
AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM February 22 – 28, 2014

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CONSUMER FINANCE AND CFPB

[House Passes Bill Limiting Consumer Regulator](#)

Alan Zibel, Wall St. Journal, 2/28/14

"House lawmakers took aim at the **Consumer Financial Protection Bureau** on Thursday, passing Republican-backed legislation that would curtail the power of the federal regulator. The bill passed by the House on a 232-182 vote, would replace the CFPB's single director with a five-member board. It would also subject the regulator to funding from Congress, rather than from the Fed.

"The CFPB opened its doors in 2011 with a broad mandate to police the financial system for consumer abuses. Since then, Republicans have tried unsuccessfully to scale back the agency."

[Bill to Revamp Consumer Agency Passes U.S. House, Unlikely to Become Law](#)

Emily Stephenson, Reuters, 2/28/14

"The Republican-led U.S. House of Representatives passed a bill on Thursday to overhaul the U.S. consumer financial watchdog, although the politically charged legislation stands little chance of becoming law..."

"'The Consumer Financial Protection Bureau is not responsive to Congress because it doesn't get its funding from Congress,' said Wisconsin Republican Sean Duffy, who sponsored the bill."

[Duffy-Sponsored Bill to Revamp Consumer Agency Passes U.S. House](#)

Emily Stephenson, Superior Telegram, 2/28/14

See [Joint Letter Opposing HR 3193](#) and [AFR Statement on House Approval of HR 3193](#)

[The Consumer Financial Protection Bureau](#)

Carl M. Williams, Wyoming Law Review, 2013

“With the creation of the new Consumer Financial Protection Bureau and associated changes in the substance of federal consumer credit laws, the field is undergoing a ‘sea-change’ [FN175] that will play out for years to come. Congress established the new agency to unite the previously diffuse regulation of providers in the consumer financial services sector, changing from shared authority among the Federal Reserve Board, other bank regulatory agencies, and the FTC, to regulation under a single authority.

“The CFPB was set up in a way that gives it the potential to be more powerful and more effective than its older predecessor in the federal consumer protection arena, the FTC, because it has a single director, not a Commission, with funding from the Federal Reserve System, not Congress, and has authority to police ‘unfair, deceptive, and abusive’ consumer financial practices. At the same time, the law that created the CFPB also gives states more of an ability to raise the level of consumer protection by sharply curbing the federal preemption power, which had previously been used to prevent states from reacting to predatory lending abuses.”

[Consumer Financial Protection Bureau Isn't Out of the Woods Yet](#)

Lydia DePillis, Washington Post, 2/27/14

“[T]he CFPB is probably safe -- at least until the midterm elections. But the continued onslaught is evidence that it hasn't made as many friends as it might've hoped, even after delivering \$3 billion to consumers in settlements over fraudulent practices... and helping thousands who called in to complain about mortgages, student loans, auto loans, payday lenders, and debt collectors. The bureau's leaders tried really, really hard to win over the community banks and credit unions, but their trade associations still [spoke out in favor](#) of the legislation that would render it essentially powerless, protesting that the CFPB's new requirements are still too onerous for smaller institutions to deal with.

“That, plus [backing from the big banks](#), is enough to keep the CFPB under fire -- even with [more than 100 consumer groups](#) trying to speak on its behalf.

[Consumer Financial Protection Bureau: Hurting Community-Based Credit Unions](#)

Small Business & Entrepreneurship Council, 2/18/14

“[T]he Consumer Financial Protection Bureau (CFPB) is an affront to openness, transparency, and government accountability. The CFPB, in contrast with other agencies, such as the Securities and Exchange Commission and Consumer Product Safety Commission, is headed by a single director, who can be removed by the President only for ‘neglect of duty’ or ‘malfeasance in office.’ The bureau’s budget comes not from annual Congressional appropriations process, but from the Federal Reserve, removing an essential check by the legislative branch. What’s more, its rulemakings are insulated from review by the White House Office of Management and Budget, thus making the President virtually powerless to exercise control over its decisions.”

[The Hidden Cost of Car Loans](#)

Christopher Kukla, USNews.com, 2/27/14

“Buying a car is one of the largest purchases American consumers will make in their lifetime, but getting a loan through the dealer is also one of the least transparent financial transactions. One particularly murky practice is dealer interest rate markups — hidden, discretionary costs added to the loan.”

Mistaken Identity Tops Debt Collection Complaints

USPIRG, 2/27/14

“Debt collectors trying to collect debt from the wrong person were the top source of complaints to the Consumer Financial Protection Bureau (CFPB), according to a report released today by the U.S. PIRG Education Fund. The report also found that debt collection, the newest category in the database, is already a top source of complaints to the CFPB, outpacing common consumer products such as credit cards and bank accounts.

“The CFPB is helping consumers get relief from shoddy debt collector practices,’ said Laura Murray, Consumer Associate with the U.S. PIRG Education Fund. ‘Many consumers who don’t owe debts are being harassed by lazy debt collectors who don’t verify consumer identities.’”

CFPB Takes Action Against Mortgage Lender for Illegal Payments

Press Release, consumerfinance.gov, 2/24/14

“Today, the Consumer Financial Protection Bureau ordered a Connecticut mortgage lender, 1st Alliance Lending, LLC (First Alliance), to pay an \$83,000 civil money penalty for violating federal law by illegally splitting real estate settlement fees. First Alliance self-reported these violations to the Bureau, admitted liability, and provided information related to the conduct of other actors that has facilitated other enforcement investigations.

“These types of illegal payments can harm consumers by driving up the costs of mortgage settlements,’ said CFPB Director Richard Cordray. ‘The Bureau will use its enforcement authority to ensure that these types of practices are halted. We will, however, also continue to take into account the self-reporting and cooperation of companies in determining how to resolve such matters’.”

A Call to Give Consumers Their Credit Scores Free

Tara Siegel Bernard, NY Times, 2/27/14

“In its new role as consumer credit watchdog, the federal Consumer Financial Protection Bureau on Thursday urged credit card companies to give customers free copies of their credit scores — crucial pieces of financial information used to evaluate qualifications for mortgages, credit cards and even certain types of insurance and rental apartments.

