEs' like the 800 lb. gorilla they are in the housing market." [Click here for more.]

Attorney General John Kroger weighs in on MERS foreclosure case
Elliot Njus (The Oregonian)
March 27, 2012

"Oregon Attorney John Kroger fired a shot across the mortgage industry's bow Tuesday, arguing for the first time that a national electronic loan registry can't trump state records laws. If courts agree, it could route thousands of Oregon foreclosures through courtrooms, creating a drawn-out and much more costly process. That prospect might make banks more willing to bargain with at-risk homeowners, say homeowners' rights advocates. Kroger weighed in on a case that won't by itself have the power to bind decisions in state or other federal courts. But it could influence similar cases, and/or the entire case could be transferred to the Oregon Supreme Court to decide on the issue of state law. The state Department of Justice filed a brief in the 9th U.S. Circuit Court of Appeals, arguing that the Mortgage Electronic Registration Systems, or MERS, can't stand in for lenders when it comes to county records in what's called "a non-judicial foreclosure" -- one that does not go through court. The electronic registry system was formed by the mortgage industry to track loans as they're bundled, bought and sold by investors. It's designed to avoid the cost and hassle of going through all the documentation normally required by state recording laws." Click here for more.

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JOBS Act and Investor Protection

AFR and CFA Letter: Vote NO on Anti-Investor, Anti-Jobs JOBS Act

Click here to view the letter CFA and AFR sent to the Hill, urging members to vote against final passage of the JOBS Act.

Jobs Act: White House, Democrats at odds over Obama-backed pro-business bill
Zachary A. Goldfarb (Washington Post)
March 26

*"White House allies are in an uproar over pro-business legislation embraced by President Obama, exposing a new rift in his relations with Democratic lawmakers and supporters amid his efforts since the fall to mend those ties. The bill is designed to make it easier for growing companies to raise money and reduce the cost of complying with securities laws. But critics warn it would allow firms to avoid disclosing crucial financial information and elude government oversight, opening the door to fraud and investor abuse. The measure is set to pass Congress on Tuesday. To rally skeptical Democrats, including some who were thinking of trying to keep the bill from coming up for a vote, Senate Majority Leader Harry M. Reid (D-Nev.) last week made a last-minute, behind-the-scenes appeal to let the bill proceed, according to congressional aides. In the Mansfield Room off the Senate floor, Reid warned his Democratic colleagues against obstructing a measure backed by the president and standing in the way of a bipartisan effort to create jobs. The Senate voted on the legislation, although half of the chamber's Democrats voted against passage. Congressional aides said the White House's enthusiastic support for the bill left some Democratic senators feeling boxed in. …Since the fall, the White House has worked hard to reconcile with liberal groups, adopting tougher rhetoric toward Republicans and advancing a series of policy proposals embraced by allies. But when liberals revolted over this recent legislation, the White House responded with what critics complain was only a token acknowledgment of their concerns. The bill has raised objections from prominent union, consumer and regulatory groups. Richard Trumka, **AFL-CIO** president, said last week that the bill 'will do nothing to create good jobs and stabilize the U.S. economy. Instead, it will deregulate Wall Street — voiding investor protections put in place after Enron and the 2008 financial crisis.' Sen. Richard J. Durbin (Ill.), the second-highest-ranking Democrat in the Senate, said last week that the bill 'would exempt firms from safeguards that we adopted in this country after Enron' — the energy company that imploded in 2001 after a massive accounting fraud, giving rise to far-reaching regulations overseeing disclosures by public companies. The legislation scheduled to come up for a vote Tuesday would relax a host of federal securities laws to make it cheaper and less burdensome for companies to solicit and raise investor money during their early years of growth. A senior Obama administration official said the White House had lent early support to a Republican version of the bill in the House as a way of supporting bipartisan efforts in Congress to help young*

companies. But the official acknowledged that some Democrats think the White House might have created too much momentum behind the approach advocated by House Republicans, making it difficult to pursue an alternative. The official added that the White House always favored stronger investor protections and worked with Senate Democrats trying to beef up the bill. …Liberal allies, at the time, recoiled at the administration's strategy. Last fall, after discussions with Republicans about a "grand bargain" to tame the nation's debt broke down, Obama shifted to more liberal positions. He pushed for a stimulus plan to create jobs and bypassed Congress to install regulators at the Consumer Financial Protection Board and National Labor Relations Board. Liberals applauded. …Barbara Roper, director of investor protection at the ***Consumer Federation of America,*** *said in a statement, 'The White House, which pushed for passage of a bipartisan bill regardless of its attack on investor protections, and Senate leadership . . . bear a heavy burden of responsibility for the damage this bill will cause to vulnerable investors.' A senior administration official said that federal regulators would closely monitor the impact of the legislation and that there is little reason to worry that investors could be harmed. With the bill amended by the Senate, it heads back to the House, which is expected to quickly send it to the president Tuesday morning. Click here for more.*

