AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
MAY 24 – 30, 2014

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CONSUMER FINANCE AND CFPB

Justice Department Probes Banks for Fraud
Danielle Douglas, Washington Post, 5/30/14
"Federal prosecutors are conducting 15 criminal and civil probes into whether banks and payment processors ignored signs of fraudulent transactions, according to documents released Thursday by the House Oversight and Government Reform Committee.

The Justice Department handed the panel nearly 600 pages of internal memos about "Operation Choke Point," a controversial effort to cut off scammers' access to the financial system. Committee Chairman Darrell Issa (R-Calif.) has been an outspoken critic of the operation, accusing the Obama administration of trying to shut down legitimate businesses it deems undesirable, such as payday lenders, under the guise of rooting out fraud…

"Prosecutors have issued subpoenas to 50 banks and six payment processors that may have enabled merchants to illegally withdraw money from consumers' accounts in a bid to boost their own take from the transactions, according to a November 2013 memo by Deputy Assistant Attorney General Maame Ewusi-Mensah Frimpong."

House Panel Calls for Dismantling of 'Operation Choke Point'
Kevin Wack, American Banker, 5/30/14
"A Republican-led congressional panel is accusing the Department of Justice of overstepping its legal authority and unfairly harming legitimate merchants as part of an investigation into fraudsters' use of the banking system. In a 12-page report released Thursday, the staff of the House Oversight Committee calls for the dismantling of the DOJ's investigation, which is known as Operation Choke Point…"

Phone Swindlers Tap Into Fear and a Sense of Duty
Elizabeth Olson, NY Times, 5/23/14
"Before Betty Bell, 88, even got out of bed, the telephone jolted her awake at 7 a.m. The male voice on the line said that a police officer was coming to arrest her for shirking her civic duty.

"'He told me he was from the courthouse and I had been called for jury duty, but I had not shown up. So they were sending someone over to arrest me,' said Mrs. Bell, a retired accounting and payroll clerk for New Jersey Bell, who moved to the Overland Court Senior Living residence in Boise, Idaho, three years ago. Just as the caller got to the part about how much she needed to pay to avoid arrest, she passed the phone to a nurse's aide who had just walked in the room. The caller hung up.

"Mrs. Bell was luckier than others who have been tricked into sending money in response to such threats…"

We Almost Fixed The Credit Card Industry. Here's What's Left to Do
Danielle Douglas, Washington Post, 5/23/14
"Not too long ago, credit card companies could jack up your interest rate or change your payment due date without warning, a tactic that, not surprisingly, led to late payments. And if you paid late or exceeded your credit limit, you'd get hit with hefty fees. But no more.

"All of those sorts of abusive — and very lucrative — practices are no longer the norm thanks to the Credit Card Accountability, Responsibility and Disclosure (CARD) Act. The landmark legislation to clean up the credit card industry was signed into law five years ago this week, and it has since shed light on the once opaque pricing structure that allowed credit card companies to put the screws on customers."

Scammy, Scammier, Scammiest
Emily Robinson, FTC Blog, 5/30/14
"Many issues were highlighted at last week's Common Ground Conference on Native American Issues, held in Albuquerque. And some of the scams are things we see in other communities, all over the country. However.

"The scammy practices in Indian Country are among the most egregious we've seen in our collective decades of lawyering. Being a consumer in Indian Country is evidently harder (and riskier) than being a consumer elsewhere.

"Imagine, for example, being effectively held hostage in a car dealership, hours from your home. The dealer brought you there, won't let you leave until you sign a contract, and you have no other way to get home. So you sign, make your escape – and wind up with triple-digit APR on your loan. For a car that might not even run…"

How Wal-Mart and Google Could Steal Young Customers from Traditional Banks
Danielle Douglas, Washington Post, 5/27/14

DERIVATIVES, COMMODITIES & THE CFTC

CFTC Should Reconsider Swaps Advisory, Acting Chairman Says
Andrew Ackerman, Wall Street Journal, 5/29/14
"The Commodity Futures Trading Commission erred in issuing controversial guidance that extended a raft of new U.S. swaps rules to overseas banks, CFTC acting Chairman Mark Wetjen said, the latest sign of a softer tone at a regulator in the midst of a leadership transition.