“While the agency is not requiring the companies to provide the information, it sent a letter to top executives at the nation’s largest credit card companies and asked them to make the scores available in customers’ monthly statements or online. A few card issuers recently began providing the scores on their own — well before the agency’s call — and others are said to be in discussions to follow suit.

Re-Imagining Government: Affordable Banking

Scott Klinger, Center for Effective Government, 2/25/2014

“Last month, we caught a glimpse of a different way of looking at public services: having the government step in and provide vital services in areas abandoned by corporate providers. The Inspector General (IG) of the United States Postal Service (USPS) published "[Providing Non-Bank Financial Services for the Underserved](#)," in which he imagines how the Postal Service can successfully provide financial services in communities abandoned by traditional banks. He "re-public" the space abandoned by commercial banks and in so doing creates a win for citizens in low-income communities

and a win for the Postal Service by generating new revenues to offset declines in mail volume.

“More than a quarter of Americans – 34 million households – live in communities that have been abandoned by traditional banks. These families must rely on high-priced check-cashing stores, wire transfer services, and payday lenders for simple banking services that other Americans take for granted. They spent an estimated \$89 billion in 2012 – an average of \$2,412 per family – on interest and fees paid to alternative financial service providers. On average, under-banked families spend nearly 10 percent of their income on alternative banking services. These high banking fees often contribute to family bankruptcy: “people who filed for bankruptcy in 2012 were just \$26 per month short of meeting their expenses,” according to the IG’s report.

[How The Post Office Could Save The Economy — and Change Your Life](#)

David Dayen, Salon, 2/26/14

“Ever since the inspector general of the U.S. Postal Service authored a [white paper](#) endorsing the concept of postal banking, more advocates and policymakers have become intrigued. [Postal banking](#) is actually an [old idea](#): Dozens of countries offer simple financial services through their posts, and here in America, Postal Savings Accounts served millions of customers from 1911-1967 (the post office still sells money orders today). But it could also fix a number of our current problems simultaneously, even ones you haven’t thought about. Here are 10 different applications of postal banking, in order from most to least obvious.”

[Payday Loans Get U.S. Consumer Bureau Scrutiny as ‘Debt Traps’](#)

Carter Dougherty, Bloomberg, 2/26/14

“The U.S. Consumer Financial Protection Bureau is considering action to limit the impact of payday and other short-term loans that can become ‘debt traps’ for borrowers, said Director [Richard Cordray](#).

“Financial products that can trigger a cycle of debt may generate substantial unexpected costs through repeated use, which can disrupt the precarious balance of consumers’ financial lives,’ Cordray told the [National Association of Attorneys General](#) in a speech in Washington yesterday. ‘Often these products are marketed as short-term solutions to an emergency need, obscuring the risks inherent in the terms of the loan’.”

DERIVATIVES, COMODITIES, AND THE CFTC

[Senate’s Brown Pushes CFTC Nominees on Banks’ Commodity Trading](#)

Silla Brush, Bloomberg, 2/24/14

“The U.S. Commodity Futures Trading Commission should move to ease bottlenecks at aluminum warehouses as it bolsters oversight of banks’ trading and storage of commodities, Senator [Sherrod Brown](#) said today...”

“U.S. regulators including the Federal Reserve and CFTC have been reviewing banks’ involvement in commodity markets. The CFTC issued subpoenas last year to Goldman Sachs Group Inc., JPMorgan Chase & Co. and other metal-warehouse operators after brewer MillerCoors LLC and others complained of long waits for materials.”

[Defusing Derivatives](#)

Matthew Leising, Bloomberg, 2/25/14

“The big banks that dominate derivatives still consider the new trading rules unnecessary, and have warned that the clearinghouses themselves could become the new too-big-to-fail entities. (The U.S., perhaps in response, has given the clearinghouses emergency access to Federal Reserve borrowing, just like the big banks.) Consumer protection advocates and some labor unions say that the largest global banks and their corporate allies weakened the law by carving out too many exemptions and that the system [is still vulnerable](#). Regulators reply that they lost some battles but won the war by moving most, if not all, swaps out of the shadows.”

[U.S. Swap Overseer Nominees Set for March 6 Senate Hearing](#)

Silla Brush, Bloomberg, 2/26/14

“The panel will weigh the nominations of Treasury Department official Timothy Massad to become chairman of the derivatives regulator, and Sharon Y. Bowen and J. Christopher Giancarlo to serve as commissioners... The commission, which is designed to have five members, has had three sitting members since the beginning of the year. Mark P. Wetjen, a Democrat, has been serving as acting chairman since [Gary Gensler](#) departed in early January.”

[A Safer Way to Trade Interest Rate Swaps](#)

Matthew Leising, Bloomberg, 2/27/14

[Commodity Markets Update](#)

David Lawton, Financial Conduct Authority (UK), February 2014

“Operating in plain sight, the trading firms represent a ‘known unknown’ that quite naturally attracts attention from regulators and central banks and will continue to do so. Most of their activity is carried on from outside the UK, so any change in their regulatory status would be a matter for international consideration rather than a question for the FCA. In the meantime, while these firms are largely not subject to financial services regulation, they are significant participants in regulated markets. So while they are subject to the FCA’s market conduct rules for UK regulated activity, as well as the rules of the UK exchanges where they trade on these venues, the rise in proportion of activity on London markets by unregulated, overseas entities poses a challenge to our market supervision, alongside risks to market standards and integrity.”

THE FED

[Fed Misread Crisis in 2008, Records Show](#)

Binyamin Applebaum, NY Times, 2/21/14

“On the morning after Lehman Brothers filed for bankruptcy in 2008, most Federal Reserve officials still believed that the American economy would keep growing despite the metastasizing financial crisis. The Fed’s policy-making committee voted unanimously against bolstering the economy by cutting interest rates, and several officials praised what they described as the decision to let Lehman fail, saying it would help to restore a sense of accountability on Wall Street.

“James Bullard, president of the Federal Reserve Bank of St. Louis, urged his colleagues ‘to wait for some time to assess the impact of the Lehman bankruptcy filing, if any, on the national economy,’ according to transcripts of the Fed’s 2008 meetings that it published on Friday.”