Susan Antilla: The JOBS Act Won't Create That Many Jobs
Susan Antilla (Bloomberg column)
March 27, 2012

"When sponsors name a piece of legislation the 'JOBS Act' (an acronym for "Jumpstart Our Business Startups"), it's a good idea to examine their claims about how many jobs it creates. In this case, they're so overblown that a new name might be in order. 'JOBS In Theory' might work. Supporters of the bill, which awaits President Barack Obama's signature after passing the House today, cite new provisions that will allow so-called 'crowdfunding' as fuel for new jobs. Under the plan, private companies will be able to tell their stories to investors over the Internet without the muss and fuss of registering their shares with the Securities and Exchange Commission. That may sound a little risky for investors who plunk down as much as several thousand dollars apiece in these million-dollar offerings -- but hey, this is about creating jobs, right? Maybe not." Click here for more.

The Economist: Uncuffing capitalism
Economist editorial
March 31, 2012

"HAVING spent years heaping new rules onto its financial markets, America is about to take a modest step in the opposite direction. On March 27th Congress passed the JOBS (or, rather ludicrously, 'Jumpstart Our Business Start-ups') Act, which aims to revive growth by easing the regulatory burden on companies seeking to raise capital (see article). The act is designed to address the decline in initial public offerings (IPOs). From 2001 to 2011 the annual tally of small companies going public in America was 80% lower than in the previous two decades. The IPO drought does not mean firms cannot raise capital. There are plenty of other ways for them to do so, from private equity and private placements to bank loans. But the public markets serve a unique purpose: they provide capital directly to young, growing firms, give early investors a means to cash out and enable ordinary investors to stake a claim in the fortunes of those firms. …The JOBS Act would make it easier for young, growing companies to go public by releasing them from some of the auditing oversight requirements of the 2002 Sarbanes-Oxley Act. It would loosen the restrictions on communication between companies about to go public and investors, on underwriters' research, and on the advertising of new share offerings." Click here for more.

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Executive Compensation

CEO pay rises again in 2011, while workers struggle to find work
Matt Krantz and Barbara Hansen (USA Today)
March 29, 2012

"Executives who successfully steered their companies through the quagmire of recession are now reaping their rewards — although some CEOs might have hoped there would be more. As companies get healthier, employees' average pay rises and stock prices soar, 2011 brought a year of slight raises for CEOs. While another year of raises comes off one of the biggest increases ever for executive pay in 2010, it wasn't the

bonanza CEOs have seen in prior years. Meanwhile, unemployment remains high for most workers. The annual reporting season for executive pay is in high gear. So far, the tally shows the median CEO pay in 2011 rose 2% to $9.6 million, based on 138 Standard & Poor's 500 companies that have reported CEO pay this year and that had the same CEO for all of 2010 and 2011, according to the USA TODAY analysis of data from GMI Ratings on proxies that have already been filed." [*Click here for more.*]

For CEOs, Pay Lags Behind Results
Scott Thurm (WSJ – subscription required)
March 26, 2012

"For big companies, 2011 was a good year. For their CEOs, it was surprisingly mediocre. Despite fairly significant gains in companies' profit and revenue, total direct compensation for 65 CEOs in place at least two years rose just 1.4% last year, according to preliminary results from a survey by The Wall Street Journal and Hay Group. That's down sharply from an 11% increase in 2010, according to that year's Journal/Hay Group survey of 350 companies. Total direct compensation includes salary, all bonuses, and the value of stock and stock-option grants at the time of the grant. The preliminary results highlight how corporate directors, under new scrutiny from shareholders, are tying more CEO pay to corporate performance. When companies miss targets, directors are holding the line." [*Click here for more.*]

Steven Rattner: The Rich Get Even Richer
Steven Rattner (WSJ column – subscription required)
March 26, 2012

"NEW statistics show an ever-more-startling divergence between the fortunes of the wealthy and everybody else — and the desperate need to address this wrenching problem. Even in a country that sometimes seems inured to income inequality, these takeaways are truly stunning. In 2010, as the nation continued to recover from the recession, a dizzying 93 percent of the additional income created in the country that year, compared to 2009 — $288 billion — went to the top 1 percent of taxpayers, those with at least $352,000 in income. That delivered an average single-year pay increase of 11.6 percent to each of these households. Still more astonishing was the extent to which the super rich got rich faster than the merely rich. In 2010, 37 percent of these additional earnings went to just the top 0.01 percent, a teaspoon-size collection of about 15,000 households with average incomes of $23.8 million. These fortunate few saw their incomes rise by 21.5 percent. The bottom 99 percent received a microscopic $80 increase in pay per person in 2010, after adjusting for inflation. The top 1 percent, whose average income is $1,019,089, had an 11.6 percent increase in income." [*Click here for more.*]