“Mr. Wetjen said Thursday the CFTC should reconsider a November ‘advisory’ notice requiring overseas banks to adhere to U.S. rules if they book a swaps deal abroad but use U.S. located personnel to arrange, execute or negotiate the transaction. He suggested the advisory, released as former Chairman Gary Gensler's tenure was winding down, wasn't consistent with the CFTC's broader commitment to recognize overseas swaps rules as comparable to its own…

“Mr. Wetjen's comments reflect a continuing about-face by the CFTC, which under the leadership of Mr. Gensler, had pushed to broadly impose U.S. rules abroad…”

High-Frequency Perks Said Focus of CFTC Review Cited by Virtu
Matthew Leising, Bloomberg, 5/29/14
“The CFTC wants to know who gets trading fee discounts, how much money they save, and whether programs to reward early adopters of new futures contracts ever end, according to the person, who asked to not be named because the review is private. Attracting firms to a new product such as a financial or agricultural future is profitable for exchanges since once established, they often don’t gain momentum on other venues.”

Landrieu Says She Will Oppose Bowen Confirmation for U.S. CFTC
Silla Brush, Bloomberg, 5/28/14
“Senator Mary Landrieu, a Louisiana Democrat, said she opposes the confirmation of Sharon Y. Bowen to serve on the Commodity Futures Trading Commission because of her oversight of a panel that ruled against compensating victims of the R. Allen Stanford Ponzi scheme.

“Landrieu said in a statement today that Louisiana constituents ‘were thrown into financial upheaval’ by the scheme and that the Securities Investor Protection Corp., under Bowen’s leadership, decided against compensating them. Landrieu is the first Democrat to publicly announce opposition to Bowen, who could face a confirmation vote next week. Senator David Vitter, a Louisiana Republican, has also said he opposes Bowen because of the Stanford rulings.”

How The Congressional Black Caucus Went to War With Itself Over Wall Street
Zach Carter and Ryan Grim, Huffington Post, 5/27/14
“The assault on Dodd-Frank relies on support from three different groups. The GOP isn't shy about its antipathy to government regulations, and a pro-business coalition known as the New Democrats has come to its aid. But there is also a third, lesser-known faction: the Congressional Black Caucus. Moore, along with colleagues such as New York's Gregory Meeks, Georgia's David Scott, Missouri's Lacy Clay and Alabama's Terri Sewell, has pushed for a host of seemingly arcane measures that would undermine Dodd-Frank's rules on financial derivatives, the complex contracts at the heart of the 2008 meltdown. She is the co-sponsor of multiple measures that would once again allow Wall Street to shift its riskiest transactions out of the view of regulators.

“The CBC is not an organization known for airing its dirty laundry in public. But over the last year, the tawdriness of its pro-Wall Street votes has become so blatant that several members have started to push back, led by Maxine Waters, the veteran Los Angeles legislator who serves as the top Democrat on the financial services panel. To many in the CBC, it feels like a battle for the storied caucus's soul -- and the result could dictate the direction of economic policy for the Democratic Party at large…”

ENFORCEMENT

U.S. Said to Seek More than $10 Billion Penalty from BNP
Tom Schoenberg and Fabio Benedetti-Valentini, Bloomberg, 5/30/14
"BNP Paribas SA (BNP) fell the most in 15 months in Paris trading after a person familiar with the matter said U.S. authorities are seeking more than $10 billion to settle federal and state investigations into dealings with sanctioned countries including Sudan and Iran…

"A final deal between BNP and the U.S. is probably weeks away, said the person, who asked not to be identified because the talks aren't public. The amount to settle has escalated: the bank said in April that it might need to pay far more than the $1.1 billion it had already set aside for the case. Prosecutors are also pressuring the company to plead guilty to moving funds for clients in violation of sanctions against Sudan, Iran and Cuba, people familiar with the matter have said."

Justice Dept. Seeks More Than $10 Billion Penalty From BNP Paribas
Devlin Barrett, David Enrich & Christopher M. Matthews, Wall St. Journal, 5/29/14
"A final resolution of the yearslong U.S. investigation of the French bank is likely weeks away, and it is possible the ultimate settlement amount could total far less than $10 billion. BNP is looking to pay less than $8 billion, according to the people familiar with the settlement discussions… BNP and the U.S. authorities also are negotiating whether the bank will temporarily lose the ability to transfer money into and out of the U.S., the people said."