Fed Fretted Over Reaction to Demise of Lehman

Peter Eavis, NY Times, 2/21/14

“In response to their critics, both Mr. Bernanke and Mr. Paulson have since said that they could not save Lehman because their hands were legally tied. Mr. Bernanke made that argument at the Oct. 29 meeting of the Federal Open Market Committee meeting. ‘The Fed and the Treasury simply had no tools to address both Lehman and the other companies that were under stress at that time,’ he said...

“Today, critics of the Treasury and the Fed say that the our-hands-were-tied argument may be an excuse, used after the fact, as a shield from criticism that they were negligent and miscalculated badly.”

Inside the Fed in 2008: What were its worries amid economic collapse?

Mark Trumbull, Christian Science Monitor, 2/24/14

Inside the Crisis-Era Fed

Evan Soltas, Washington Post/Wonkblog, 2/24/14

Fed's Tarullo Eyes New Tools to Limit Interest Rate Risk

Donna Borak, American Banker, 2/25/14

“Federal Reserve Board Gov. Daniel Tarullo said Tuesday that the central bank should use alternative tools beyond monetary policy to mitigate risks tied to low interest rates. The governor, who heads bank supervision at the central bank, stopped short of calling for the establishment of a third mandate for the Fed: financial stability. But he stressed the importance of folding those concerns into monetary policy decisions given their impact on price stability and employment.

“Instead, he endorsed supervisors developing so-called time-varying policies that would help to address procyclicality, a key contributor to systemic risk.”

Tarullo Backs Option of Using Rates Against Price Bubbles

Craig Torres and Lorraine Woellert, Bloomberg, 2/25/14

Five Things Janet Yellen Said That Distance Her From Others' Views

Jon Hilsenrath, Wall Street Journal, 2/27/14

“Pressed by Sen. Elizabeth Warren (D., Mass.) for more transparency on the regulatory front, Ms. Yellen said the Fed was moving in that direction. The Fed rarely holds public votes on issues such as its enforcement actions taken against banks, Ms. Warren noted.

“‘You have raised a very important question,’ Ms. Yellen said. ‘I do think it is appropriate for us to make changes and I fully expect that we will.’”

As Crisis Loomed, Yellen Made Wry and Forceful Calls for Action

Nathaniel Popper, NY Times, 2/21/14

“Early in 2008, she pointed to a paper by the economist Raghuram Rajan, now the head of India’s central bank, about the danger of the structure of Wall Street bonuses. ‘It seems to

me that we have had an awful lot of booms and busts in which this type of incentive played a role,' she said.

"Timothy F. Geithner, the president of the New York Fed at the time, pushed back against Ms. Yellen and the idea that overhauling bonuses was necessary. After the election of Barack Obama in November, Mr. Geithner rose to become secretary of the Treasury, and few changes were made to rules about bonuses.

"Ms. Yellen might intend to approach the issue differently. Back in 2008 she said that proposals to alter bonuses 'were not popular,' presumably referring to financial circles. That didn't scare her off. 'I think this is worth some thought,' she said."

[Why the Fed Won't Say How It Will Regulate Nonbank SIFIs](#)

Donna Borak, American Banker (paywalled), 2/20/14

"How the central bank will apply bank-centered rules to systemically important financial institutions is one of the biggest unanswered questions of the post-financial crisis regulatory system..."

[Other Countries Should Follow Fed's Lead on Overseas Subs, Hoenig Says](#)

Joe Adler, American Banker, 2/25/14

"Federal Deposit Insurance Corp. Vice Chairman Thomas Hoenig said governments should require 'subsidiarization', a step that would have significant implications for how the FDIC unwinds failed giants."

[Uh-Oh: Janet Yellen Is Waffling About Whether "Too Big To Fail" Is Over](#)

Danny Vinik, New Republic, 2/27/14

INVESTOR PROTECTION AND THE SEC

[SEC Ponders Break for Private Equity Over Broker Rules](#)

Alan Katz, Bloomberg, 2/23/14

"The U.S. Securities and Exchange Commission is considering granting private-equity firms a reprieve after they collected billions of dollars in deal fees without being registered to do so, according to a person with knowledge of the matter... The exemption would counter the stance of an SEC official, who signaled in a speech last year that transaction fees the private-equity industry had been taking for decades may have been improper because the firms weren't registered as broker-dealers, a requirement under securities laws.

"I imagine that right after that speech there was reasonable blowback' from the private-equity industry, said James Cox, a professor at Duke University School of Law in Durham, North Carolina. 'Regulation now usually embodies what the industry is willing to accept'."

[Securities Markets Need Private Class-Action Lawsuits](#)

Public Citizen Report, 2/24/14

"Private securities lawsuits are a necessary tool in preventing fraud and protecting investors, according to [a new report](#) released today by Public Citizen's Chamber Watch program. The report disproves misleading arguments made by the U.S. Chamber of Commerce's Institute for Legal Reform (ILR) as the U.S. Supreme Court prepares to hear

Halliburton Co. v. Erica P. John Fund on March 5.

“The report, ‘What’s Right With Securities Class Action Lawsuits: A Response to the U.S. Chamber’s Institute for Legal Reform’, demonstrates how much institutional investors value the ability to file private securities class-action lawsuits, and, contrary to the Chamber’s claims, how they have no incentive to pursue meritless litigation, which would only harm their own investments. It also reviews academic literature demonstrating how both private and public enforcement activities are important in deterring fraud and maintaining investor confidence.”

How to Avoid a Crowdfunding Backlash

Stacy Cowley, New York Times, 2/24/14

“Because the Securities and Exchange Commission has yet to approve the final rules for ‘equity crowdfunding,’ the money raised through sites like Kickstarter is essentially a donation. Creators seek funds for a specific project and typically offer goods or services in return, but those who back the project receive no stake in the enterprise. And not everyone thinks for-profit businesses should take donations.”

The Fraud Behind a \$14 Million Tip

Jean Eaglesham, Wall Street Journal, 2/27/14

“A record \$14 million whistleblower award paid by the Securities and Exchange Commission last year was for a tip about an alleged Chicago-based scheme to defraud foreign investors seeking U.S. residency, according to people familiar with the payment. The award is by far the biggest arising from a 2010 law designed in part to encourage tipsters to come forward with information about financial fraud. The SEC announced the payment in October without naming the whistleblower or the case, as the law gives tipsters the option to remain anonymous.