Trade Group CEOs Get 16% Pay Raise Challenging Obama's Agenda
William McQuillen and Danielle Ivory (Bloomberg Government – subscription required)
March 27, 2012

"Chief executive officers of Washington's most active trade lobby groups defied the sluggish economy and enjoyed pay increases averaging 16 percent. Heads of the 30 top industry associations took home an average of $2.34 million in 2010, up from $2.02 million the previous year, according to tax data compiled by Bloomberg. Those groups have spent $1.67 billion in Washington lobbying since Barack Obama entered the White House, with the U.S. Chamber of Commerce accounting for one-third of that amount. 'The nature of their core activity is recession-proof,' said Marcus Owens, a partner at Caplin & Drysdale, a Washington law firm, and former director at the Internal Revenue Service, where he oversaw cases on tax policy and non-profits. "Even in a recession, the government continues to make decisions." [*Click here for more.*]

AFSCME Urges Shareholders to Remedy Excess Pay at Johnson & Johnson
AFSCME press release
March 27, 2012

"Today, AFSCME is recommending that shareholders of Johnson & Johnson (JNJ) vote against the ratification of executive compensation at the company's annual meeting on April 26, 2012. AFSCME advocated giving shareholders the right to vote on executive pay. "This is shareowners' second year to use Say on Pay to register their disapproval of unwarranted CEO pay," said AFSCME Pres. Gerald W. McEntee, whose 1.6 million members participate in public pension funds with combined assets worth over $1.7 trillion. 'The JNJ Board needs to get its hearing checked. After almost 40% of its shareholders voted against CEO pay last year, they are still not listening.'" [*Click here for more.*]

Bain Gave Staff Way to Swell IRAs by Investing in Deals
Mark Maremont (WSJ – subscription required)
March 28, 2012

"Just after Philippe Wells took a job in 1998 at Bain Capital, then run by Mitt Romney, he recalls hearing an unusual boast from a partner. The man's individual retirement account had jumped tenfold in five years. Mr. Wells soon learned how this was possible. Bain, like many other private-equity firms, allowed employees to co-invest in its takeover deals. This posed a risk they could lose their whole investment, as they sometimes did. But because of the firm's success during the Romney era, employees ended up able to share in returns for Bain investors that averaged 50% to 80% annually. GOP presidential candidate Mitt Romney, who formerly ran Bain Capital, co-invested in Bain deals via his IRA. Bain added a couple of unusual twists that made co-investing even more rewarding. It allowed employees to co-invest via tax-deferred retirement accounts, and to do so by buying a special share class that cost little but yielded much larger gains than other shares when deals proved successful, according to former employees and internal Bain documents analyzed by The Wall Street Journal." Click here for more.

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Student Lending

NYT editorial: For-Profit Education Scams
NYT editorial
March 23, 2012

"Attorneys general from more than 20 states have joined forces to investigate for-profit colleges that too often saddle students with crippling debt while furnishing them valueless degrees. The investigations have just begun. But it is already clear from testimony before a Senate committee that Congress must do more to rein in the schools and protect students. For-profit colleges are typically more expensive than public colleges, which means students graduate owing more. They account for nearly half of student loan defaults, even though they enroll a little more than 10 percent of higher education students. State prosecutors are uncovering unconscionable examples of fraud. Lisa Madigan, the attorney general of Illinois, testified this week that she had recently filed suit against a for-profit school that had saddled individual students with up to $80,000 in loans while promising employment with law enforcement agencies that do not recognize the school's credentials as valid. Jack Conway, the attorney general of Kentucky who leads the multistate group, has identified two schools that went bankrupt, leaving students with loads of debt and worthless credits and still on the hook for those outstanding loans. A bill introduced by Senator Richard Durbin, a Democrat of Illinois, would permit students to discharge their private student loans when they declare bankruptcy. Congress should also allow borrowers to have their private loans discharged when a school closes, preventing completion of the degree. (The federal loan program already allows this.) Lastly, Congress should require private lenders to make every effort to see whether students are eligible for affordable federal loans before trying to sell them more expensive private loans." Click here for more.