Are Some Banks Still Too-Big-to-Jail?
Mark Calabria and Lisa Gilbert, USA Today, 5/23/14
"With the Credit Suisse case, the DOJ consulted with relevant regulators as it weighed its prosecutorial and judicial options. Regarding the involvement of JP Morgan Chase in the Madoff Ponzi scheme, recent reports indicated that DOJ prosecutors met with the Office of Comptroller Currency (OCC). The DOJ has remained silent on what it learned from the OCC, but it appears the OCC believed it would have to consider revoking JP Morgan Chase's charter in the event of a guilty plea. Such coordination is responsible and prudent of the DOJ, but also raises the question as to how the consultations steer the DOJ's decision-making.

"The public and the Congress deserve to know whether and why justice may be calibrated based on the size of an institution. If a smaller bank facilitated tax evasion or laundered money, would regulators revoke its license and effectively put it out of business? If systemic repercussions would follow license revocation, does this justify a meeker penalty? And who makes this decision?"

Ex-Barclays New York Trio Face Libor Charges in U.K. Court
Suzi Ring, Bloomberg, 5/27/14

Former Goldman Trader Tourre Says He Will Not Appeal
Ben Protess, New York Times, 5/27/14
"Mr. Tourre, who made millions during his Goldman tenure, has already paid the S.E.C. $825,000 in penalties and other costs. And an appeal could have complicated, or at

least distracted from, his pursuit of a doctorate in economics from the University of Chicago."

SEC Vows More Use of a Little-Used Tool
Peter J. Henning, New York Times, 5/27/14
"It is rare that the Securities and Exchange Commission announces a new approach to pursuing violations. Mary Jo White, the agency's chairwoman, did just that last week when she pointed to a seldom-used provision of the federal securities laws that the S.E.C. will employ against people who use others to do their bidding.

In a speech at a white-collar crime conference sponsored by the New York City Bar Association, Ms. White said that 'One new approach to charging individuals is to use Section 20(b) of the Exchange Act…' Section 20(b) provides that 'It shall be unlawful for any person, directly or indirectly, to do any act or thing which it would be unlawful for such person to do under the provisions of this chapter or any rule or regulation thereunder through or by means of any other person.' Under the criminal law, this is known as the 'innocent instrumentality' doctrine, which allows someone to be held responsible for using another person to engage in illegal conduct if that person did not intend to commit a crime."

Delay Sought in SEC Case Against Steven Cohen
Matthew Goldstein, New York Times, 5/28/14
"It could be months, maybe even years, before there is a resolution of the Securities and Exchange Commission's administrative case against the billionaire investor Steven A. Cohen, whose former hedge fund pleaded guilty to insider trading…

"While eight former employees of Mr. Cohen have either been convicted of or pleaded guilty to charges of insider trading at SAC, the man who founded the firm in 1992 with just $25 million has never been charged with criminal wrongdoing."

Former SAC Trader Martoma Seeks Lenient Sentence
Matthew Goldstein, New York Times, 5/28/14

Former Top JPMorgan Banker in Britain Loses Appeal in Insider Case
Chad Bray, New York Times, 5/28/14

Judge Blocks Subpoenas to Protect Informant in Market-Manipulation Case
Christian Berthelsen, Wall Street Journal, 5/29/14

EXECUTIVE COMPENSATION

Chamber of Commerce Claims Calculating How Much More CEOs Make Than Their Workers Is 'Egregious'
Bryce Covert, Think Progress, 5/23/14
"This week, the Chamber of Commerce released a report claiming that a new requirement under the 2010 Dodd-Frank financial reform bill that corporations calculate and disclose the ratio of CEO pay to an average worker's pay is 'egregious…' The report notes that the Securities and Exchange Commission, which has to issue the regulation,

estimated that the new rule would require an average of just 190 extra hours of paperwork each year per company, costing an extra $18,000.

"But the Chamber contends that different data that it gathered from surveying 118 companies, or 3.1 percent of covered businesses, show the costs would be higher. The companies said it would take an average of 952 hours each year to comply, costing them $185,600. Yet it also says that 13 companies reported it would cost them less than $10,000 and 'a few' said it would cost almost nothing…

"But these costs don't have to be nearly so high. As Bartlett Naylor, financial policy advocate at Public Citizen, points out, the proposed rule would permit statistical sampling, which wouldn't require corporations to collect all compensation data for every worker across the company. 'The Chamber's own data reveal that some companies can complete the calculation for $10,000, which is already an exaggeration,' he says in a press release. 'A well-managed company should already know how much its employees make.'"