“The SEC’s whistleblower program, established under the Dodd-Frank financial-overhaul law, hasn’t produced many payouts: The U.S. agency has paid a total of about \$225,000 in five other awards since the program began operating in August 2011, according to the SEC.”

SEC Rejects NY Fund’s Request For Bank Disclosures

Michael Virtanen, Associated Press, 2/24/14

“The Securities and Exchange Commission has rejected shareholder proposals from New York’s comptroller that would have asked two major banks to disclose which employees are capable of exposing them to major losses because of their portfolios and bonus incentives. SEC staff told Wells Fargo and Bank of America in recent letters ‘there appears to be some basis’ for their view that the disclosures would apply to ordinary business operations and can be excluded from shareholder voting....

“The shareholder proposals ask each bank’s board to identify employees with the ability to expose them ‘to possible material losses’ based on generally accepted accounting principles. Among any identified, they request the number of such employees by division, their aggregate ‘incentive-based compensation,’ and the portion of bonuses dependent on ‘short-term and long-term performance metrics’.”

[SEC Targets 'Reverse Churning' by Advisers](#)

Daisy Maxey, Wall Street Journal, 2/24/14

"[The SEC] says the practice of so-called 'reverse churning'--putting investors in accounts that pay a fixed fee but generate little or no activity to justify that fee--is on its radar. Regulators will be watching for signs of double-dipping by advisers who generate significant commissions within a client's brokerage account, then move that client into an advisory account and collect additional fees."

[House Panel to Examine Key Trading Rule](#)

Andrew Ackerman, Wall Street Journal, 2/24/14

"A House Financial Services Committee panel plans to examine the SEC's Regulation National Market Structure, or Reg NMS, which was designed to ensure electronic stock trading goes to the exchanges posting the best prices. The measure, implemented in 2007, was designed to fuel competition among exchanges but has been blamed for fragmenting the market, in part by spurring the proliferation of 'dark pools,' which are private electronic trading venues that don't publicly display bid and offer prices..."

"The hearing comes amid a debate on whether the speed and complexity of trading in stocks and other securities pose broad risks to markets. SEC Chairman [Mary Jo White](#) and the agency's four other members support a broad review of the agency's market structure rules, including Reg NMS, but there is no consensus on how broad the review should be."

[The Incredible Stock-Picking Ability of SEC Employees](#)

Jia Lynn Tang, Washington Post, 2/27/15

"Forget hiring a top hedge fund to manage your portfolio. Your better bet might be an employee at the Securities and Exchange Commission, according to a new report suggesting that regulators are trading on inside information relating to investigations and upcoming enforcement actions."

"In the report titled '[The Stock Picking Skills of SEC Employees](#),' researchers found that SEC employees' stock purchases look like your average person's. But when these employees sell their stocks, they appear to systematically beat the market by making sales within weeks of costly enforcement actions by the agency."

"These results suggest that SEC employees potentially trade profitably under the new rules, and that at least some of their profits potentially stem from trading ahead of costly SEC sanctions and on privileged non-public information,' write Shivaram Rajgopal, a professor of accounting at Emory University, and Roger M. White, a doctoral student in accounting at Georgia State University."

[Study Finds SEC Staff Sold Shares Before Cases Made Public](#)

Dave Michaels, Bloomberg, 2/27/14

[The SEC Should Really Start a Hedge Fund](#)

Matt Levine, Bloomberg View, 2/27/14

MORTGAGES, FORECLOSURES & HOUSING

Battle Brewing Over Mortgage Debt Tax Relief

Brian Collins, American Banker, 2/25/14

“The fate of a measure that provided key tax relief to distressed homeowners is hanging in the balance as Congress debates a larger package of tax extenders. Lawmakers allowed a law to expire last year that prevents the Internal Revenue Service from taxing mortgage debt forgiven or canceled as a result of modifications and short sales.

“But industry analysts expect Congress to retroactively extend the measure if lawmakers can pass a larger bill that includes roughly 50 tax provisions important to many businesses.”

1 In 5 Homeowners Still Underwater At Year’s End

Trey Garrison, Housing Wire, 2/28/14

“Just under 1 in 5 homeowners are still underwater, according to the latest **Zillow** negative equity report, meaning they still owe more on their mortgage than their home is worth. The national negative equity rate ended 2013 below 20% for the first time in years, dipping to 19.4% of all homeowners with a mortgage.

“More than 9.8 million homeowners are still underwater nationwide. The fourth quarter of 2013 is the seventh consecutive quarter that home values have risen, freeing almost 3.9 million homeowners nationwide in all of 2013.”

Senate Banking GSE Reform Bill Nears Completion

Victoria Finkle, National Mortgage News, 2/14/14

“Senate Banking Committee leaders are expected to soon unveil their highly anticipated bipartisan bill to overhaul the mortgage finance market as the window for moving legislation this year continues to narrow...

“The stakes for the committee and the financial services industry are high. If the lawmakers fail to reach an agreement on a reform plan by spring, it's likely to put the issue on hold for at least a year and could set back efforts to overhaul Fannie Mae and Freddie Mac indefinitely.”

Crossing The Finish Line On Housing Finance Reform

George Mitchell and Mel Martinez, The Hill, 2/27/14

“Many members of Congress support preserving the 30-year fixed-rate mortgage, a unique feature of the U.S. housing market that has greatly benefited consumers, though there are differences on how this objective could be achieved. The Commission believes the widespread availability of long-term fixed-rate mortgage financing depends on some form of a limited government role in the secondary market to support both borrower access to credit and lending capacity critical to the \$11 trillion real estate market. But, to avoid the costly mistakes of the past, we also believe that any backstop should be explicit, contained and fully funded through actuarially sound insurance premiums.

“There is also general acceptance in Congress that the operations of Fannie Mae and Freddie Mac, the two mortgage giants now under government conservatorship, should be wound down over a multi-year transition period. The mechanics of this transition present

some of the most difficult challenges for policymakers, but it is important to move to a new system in a way that promotes housing-market stability, not turbulence.”

[How Housing is Making America's Wealth Divide Worse](#)

Richard Florida, Atlantic Cities, 2/26/14

“The existing gap in median housing prices is enormous and promises to grow even larger by 2018. Among large metros, projected median prices range from more than \$800,000 in parts of the Bay Area to \$155,000 in Indianapolis to just \$86,000 in Detroit.