Obama Relies on Debt Collectors Profiting From Student Loan Woe
John Hechinger (Bloomberg)
March 26, 2012

"The debt collector on the other end of the phone gave Oswaldo Campos an ultimatum: Pay $219 a month toward his more than $20,000 in defaulted student loans, or Pioneer Credit Recovery, a contractor with the U.S. Education Department, would confiscate his pay. Campos, disabled from liver disease, makes about $20,000 a year. 'We're not playing here," Campos recalled the collector telling him in December. 'You're dealing with the federal government. You have no other options.' Campos agreed to have the money deducted each month from his bank account, even though federal student-loan rules would let him pay less and become eligible for a plan -- approved by Congress and touted by President Barack Obama -- requiring him to lay out about $50 a month. To satisfy Pioneer, Campos borrowed from friends, cut meat from his diet and stopped buying gas to drive his 82-year-old mother to doctor's visits for her Parkinson's Disease. With $67 billion of student loans in default, the Education Department is turning to an army of private debt-collection companies to put the squeeze on borrowers. Working on commissions that totaled about $1 billion last year, these government contractors face growing complaints that they are violating federal laws by insisting on stiff payments, even when borrowers' incomes make them eligible for leniency." Click here for more.

Geithner Hedges Bet on Durbin Student Loan Bill
Kevin Wack (American Banker – subscription required)
March 29, 2012

"For now at least, the Obama administration is declining to endorse legislation by Illinois Sen. Richard Durbin that would allow borrowers to discharge their private student loan debt in bankruptcy. During a congressional hearing on Wednesday, Treasury Secretary Timothy Geithner was non-committal about the legislation, while at the same time suggesting that he is broadly sympathetic with Durbin's concerns about the private student loan market. 'So we'd like to work with you on your specific proposal," Geithner told Durbin during a Senate appropriations subcommittee hearing. "But there's definitely some merit, and we want to do it carefully.' Later in the hearing, Geithner made clear that the Obama administration is keeping its options open with regard to Durbin's legislation, which would make it harder for banks to collect on delinquent student loans. 'That'd be one approach, and we'll look at all sensible ideas,' Geithner said. … At Wednesday's hearing, Geithner echoed some of Durbin's concerns about the private student loan market. For example, he noted that federal student loans provide borrowers flexibility with regard to repayment, adding that: 'In the private markets those protections do not exist.' But Geithner also noted that the CFPB has authority to look at private student lending, and he did not sound convinced of the need for congressional action. Also during the hearing, Geithner maintained the administration's recent drumbeat of pressure on the Federal Housing Finance Agency to begin allowing principal reductions on some Fannie Mae and Freddie Mac mortgages. 'There's some cases where principal reduction is not just good for the homeowner, and not just good for the community, but it's good for the taxpayers, too,' Geithner said. 'It's not an overwhelming number. But where it makes sense we should do it.' Geithner said that the Treasury Department is trying to convince FHFA Director Edward DeMarco that its analysis is correct. 'Now, what Mr. DeMarco has said is that they are taking another look at their numbers, looking at our economic case,' Geithner said, noting that the FHFA operates independently of the administration. 'I hope he is going to be in a position to indicate what he plans to do in the next several weeks.'" Click here for more.

Click here to view/read testimony from the hearing entitled "Enhancing Economic Growth: The Department of the Treasury's Responses to the Foreclosure Crisis and Mounting Student Loan Debt."

Senators Introduce Bill for Counseling on Private Student Loans
Janet Lorin (Bloomberg)
March 29, 2012

"Two U.S. Democratic Senators introduced a bill that would require colleges to counsel students before they sign on to private loans and inform them if they are eligible for federal loans. The 'Know Before You Owe Act of 2012' would also require the borrower's school to confirm the student's enrollment status, cost of attendance and estimated federal financial aid assistance before the private student loan is approved, according to a statement today released by Senator Richard Durbin, a Democrat from Illinois. Private loans don't have the same kinds of protection as federal loans, which include income-based repayment and deferment options. U.S. educational debt has reached $1 trillion, according to the Consumer Financial Protection Bureau. 'With student loan debt at a record level, we must empower students to make informed decisions about how they finance their education, especially when it comes to the risks of private loans, which can sink students into financial quicksand and are not dischargeable in bankruptcy,' the other sponsor, Tom Harkin, a Democrat from Iowa, said in a statement." This is the entire article.

Click here to view the press release from Senators Durbin and Harkin, "Student Debt Bomb" Alert: Durbin, Harkin, Introduce Bill to Ensure Students Are Not Misled on Loan Options.

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FTT

AFR April Fool's Day: Wall Street Titans Support Financial Speculation Tax.