CEO Pay Rises Moderately; a Few Reap Huge Rewards
Theo Francis and Joann S. Lublin, Wall Street Journal, 5/27/14
"The Wall Street Journal's annual compensation survey found that, for all the debate around high CEO pay, the biggest rewards go to a relative handful of executives at the very top, and that their pay doesn't necessarily correlate to their company's size or results. This year's survey looked at 2013 compensation for CEOs at 300 large, U.S.-traded public companies. It found the top 10% by pay earned 23% of the total compensation, while the bottom 30% accounted for just 13% of the total.

"The three highest-paid CEOs— Oracle Corp.'s Larry Ellison, CBS Corp.'s Leslie Moonves and Liberty Global PLC's Michael T. Fries —made a total of $188 million, more than the combined pay of the 50 CEOs at the bottom of the same list."

Let's Stop Subsidizing Economic Inequality
Katrina Vanden Heuvel, Washington Post, 5/28/14
"Sarah Anderson, director of the Global Economy Project at the Institute for Policy Studies, recently asked in a speech at the New Populism Conference in Washington, "Why should our tax dollars subsidize economic inequality?" Why must you and I foot the bill, via our taxes, for the callousness of Wal-Mart or Domino's?

"The chasm between C-suite pay and minimum wage may be wider than ever before — in 2013, according to the AFL-CIO, CEOs of Fortune 500 companies made 774 times as much minimum wage workers — but, as Anderson points out, many people have grown tired of waiting for a solution to emerge from the maw of Washington and are instead taking the initiative themselves. "Just like on the minimum wage," Anderson told the conference, "people aren't waiting for Washington to lead on CEO pay. We're seeing an unprecedented explosion of bold creative action outside Washington." In Sacramento, Providence and other capitals, state-level activism and legislation are taking care of business that the House and Senate have chosen to ignore."

FEDERAL RESERVE

Senators Tell Obama: Fed Nominees Should Aim to Take On Wall Street
Vitoria McGrane, Wall Street Journal, 5/28/14
"The White House has been getting an earful in the past year from members of the Senate Banking Committee, who haven't been shy about suggesting criteria for nominees at the Federal Reserve.

"On Wednesday, Sens. Jeff Merkley (D., Ore.) and Elizabeth Warren (D., Mass.) continued with such unsolicited advice, sending a letter to President Barack Obama urging him to fill two vacant seats on the Fed's seven-member board with nominees possessing an interest in financial regulation and a desire to address the problems revealed by the 2008 financial crisis…

"The letter reflects the long-running concern of the senators that, with the exception of Fed Governor **Daniel Tarullo**, the highest-ranking Fed officials aren't paying enough attention to the central bank's considerable bank oversight responsibilities. They worry that too much of the work is delegated to staff as opposed to the officials who are accountable to Congress debating and engaging on these issues."

Federal Reserve Lacks Official to Oversee Regulatory Efforts
Victoria McGrane, Wall St. Journal, 5/26/14
"The Federal Reserve has aimed a seemingly nonstop spate of rules at the nation's biggest banks as it tries to wring risk out of the U.S. financial system in the wake of the financial crisis. Yet the central bank still lacks a Senate-confirmed official to formally oversee its continuing regulatory efforts.

"Tucked into the 2010 Dodd-Frank law was a newly created Vice Chairman for Supervision position—a post lawmakers intended to help hold the central bank more directly accountable for its oversight duties. Nearly four years later, President Barack Obama has yet to nominate anyone to the Senate-confirmed vice chairman post, which stipulates twice-yearly testimony before Congress.

"The lack of a confirmed vice chairman is prompting criticism from lawmakers and others who say it allows the Fed to skirt congressional accountability."

Liberal Senators Call for Finance Watchdogs to Fill Fed Vacancies
Peter Schroeder, The Hill 5/28/14

INVESTOR PROTECTION AND THE SEC

SEC's Lack of Progress on Reform Rules Frustrates Officials
Gina Chon, Financial Times, 5/27/14
"The pace of passing major financial reform rules has slowed to a crawl at the US Securities and Exchange Commission, frustrating some officials at the SEC and at other regulatory agencies who are upset by the lack of activity, according to people with direct knowledge of the matter.

"While the SEC has issued numerous enforcement actions this year, the agency has made little progress on more than 40 rules on its 2014 agenda. Most of those rules stem from the 2010 Dodd-Frank financial reform legislation passed in reaction to the 2008 financial crisis, and the Jobs act, which makes it easier for smaller start-ups to go public.