“These differences become even clearer in the most interesting parts of the report, which dig down into the housing trends and market values. The graph below, from the report, breaks down the 2,200 towns into quintiles, as ranked by the aggregate value of their owner-occupied housing.”

[An Analysis of JPMorgan Chase's Settlement Obligations to Consumers](#)

Andrew Jakabovics and Allison Charette, Enterprise Community, 2/24/14

“In our [newest issue brief](#), we analyze the record-setting settlement deal that JPMorgan Chase reached with the federal government's Residential Mortgage-Backed Securities (RMBS) Working Group for \$13 billion... We project that the bank's \$4 billion obligation will translate into \$4.65 billion in relief for existing homeowners, with an additional \$15 million going to homebuyers, and as much as \$380 million in cash and REO properties allocated to reducing foreclosure-related blight.”

[A Nonprofit Lender Revives the Hopes of Subprime Borrowers](#)

Binyamin Appelbaum, New York Times, 2/25/14

POLITICAL INFLUENCE OF WALL STREET

['DC Quadrakill' and the Theft of America](#)

Theodore J. Cohen, Bucks County Courier Times, 2/26/14

“As a violinist, I am, of course, familiar with quartets... What I was not familiar with was the term ‘DC Quadrakill’... coined by Bart Chilton, soon-to-be-leaving member of the Commodity Futures Trading Commission (CFTC), to describe Wall Street's four-pronged strategy to get its way in Washington...”

“Here's how DC Quadrakill works... 'First, if you don't like a bill, amendment or provision thereof, you try to defeat it with a vote. Just say, then vote, no (or nay, or whatever). If that fails, go to stage two. You can try to defund it through the appropriations process. If that doesn't work, there is stage three. This is where you can try to stop it, change it or delay it through the regulatory rule-making process. If all of those things fail, you can go to DEFCON four: litigation. That's the D.C. Quadrakill: 1. kill bill; 2. defund it; 3. regulate it; and, 4. litigate it'.”

[Republican Wall Street Wants to Lose Faces NC Crisis](#)

Greg Giroux, Bloomberg, 2/26/14

“Representative Walter Jones was a rare Republican who backed tough banking regulations after the 2008 economic collapse. Now [Wall Street](#) wants him out of office.

“[JPMorgan Chase & Co.](#), [Bank of America](#) Corp. and [Wells Fargo & Co.](#) are lining up behind Jones’ primary challenger, Taylor Griffin, an aide in President [George W. Bush](#)’s Treasury Department who later worked for groups that advocated in Washington for the biggest financial services companies.

“I doubt anyone in North Carolina needs me to point out this is a Wall Street bank hit job,” said Jeff Connaughton, a former Democratic Senate aide who worked on parts of the 2010 Dodd-Frank financial regulation law and wrote the book, ‘The Payoff: Why Wall Street Always Wins’.”

Citi on the Potomac

Kate Davidson and MJ Lee, Politico, 2/26/14

“So many former Goldman Sachs executives were in top government jobs at the end of the Bush administration that critics and punsters dubbed the Wall Street giant ‘Government Sachs’. In the Obama administration, however, the name of a different Wall Street bank can be found on the resumes of top economic officials and nominees: Citigroup...”

“The Citi alumni who make up Obama’s economic team include Treasury Secretary Jack Lew, U.S. Trade Representative Michael Froman and Marisa Lago, who has been assistant Treasury secretary for international markets since 2010.”

Carlyle Founders Get \$279 Million in 2013 on Assets Sales

Devin Banerjee, Bloomberg, 2/27/14

“[Carlyle Group LP \(CG\)](#)’s founders received \$92.9 million each last year in pay and cash dividends, an increase of 61 percent from 2012, as the firm took advantage of rising equity markets to sell shares in companies. William Conway, [Daniel D’Aniello](#) and David Rubenstein were each paid a \$275,000 salary, Washington-based Carlyle said today in a filing with the U.S. Securities and Exchange Commission. Each founder also received \$92.6 million in cash distributions during the year from their ownership of partnership units in the company they started in 1987 as a leveraged-buyout group...”

“The American Enterprise Institute, a Washington-based research group, said Feb. 25 it received a \$20 million pledge from D’Aniello for a new building in the Carlyle chairman’s name.”

STUDENT LOANS AND FOR-PROFIT COLLEGES

Regulator Accuses ITT For-Profit College Chain Of Predatory Lending

Ricardo Lopez, Los Angeles Times, 2/26/14

“In its first action against a company in the for-profit college industry, the federal [Consumer Financial Protection Bureau](#) on Wednesday sued [ITT Educational Services Inc.](#), which operates 149 schools in 40 states, including 14 in California. The consumer protection agency alleges that ITT used high-pressure tactics over a five-month period beginning in July 2011 to coerce students into high-interest private loans that were likely to end in default.”

Federal Consumer Agency Sues For-Profit College ITT Tech

David Halperin, Huffington Post, 2/26/14

“The federal Consumer Financial Protection Bureau this morning filed a civil lawsuit against for-profit college company ITT Educational Services, seeking restitution to students allegedly harmed by ITT's private loan programs, a civil fine, and an injunction against the company. The CFPB filed its [complaint](#) in federal court in Indianapolis, near ITT's headquarters...

“CFPB director Richard Cordray charged that ITT ‘misled students by overstating their salaries and job prospects upon graduation’ and then pushed them into predatory high-interest private student loans.”

CFPB vs. ITT

Michael Stratford, Inside Higher Ed, 2/27/14

Lawsuit Seeks Debt Relief for Students of Defunct Trade School

Charles Huckabee, Chronicle of Higher Education, 2/26/14

“... The named plaintiffs include Ana Salazar, a single mother of four who believed the Wilfred Academy's promise of ‘everything you'll need for your beauty career’ was a ticket out of her minimum-wage job as a security guard. Twenty-six years later... Ms. Salazar still doesn't know how to cut hair. She is retired and living on government assistance, and still owes more than \$16,000, with accumulated interest and fees, on a federally guaranteed loan that she obtained after the school enrolled her, even though she could not speak English, did not have a high-school diploma, and had not been given a test that examined her ability to benefit from the course—all requirements for her to be eligible for the loan.”