"On the eve of Tax Day, as millions of Americans are still struggling with hard times and worrying about how to pay the IRS, some of the most prominent players on Wall Street held a press conference announcing that they were stepping up to support a financial speculation tax to "pay their fair" share and help put America back to work. These titans of Wall Street expressed remorse and shame for collapsing the global economy

and putting 8 million Americans out of work and 9 million on the path to foreclosure. They embraced the idea of a small tax on trading both to discourage reckless trading and to bring in hundreds of billions of dollars of revenue that could be put to work rebuilding our economy, creating jobs, preserving Social Security and Medicare, and meeting other urgent needs." *Click here for more.*

AFR Petition: Build Support for Taxing Wall Street in the lead up to tax day

Tax Day is around the corner. As most Americans struggle to pay their share, we can't help but notice that Wall Street is not. Support for a Wall Street Speculation Tax has been spreading across the nation with more grassroots groups calling for a tax on reckless Wall Street speculation than ever before. On April 15, let's tell President Obama "It's Time to Tax Wall Street." *Click here for more.*

Another thrilling episode in the drama on the Financial Transaction Tax
Peter Wahl (WEED)
March 2012

"The tension around the Financial Transaction Tax (FTT) was already increasing before the 13 March 2012 Council meeting of European Ministers of Finance (ECOFIN). Finance ministers from nine EU countries (Austria, Belgium, Finland, France, Germany, Greece, Italy, Portugal, Spain) had written a letter that was applying substantial pressure on the Danish presidency. In EU diplomacy such a letter is quite a strong instrument. The letter asked to speed up the Council's decision making process regarding the Commission's legislative proposal on an FTT before June 2012. As it was known already since December 2011 that the UK would under no circumstances accept a European FTT, the proponents of the tax did not want the process to be delayed. In addition, the next two incoming presidencies, Cyprus (second half of 2012) and Ireland (first half of 2013) are opposing the FTT, which will make it more difficult for the proponents to get a decision." Click here for more.

German Fin Min says will find solution on fin market tax
Reuters Berlin
March 29, 2012

"German Finance Minister Wolfgang Schaeuble said on Thursday he was certain euro zone countries would find a solution to a dispute about a tax on financial services and that Germany would continue to push for a deal. However, he also told German radio that all euro zone countries had to agree to such a move. 'I am quite sure we will find a solution,' Schaeuble told Deutschlandfunk radio, adding finance ministers would discuss the matter at talks in Copenhagen in the coming days. 'We are pushing more than anyone for such a tax to abolish the exceptions from the general sales tax that we have on financial services,' said Schaeuble. Schaeuble had said on Monday that efforts to get a financial transaction tax implemented in the euro zone were doomed. Asked if any agreement would encompass all financial transactions, he said: 'I hope so but the devil is in the detail... we can't force anyone... It must be a solution that is correct in substance and it probably won't happen very fast.'" This is the entire article.

Juncker Seeks Alternatives To FTT
Ulrika Lomas (Tax-News.com, Brussels)
March 29, 2012

"During a recent conference in Brussels, Luxembourg's Prime Minister and Eurogroup President Jean-Claude Juncker expressed his reservations regarding the idea of a tax on financial transactions, advocating instead that an alternative be examined.While underscoring his strong support for the idea that the financial sector must be held more widely responsible for the consequences of the crisis, Juncker questioned whether a financial transactions tax was the right response, given that the European Commission's September proposal does not have the backing of all European governments, even within the eurozone. Juncker put forward the idea of keeping the same objective, while looking for another instrument to achieve that objective. Also present at the conference on "lessons from the global crisis", former president of the European Central Bank Jean-Claude Trichet underlined his support for a financial transactions tax, while warning that in order to be efficient, the tax would have to be introduced at global level. If imposed at global level, on an equal basis, such a tax is conceivable, and in the form of a global initiative it is "perfectly acceptable", Trichet explained, while noting that otherwise it would simply be shooting oneself in the foot." Click here for more.

U.K. Should Reject EU Transaction Tax, Lords Lawmakers Say
Svenja O'Donnell (Bloomberg)
March 29, 2012

"A U.K. House of Lords panel said the government should reject the [European Commission's]() proposed financial-transaction tax, as it may pose a "severe threat" to the City of [London](). The proposal is 'wholly impractical and unworkable,' and would have a 'disproportionate' impact on the U.K. by hurting London's financial center, lawmakers from Parliament's upper chamber said in the report published in London day. 'The government should absolutely not agree to the proposals in their current form,' Henry Harrison, the panel's chairman, said in a statement. 'There is huge uncertainty about the impact of any financial-taxation proposal on the U.K.'" [Click here for more.]()

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Big Banks, Money, and Politics

How Payday Lenders (Quietly) Donate to Campaigns
Jonathan D. Salant (Business Week)
March 29, 2012

"Mitt Romney has made no secret of his disdain for the new Consumer Financial Protection Bureau. On Jan. 4, the day President Barack Obama went over the heads of the Senate and installed Richard Cordray as the agency's director, Romney blasted the move as 'Chicago-style politics at its worst' and denounced the CFPB as 'perhaps the most powerful and unaccountable bureaucracy in the history of our nation.' Two weeks later payday lenders, who are now watched over by the consumer bureau, began lining up behind Romney. They did so quietly. From Jan. 13 to Feb. 29, payday and auto-title lenders contributed $427,500 to Restore Our Future, the super PAC supporting Romney's presidential campaign. More than half of that was funneled through limited-liability companies and other corporate entities with nondescript names that obscure the short-term lending industry as the source of the money." [Click here for more.]()

Mitt Romney's hedge fund kingmaker
Michelle Celarier (Fortune)
March 26, 2012 (for April 9th edition)

"As he gears up for the final stretch in the marathon that is the Republican nomination campaign, Mitt Romney has no shortage of eminent financiers to call on -- for advice [or money](). Billionaire hedge fund titans such as Julian Robertson of Tiger Management, Louis Bacon of Moore Capital, and John Paulson of Paulson & Co. have all lined up behind the front-runner. Steve Schwarzman, the co-founder of private equity giant Blackstone ([BX]()), recently held a high-level fundraiser for Romney at his Park Avenue apartment. Romney's old friends at Bain Capital, the buyout firm he co-founded in 1984, have also been generous in their support. But perhaps none of Romney's Wall Street supporters will be more crucial to the candidate's success, or have more influence on his thinking, than Paul Singer. Singer is the founder of a $19 billion hedge fund called Elliott Management. And he has a well-earned reputation as one of the smartest and toughest money managers in the business. Over the past 35 years Singer, 67, has produced an extraordinary 14% average annual return after fees, nearly double the price appreciation of the S&P 500 ([SPX]()). He's achieved that record in large part by buying the debt of bankrupt companies and nations -- a strategy that has earned him considerable opprobrium in some circles. His firm, which is engaged in a costly, protracted legal war with Argentina over its defaulted sovereign debt, is so influential that fear of its tactics helped shape the current Greek debt restructuring. Among the sophisticated investors who have placed their confidence in Singer is Mitt Romney himself. According to Romney's financial disclosures, the trust managing his more than $200 million fortune has at least $1 million invested with Elliott." [Click here for more.]()

Obama and private equity: Friends or foes?
Dan Primack (Fortune)
March 28, 2012

"Many private equity investors are convinced that President Obama is their enemy, not only because he wants to defeat [former Bain Capital boss Mitt Romney]() in November, but also because of a new corporate tax reform proposal that could make private equity deals more difficult to finance. The industry's most dangerous enemy, however, is not in the White House. It's in the mirror, due to private equity's pervasive use of dividend

recapitalization -- a noxious financial strategy that perverts the industry's mission and threatens its future ability to raise capital. Here's how it works: When a private equity firm buys a company in a traditional leveraged buyout, it typically uses bank loans to finance much of the purchase price. Since the company being acquired takes out the bank loans, it's the one on the hook for future interest payments -- not the private equity owner. The extra twist comes when, often years later, private equity owners instruct the company to take out even more bank loans. Those proceeds are then funneled to private equity investors in the form of a 'dividend,' rather than being used for corporate purposes like buying new equipment or hiring new employees." [Click here for more.]

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Other

Goldman Bows to Pressure on Board
Liz Rappaport (WSJ – subscription required)
March 27, 2012

"Goldman Sachs Group Inc. GS -1.38% agreed to change its board structure in order to persuade a union pension fund to drop a shareholder proposal that could have cost Chief Executive Lloyd C. Blankfein his job as chairman. A proposal could have cost CEO Lloyd C. Blankfein his job as chairman. The deal between the New York securities firm and the American Federation of State, County and Municipal Employees means Goldman will appoint a 'lead' director, but shareholders won't get a chance to vote at the firm's annual meeting in May on the proposal to replace Mr. Blankfein with an independent chairman." The union had claimed stripping Mr. Blankfein of his chairman powers would help Goldman repair its reputation and reduce the potential for conflicts of interest. Goldman shareholders voted down a similar proposal in 2010 by a wide margin. But with the firm facing outside pressure over its ethics and business practices, Goldman executives worried the outcome might be different this time, according to people familiar with the situation. Some executives gave the proposal a 50-50 probability of winning." Click here for more.

Three Major Banks Prepare for Possible Credit Downgrades
Susanne Craig and Peter Eavis (DealBook/NYT)
March 29, 2012

"Some of Wall Street's biggest banks are bracing for fallout from a possible cut in their credit ratings. Moody's Investors Service, one of the two big ratings agencies, has said it will decide in mid-May whether to lower its ratings for 17 global financial companies. Morgan Stanley, which was hit hard in the financial crisis, appears to be the most vulnerable. Moody's is threatening to cut the bank's ratings by three notches, to a level that would be well below the rating of a rival like JPMorgan Chase. Bank of America and Citigroup may also fall to the same level as Morgan Stanley, but those two are helped by having higher-rated subsidiaries. Credit ratings are particularly important for financial companies, which greatly depend on the confidence of their creditors and the companies they trade with. A high credit rating enables banks to put up less money, which they can borrow cheaply, while a lower credit rating can mean they have to put up more money and perhaps pay more for their loans. The three banks that stand to be the most affected by a ratings downgrade have already said that they would have to put up billions of dollars more in collateral to back trading contracts." Click here for more.