Suit Seeks Relief for Trade School Students With Years of Debt but No Career

Emily S. Rueb, New York Times, 2/15/14

“[Wilfred] admissions representatives and recruiters sometimes filled out paperwork for prospective students who could not write or speak English, and promised job placement and even scholarships.”

Strayer Posts Loss On Drop In Enrollment

Jeff Clabaugh, Washington Business Journal, 02/21/14

Veteran Bypasses Profit-Driven Schools

Nanette Asimov, SFGate.com, February 22, 2014

“[V]eterans such as Timur Nenaydikh of Daly City say they would never hand over large chunks of change to a profit-driven school while [City College of San Francisco](#) offers classes just up the freeway. ‘I felt like it's a financially better decision,’ Nenaydikh, 24, said over smoothies on Ocean Avenue.”

WOW: You Won't Believe What This For-Profit College Lobbyist Just Said (and Did)

David Halperin, Huffington Post, 2/22/14

“Steve Gunderson, the former congressman (R-WI) who heads APSCU, the lobbying group for America's for-profit colleges, seems to be getting desperate. The industry he represents is seeking once again to block the Obama Administration from issuing a ‘gainful employment’ rule that would, eventually, cut off federal student aid to career training schools that consistently leave their students with overwhelming debt.

“What Gunderson appears to be saying is that a serious gainful employment rule would deny Americans the right to attend a program that is extremely expensive -- so expensive that it would be difficult to pay back your student loans even if you actually managed to obtain the job you were seeking when you enrolled. In other words, the rule might eventually shut down programs that left students \$120,000 in debt and, at best, positioned them for a \$30,000 job as an assistant chef, medical assistant or apprentice electrician, with not enough earnings to pay down their loans.”

[The Bane and the Boon of For-Profit Colleges](#)

Eduardo Porter, New York Times, 2/25/14

“For-profit colleges in many states are lightly regulated, and some have [engaged in egregious fraud](#), including [deceptive marketing](#). They tend to charge higher tuition than community colleges, which get direct funding from states. Their students take on more debt, have a tougher time repaying it and [suffer](#) higher unemployment rates. Still, Mr. Jerome makes an important point: Private for-profit institutions are indispensable players in American higher education, filling a gap that other schools neglect. The goal should be to improve the sector, not shrink it.

“For-profits make up the fastest-growing segment of higher education, accounting for 20 percent of the two-year associate’s degrees granted in the United States, up from 8 percent two decades ago. Their share of bachelor’s degrees has risen to 7 percent, from virtually nothing.”

[NY Times Columnist Spun by For-Profit College Misinformation](#)

David Halperin, Huffington Post, 2/26/14

“*New York Times* economic columnist Eduardo Porter has a [piece](#) this morning seeking to raise doubts about the Obama administration’s proposed ‘gainful employment’ rule...Porter’s conclusion is that America’s for-profit colleges are ‘indispensable’: ‘The United States must satisfy a growing demand for higher education, particularly from low-income students. If for-profit colleges are discouraged from fulfilling it, somebody else has to’.”

“But the issue is not whether government should ‘discourage’ for-profit colleges from educating students. The whole point of the gainful employment provision written into federal law, and of the pending regulation, is to *encourage* career colleges, for-profit or otherwise, to provide students with quality, affordable educations that will actually prepare them for careers without burying them in debt.”

[Vocational School Withdraws Public Funding Request In Evanston](#)

Jenny Fisher, Evanston Review, 2/25/14

“The founder of a private vocational school planned for Downtown Evanston is withdrawing a request for public funding, but plans to go forward with opening the school...”

[For-Profit Schools Can’t Dodge This Bullet Any Longer](#)

James Brumley, Investor Place, 2/25/14

“... While the idea that many of these schools’ programs were worthless had quietly been whispered for years, as it turns out, investigators might be about to prove it in a more significant context. Specifically, the allegation is that these companies knowingly don’t make its students any more marketable in the workplace, yet they saddle students with

debt they'll never be able to repay. And the arguments might be coming to a courtroom near you sooner than later.”

Banks Take Interest in College Lending

AnnaMaria Andriotis, Wall Street Journal, 2/24/14

“The seven largest private lenders to students issued nearly \$6.9 billion in loans last year, up 8.1% from the previous year, according to data compiled for The Wall Street Journal by MeasureOne, a San Francisco firm that tracks the student-loan market.”

The Robber Barons of the For-Profit College Sector

Brent Staples, NY Times Editorial Notebook, 2/27/14

“Honest, well-run for-profit colleges can be helpful to students who do not qualify for traditional schools. But the robber barons in the for-profit sector represent a menace that requires more federal oversight. They saddle students with crushing debt while furnishing them useless degrees – or no degrees at all. These schools have been known to push students who are eligible for low-cost, federal loans into ruinously priced private loans that have fewer consumer protections and that give borrowers who get in trouble little choice but to default. That in turn makes it difficult for them to find jobs, get credit or rent apartments. And because private student loans are difficult to escape through bankruptcy, the stricken borrower might never recover.

“Attorneys general in 32 states are [actively pursuing](#) this problem . This week the federal Consumer Financial Protection Bureau finally got into the act. On Wednesday it [filed suit](#) against an Indiana-based for-profit chain, ITT Educational Services, Inc., which has tens of thousands of students enrolled online or at one of roughly 150 institutions in nearly 40 states. The bureau, which paints a damning portrait of the company’s policies, accuses the chain of practicing ‘predatory student lending.’”

Attorneys General Take-On For-Profit Universities

ABC5, Des Moines, Iowa, 2/27/14

Indiana For-Profit College New Federal Agency's First Target

Editorial, Fort Wayne Journal Gazette (Fort Wayne), 2/28/14

SYSTEMIC RISK

Too Big to Fail Is Too Big to Ignore

Ira M. Millstein and Ricardo R. Delfin, Bloomberg View, 2/24/14

“The 2010 Dodd-Frank Act created such a regime. Regulators, to their credit, have responded by implementing the law’s prohibition against using taxpayer funds to keep open failed institutions and by creating a transparent, clearly defined process to manage the failures of large, systemic financial companies.