Fed doubts big US jobless falls will last
Robin Harding in Washington and Michael Mackenzie in New York (FT – registration required)
March 26, 2012

"Rapid recent falls in US unemployment may prove to be a one-off unless economic growth picks up, Ben Bernanke, chairman of the US Federal Reserve, warned on Monday. The downbeat comments, underscoring the Fed's support for easy monetary policy, may calm investors who had begun to doubt the central bank's forecast of exceptionally low interest rates until 'late 2014'. The speech marked the first time Mr Bernanke had given his analysis of the rapid fall in the unemployment rate from 9.1 to 8.3 per cent over the past six months. He said it may reflect a one-off bounce back from big job cuts in 2008 and 2009." Click here for more.

Click here to view Chairman Bernanke's speech at the National Association for Business Economics Annual Conference.

Transcript: Diane Sawyer Sits Down with Federal Reserve Chairman Ben Bernanke
World News with Diane Sawyer (ABC)
March 27, 2012

"Federal Reserve Chairman Ben Bernanke sat down with ABC News' Diane Sawyer Tuesday to discuss the state of the U.S. economy and the challenges we still face on the road to recovery. Bernanke and Sawyer spoke on a wide range of issues including gas prices, the housing market and where the national unemployment rate is heading." Click here for more.

In failed hotel venture, Ga. Republicans appear to cut loan nearly in half
McCaffrey Shannon (The Atlanta Journal-Constitution)
March 28, 2012

"With the economy soaring in the spring of 2007, a pair of prominent Republicans took out a loan for $2.3 million to buy and rehabilitate a dilapidated North Georgia hotel. Five years later it appears U.S. Rep. Tom Graves and state Senate Majority Leader Chip Rogers will have to pay back only about half that debt, according to public records examined by The Atlanta Journal-Constitution. Experts say the FDIC, the federal agency that insures bank deposits, will be on the hook for most of the loss. For Graves and Rogers, tea party favorites and champions of fiscal responsibility, the resolution of their failed business venture opens them up to charges of hypocrisy. 'They may oppose bailouts, but it looks like they are getting one themselves,' said Tony Plath, a national banking expert and finance professor at UNC-Charlotte. Plath called such a large bank write off 'highly unusual' even in the current economy. 'Would your average borrower get a deal like that? Probably not,' he said, noting that many consumers have struggled to get their loans adjusted. Citing a confidentiality agreement, Graves and Rogers declined to comment on the arrangement that reduced the loan to $1.2 million. …The FDIC will almost certainly be on the hook for a large portion of any loss. When Hamilton took over Bartow, it entered into a so-called loss share agreement under which the FDIC will absorb up to 80 percent of losses stemming from the old bank's bad loans." Click here for more.

Private Jets, Buffett and Taxes
Andrew Ross Sorkin (DealBook/NYT)
March 26, 2012

"Get this: Uncle Sam is suing Warren Buffett's company over taxes. Yes, taxes. The United States government, in a little-followed case in Ohio, filed a lawsuit this month against a unit of Mr. Buffett's Berkshire Hathaway, seeking $366 million in taxes and penalties. The Berkshire division at the center of the suit is NetJets, the private-aircraft company that caters to the nation's wealthiest — the people Mr. Buffett says should pay more in taxes. It is an odd twist that a company controlled by Mr. Buffett — perhaps the most outspoken businessman in the country in support of raising taxes on the 'mega-rich' — is now in a dispute with the government over his company's paying too little in taxes." Click here for more.

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Upcoming Events

Capitol Hill

The House and Senate are in recess until April 16th.

SEC

No pertinent hearings scheduled as of 3/30/12

CFTC

March 29, 2012

Technology Advisory Committee and Members of the New Subcommittee on Automated and High Frequency Trading

Commodity Futures Trading Commission – DC

CFTC's Technology Advisory Committee and Members of the New Subcommittee on Automated and High Frequency Trading to hold.

The Institute for Agriculture and Trade Policy (IATP), International Working Group on Trade-Finance Linkages (IWGTF), and Permanent Mission of France to the United Nations

Side event on the occasion of the High Level Thematic Debate "Addressing Excessive Price Volatility in Food and Related Financial and Commodity Markets"
Date: April 11 2012

Time: 1:15 – 2:45 pm

Venue: UN Headquarters, NLB (North Lawn Building) - Conference Room A

Background: By resolution (A/RES/66/190) the General Assembly decided to request the UNGA President to convene a "high-level thematic debate, to be held in plenary meeting" on excessive price volatility in food and related financial and commodity markets. This resolution called, in particular, for active measures to reduce excessive food price volatility, while acknowledging that there is an incomplete understanding of its causes and that more research needs to be done, and in this regard underlined the need to promote greater transparency and market information at all levels.

The proposed side-event will be carried out in support of this high-level debate. Its objective is to discuss the impacts of financialization of commodity markets on development, especially national, international and UN agency initiatives to reduce price volatility not due to fundamentals. The debate and these initiatives are urgently needed because of the slow pace of regulatory reform, particularly of the largely unregulated Over the Counter derivatives trading that dominates both financial and commodity markets.

The side event will focus, in particular, on the following questions:

1) What are the major initiatives to reform regulation of U.S. and EU commodity derivatives markets, as well as those proposed by the G-20?

2) What are the major analytical findings from UNCTAD and FAO regarding commodity price volatility and its impacts on development?

3) What role can civil society play in deepening, understanding and fostering greater policy coordination to tackle the issue of extreme commodity price volatility?

Speakers:

Heiner Flassbeck, UN Conference on Trade and Development, David Hallam, Food and Agriculture

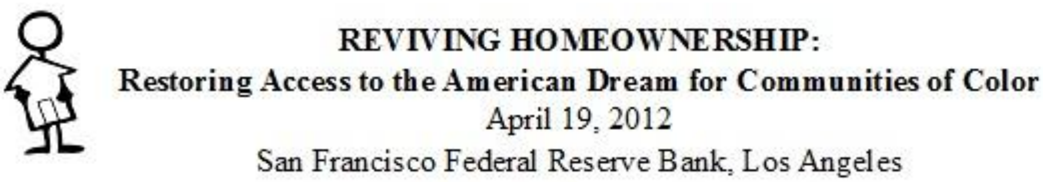
Organization (TBC), and Steve Suppan, Institute for Agriculture and Trade Policy. The presentations will be short (10-12 min each, max) and will be followed by interventions by participants and informal discussion (about one hour).

RSVP: If you do not have a UN ground pass, RSVP is strictly required by April 6, 2012, by writing to conf_moderator@coc.org (after this time it will be impossible to obtain a day-pass). If you do have a UN ground pass, RSVP is not required, but appreciated, by writing to the same address until the day before the event. For further information contact Aldo Caliari at aldo@coc.org

National Community Reinvestment Coalition

21012 NCRC Annual Conference
Wednesday, April 18, 2012 at 1:00 PM - Saturday, April 21, 2012 at 4:00 PM (ET)
Washington, United States
Click here for more information.

Federal Reserve Bank of San Francisco in partnership with the Greenlining Institute and California Community Builders



You are invited to register for the upcoming symposium entitled, *REVIVING HOMEOWNERSHIP: Restoring Access to the American Dream for Communities of Color,* sponsored by the Federal Reserve Bank of San Francisco in partnership with the Greenlining Institute and California Community Builders. Thomas Curry, FDIC Director and Presidential nominee for the Comptroller of the Currency will give the morning keynote address. Edward DeMarco, Federal Housing Finance Agency Acting Director, has agreed to be our lunchtime keynote speaker.

The event will take place at the Los Angeles office of the Federal Reserve Bank of San Francisco on Thursday, April 19, 2012 from 8:00am-2:30pm. We expect to gather 75-100 housing thought leaders to attend this event. Participants will include non-profit leaders, government officials, and private sector representatives interesting in preserving homeownership for communities of color.

We know that when done right, homeownership helps families build prosperity. The purpose of this symposium is to gather experts and thought leaders to critically think of solutions for reviving the dream of homeownership. Participants will work to develop a proactive agenda, called the "Homeownership Marshall Plan," that lays out a strategy to ensure that communities of color are fundamentally apart of new and sustainable homeownership policy agenda.

To read more about the event and view the agenda, please click here. **This is an invite only event with limited capacity. Please RSVP to** http://revivinghomeownership.eventbrite.com/

Shriver Center

Each year, immigrants all over the world send, or remit, a portion of their income to their family members living in their home countries. As one of the most important destinations of world immigration, the United States has emerged as the single largest source for remittance receivers who are typically the most impoverished populations within their home countries. Just as families' economic well-being would be jeopardized if remittances were suddenly cut off, already fragile foreign economies would also be imperiled. Over the last decade, the remittance market has undergone significant changes, including decreases in remittance fees, the entry of mainstream banks into the industry, and new regulations regarding disclosures and disputes. Speakers will discuss these changes and their effect on immigrant populations and the domestic and global community and asset building.

Wednesday, April 25, 2012 1:30 PM - 3:00 PM CDT - **Register Today!**