“Yet, even with meaningful progress, real doubts remain about the end of too big to fail. One reason is that regulators still have many substantive reforms left to deliver before the next failure. But another reason is that the public and the markets simply don't believe the government can or will let such large companies fail when the time comes.”

TAX REFORM

[Biggest Banks Said to Face Asset Tax in Republican Plan](#)

Richard Rubin, Bloomberg, 2/25/14

“The biggest U.S. banks and insurance companies would have to pay a quarterly 3.5 basis-point tax on assets exceeding \$500 billion under a plan to be unveiled this week by Congress’s top Republican tax writer.

“The proposal by Representative [Dave Camp](#), chairman of the House Ways and Means Committee, would raise taxes for about 10 companies -- the largest banks along with non-bank institutions such as General Electric Co.’s financing arm -- deemed systemically important. A House Republican aide with knowledge of the plan described it on condition of anonymity.

“The tax, which would raise \$86.4 billion for the U.S. government over the next decade, would likely affect JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc., Wells Fargo & Co., Goldman Sachs Group Inc. and Morgan Stanley, all of which had more than \$500 billion in assets as of Dec. 31, according to the [Federal Reserve](#). “

[How to Fix Our Appalling Tax Code](#)

Dave Camp, Wall Street Journal, 2/25/14

[Wall Street Threatens GOP Over Bank Tax](#)

Jake Sherman, Anna Palmer and Lauren French, Politico, 2/28/14

“Wall Street is warning Washington Republicans: the money spigot is turning off. Rep. Dave Camp’s tax proposal - which jacked up taxes on banks and threatens the bottom line of some major private equity players in New York - has infuriated donors in high-finance. Private equity and investment firms in New York are telling key Republican players in D.C. that commitments for big-dollar fundraising have been ‘canceled for the foreseeable future,’ according to one GOP lobbyist with knowledge of the conversations.

“Lobbyists for Bank of America, Goldman Sachs and J.P. Morgan and others are meeting privately with lawmakers to explain what the bank tax would cost and how it would function. Big banks want to turn Republicans against the bank tax. The situation puts the party at risk of seeing a reliable source of campaign cash dry up right in the middle of a critical election year.”

[Speculation Tax Gains Momentum \(and a movie\)](#)

Jim Lardner, AFR Blog, 2/21/14

ENFORCEMENT

[Morgan Stanley Reaches Agreement With S.E.C. on Mortgage Bonds](#)

Michael Corkery, New York Times, 2/15/14

“[Morgan Stanley](#) has tentatively agreed to pay \$275 million to resolve a federal securities investigation related to subprime mortgage bonds the investment firm underwrote in 2007. [In a filing late Tuesday](#), Morgan Stanley said it had reached an ‘agreement in principle’ with the staff of the [Securities and Exchange Commission](#) to settle the case. As part of the

agreement, the investment firm would be charged with violating certain securities rules, but the company did not disclose the details of the S.E.C.'s case.

"The firm said it would not admit any wrongdoing in the matter, which represents one of the final cases that the agency was building against a Wall Street firm over its activities leading up to the financial crisis."

[Morgan Stanley In Preliminary Deal To Settle Probe](#)

Ken Sweet, Associated Press, 2/26/14

"The SEC has been investigating Morgan Stanley, like many other Wall St. firms, for their practices leading up to the subprime mortgage crisis. The products in question, in Morgan Stanley's case, are residential mortgage bond products that were sponsored and underwritten by Morgan Stanley in 2007."

[Another Wall Street Firm Seems Set to Buy Its Way Out of a Legal Jam](#)

Scott Martelle, Los Angeles Times, 2/27/14

"[Morgan Stanley](#) said this week that it has a preliminary agreement with the Securities and Exchange Commission to pay a \$275-million fine to end an investigation of its subprime mortgage business (the SEC has yet to accept it). Oh, and it won't have to admit that it did anything wrong. And since it didn't do anything wrong, no one in the firm was guilty of anything.

"How neat and tidy. And how obscene."

[Morgan Stanley Agrees to Pay \\$275 Million to End SEC Probe](#)

Michael J. Moore, Bloomberg, 2/25/14

[SunTrust Says Could Face "Substantial Penalties" In Mortgage Probe](#)

Andrew R. Johnson, Reuters, 2/25/14

"[SunTrust Banks Inc](#) said it may attract 'substantial penalties' from on an ongoing mortgage-related probe and also disclosed a new investigation by the Department of Justice, according to a regulatory filing late Monday..."

"The investigations focused on whether the bank harmed borrowers and violated civil or criminal laws by failing to properly process applications for loan modifications under the Home Affordable Modification Program, or HAMP."

[Madoff Ex-Aide on Trial Confronted With Backdated Records](#)

Erik Larson, Bloomberg, 2/28/14

"The woman who ran [Bernard Madoff](#)'s investment advisory business admitted she didn't tell federal investigators in 2009 that her duties included backdating trades and turning stocks into bonds with a few pen-strokes..."

[Madoff Aide 'Never Heard Of A Ponzi Scheme' Until Boss' Bust](#)

Rich Colder, New York Post, 2/27/14

[Prudential Discloses Dispute With New York Regulator on Reserves](#)

Zachary Tracer, Bloomberg, 2/27/14

“Prudential Financial Inc., the second-largest U.S. life insurer, said the [New York](#) Department of Financial Services has told the company that it may not be holding enough reserves to back some savings products.

“The regulator ‘has notified us that it does not agree with our calculation of statutory reserves,’ Newark, New Jersey-based Prudential said today in a regulatory filing with the U.S. Securities and Exchange Commission. ‘We are currently in discussions with the NY DFS regarding the proper level of statutory reserves’.”

[Corzine Seeks Dismissal of CFTC Claims Over MF Global](#)
Karen Gullo, Bloomberg, 2/24/14

[Powerful Banker Used Inside Info to Trade Through Ex’s Account: SEC](#)
Josh Kosman, New York Post, 2/21/14

“Perk Hixon, a powerful New York investment banker, on Friday became the latest Wall Street high-flyer to crash into Manhattan US Attorney Preet Bharara’s sprawling insider-trading probe. The 55-year-old ex-Evercore Partners executive, using illegal inside information from 2010-2013, brazenly traded shares through accounts of an ex-girlfriend and his father to net nearly \$1 million in profits, prosecutors charge.”

[Paying the Price for Insider Trading Profits](#)
Peter J. Henning, New York Times, 2/24/14

“Can a criminal be held responsible for what others gained from his violation? An appeals court answered ‘yes’ when the crime was insider trading and the profits went to a hedge fund rather than directly to the defendant...”

[Latest Government Probes Of Bofa Target Foreign Exchange, FHA Issues](#)
E. Scott Reckard, Los Angeles Times, 2/26/14

[Credit Suisse Helped Wealthy Americans Cheat The IRS, Senate Report Says](#)
Danielle Douglas, Washington Post, 2/26/14

“The allegations were particularly stunning in the face of the budget cuts and deficits that the United States faces, lawmakers said. The report casts the Justice Department as a hapless enforcer that has dragged its feet in getting Credit Suisse to turn over the names of some 22,000 U.S. customers.”

[Swiss Bankers Say Shielding U.S. Money From Taxes Is 'Mistake'](#)
Jim Puzzanghera, Los Angeles Times, 2/26/14

“‘We would all face criminal indictments in Switzerland and most probably prison terms if we would hand over these client names without the permission of the Swiss government,’ Credit Suisse General Romeo Cerutti said at a Senate subcommittee hearing Wednesday into the bank’s activities...”

“An angry Sen. [Carl Levin](#) (D-Mich.), who has led a six-year crusade against offshore tax evasion, told four Credit Suisse executives that their regrets and promises of changed ways were hollow if they did not help U.S. authorities track down the tax cheats. ‘You hide behind the Swiss law even though you’re operating here, and that’s just simply not going to cut it,’ he said.”

OTHER TOPICS

Wall Street Boys Gone Wild

Dean Baker, Counter Punch, 2/25/14

“... Besides arrogance and a complete lack of shame or moral standing, what do the Too Big To Fail banks, Boeing, and Comcast all have in common? They are too big for our own good... And they have too much political power as well. The only reason these companies can get away with that they do is the enormous political power they wield over elected officials and regulators.

“When Adam Smith wrote about free markets in 1776, monopoly power and monstrously sized corporate conglomerates was not what he had in mind. He believed in the power of market competition, and there is no market competition when these big corporations do insider deals to rig the game in their favor, or when they get big enough to simply eliminate their competitors in market after market... That is what the modern mega-corporation is doing. They are killing off or buying off their competitors, and they are buying off the government officials who should be stopping them from abusing the rest of us as well.”

Corporate Power Run Amuck

Michael Lux, Daily Kos, 2/25/14

“Besides arrogance and a complete lack of shame or moral standing, what do the Too Big To Fail banks, Boeing, and Comcast all have in common? They are too big for our own good. Corporations that gargantuan have too much market power to serve their customers well: when you have no other choice but a monopoly provider, you are simply screwed. And they have too much political power as well. The only reason these companies can get away with that they do is the enormous political power they wield over elected officials and regulators.”

Center Wins Polk Award For Financial Coverage

Center for Public Integrity, 2/17/14

“The Center for Public Integrity has won a prestigious George Polk award for its ‘After the Meltdown’ series, which revealed that many of the major players responsible for the 2008 financial crisis have faced few consequences for their actions.

“The four stories in the ‘After the Meltdown’ series were published five years after Lehman Brothers Holdings Inc. went bankrupt. The Center’s key findings revealed that:

- “The mortgage executives at Bear Stearns Cos. Inc., who led that firm down a path to its own destruction, are [now doing similar work](#) for Bear’s former competitors.
- “The chief executive officers of five of the major Wall Street banks that got into the most financial trouble in 2008 are all [living in luxury](#), none of them having faced any criminal or even civil liability for their mismanagement.
- “The top executives — many of them founders — of every one of the 25 largest subprime lenders from the boom years 2005 through 2007 are [back in the mortgage lending business](#).
- “The majority of the regulators tasked with preventing or cleaning up the meltdown are [back in the private sector](#), earning big fees from writing books and lecturing about their experience.”

Goldman Fraudster Fab Tourre to Teach Honors Class

Michelle Celarier, New York Post, 2/25/14

“Former Goldman Sachs banker and securities scammer Fabrice Tourre has landed a new gig: teaching an honors economics class at the prestigious University of Chicago... The jury found Tourre liable on six charges of fraud for perpetrating the \$1 billion deceptive sales of a complex array of mortgage securities to institutional investors in 2007...

“Yes! Embrace the darkness! When has the UChicago economics department ever worried about the rule of law?’ commented a person calling himself ‘The Ghost of Milton Friedman’ on the university newspaper’s website announcing Tourre’s new class.”

Leader Cantor Announces #StopGovtAbuse Week

Press Release, majorityleader.gov, 2/11/14

“House Majority Leader Eric Cantor (R-VA) announced that on the week of February 24th, the House will consider another series of measures to stop government abuse and hold the Obama Administration accountable for its executive overreach.

“The Obama Administration continues to abuse its power through selective enforcement of the laws and the use of executive actions to bypass Congress. Each day, hard-working, middle class Americans are worried about their jobs, worried about their health care, and worried about whether they will ever be able to get ahead. This month, the House will consider another package of bills to address government abuse that is threatening people’s liberty and their hard-earned paychecks. The House will act to hold the Obama Administration accountable for its continual overreach. The American people expect and deserve better from their government’.”

The Regulatory Accountability Act: Or How to Defeat the Public Interest in Just 65 Easy Steps

James Goodwin, Center for Progressive Reform, 2/24/14

“Cue the majestic fanfare, for this week marks House Republicans’ so-called ‘Stop Government Abuse Week’—you know they mean business, because they have a [clever Twitter hashtag](#) and everything. So how does one celebrate such an auspicious occasion? Apparently, by wasting precious House floor time with a series of votes on several extreme anti-regulatory bills that, if enacted, would make it all but impossible for agencies to carry out their congressionally mandated missions of safeguarding the public against corporate abuses. The jewel in this potentially catastrophic crown is the Regulatory Accountability Act, which has been repackaged as Title II of the overstuffed ‘Regnibus’ bill, officially known as the All Economic Regulations are Transparent (ALERT) Act.