"When Mary Jo White took over as head of the SEC more than a year ago, there was hope that the dysfunctional discord that permeated the agency under her predecessor would ease, clearing the way for more rulemaking. While Ms White has been praised for her aggressive stance on enforcement and eased tensions among commissioners, critics question why more has not been done to pass new regulations. Ms White sets priorities for the SEC and controls the agency's calendar."

As Information Flows, SEC Faces Difficulty Bottling It Up
Steven M. Davidoff, New York Times, 5/27/14

The Deal's Done. But Not the Fees.
Gretchen Morgenson, New York Times, 5/24/14
"[F]or Blackstone and the other private-equity partnerships in the deal — overseen by Goldman Sachs, Kohlberg Kravis Roberts and TPG Capital — this deal will be a gift that keeps giving. That's because, beyond the profits they share with their clients, they will be paid millions more in fees — for work that they are never going to do.

"In addition to a 20 percent share of gains from the sale, as well as management fees of 1.5 percent to 2 percent charged to investors, the private equity firms will also share in an estimated $30 million in 'monitoring fees.' These fees were to be charged through 2017, but given that the deal is expected to close early next year, Blackstone, Goldman Sachs, KKR and TPG will be paid for two years of services that Biomet isn't receiving.

Where Have All the Fiduciaries Gone? Even Rich People Can't Escape Being Screwed
Yves Smith, Naked Capitalism, 5/30/14
"A lawsuit filed against Deutsche Bank by two former senior wealth management employees demonstrates a basic problem: even rich people find it difficult to get people to manage their money who won't take advantage of them. Here, the former employees allege that Deutsche Bank repeatedly pressed account managers to violate their fiduciary duties and stuff discretionary accounts with risky products like start-up hedge funds, even when the customer was clear it wanted only low-risk products."

Defusing a Savings Bomb – for Now
Mary Kissel, Wall St. Journal, 5/29/14
"The Obama administration tends to regulate first and ask questions later, which makes this week's retreat from a Department of Labor regulation particularly notable. The innocent-sounding 'Conflict of Interest Rule-Investment Advice' is so destructive to the investment-advice industry that even Democrats can't support it.

"Meeting a fiduciary standard would also subject advisors to more regulation and legal liability, raise costs for consumers and reduce the availability of sound investment advice to unsophisticated investors. Consultancy Oliver Wyman estimated in 2011 that the Borzi rule could increase costs by 75% to 195%. An April study commissioned by the industry and conducted by Quantria Strategies noted the rule would particularly hurt low-income African-Americans and Hispanics."

MORTGAGES, FORECLOSURES & HOUSING MARKET

Wall Street Finds New Subprime With 125% Business Loans
Zeke Faux, Bloomberg, 5/22/14
"Doug Naidus made his fortune selling a mortgage company to Deutsche Bank AG months before the U.S. housing market collapsed. Now he's found a way to profit from loans to business owners with bad credit.

"From an office near New York's Times Square, people trained by a veteran of Jordan Belfort's boiler room call truckers, contractors and florists across the country pitching loans with annual interest rates as high as 125 percent, according to more than two dozen former employees and clients. When borrowers can't pay, Naidus's World Business Lenders LLC seizes their vehicles and assets, sometimes sending them into bankruptcy.

"Naidus isn't the only one turning to subprime business lending. Mortgage brokers and former stock salesmen looking for new ways to make fast profits are pushing the loans, which aren't covered by federal consumer safeguards."

Home Prices Start Easing, to the Relief of Experts
Shaila Dewan, New York Times, 5/27/14
"A steep gain in home prices in many markets that helped lift millions of Americans out of the red on their mortgages is now markedly slowing, with new data from the Standard & Poor's/Case-Shiller national home price index on Tuesday showing that the annual growth in prices had eased in March to 10.3 percent, from the previous year's increase of 11.4 percent.

"But analysts said that the softening of price gains, rather than a worrisome trend, may actually be welcome news. Double-digit increases cannot go on forever, and many economists are using words like 'sustainable' and 'stable' to describe the slowdown, saying the market is becoming healthier. Foreclosures make up a smaller percentage of sales, and the higher prices have caused investors to back off, leaving the bigger question of whether housing is affordable and mortgages are accessible to average families that want to buy."

REVOLVING DOOR & POLITICAL POWER OF WALL STREET

Wells Fargo Becomes Comfortable In DC
Kate Davidson and MJ Lee, Politico Pro, 5/28/14
"Wells Fargo for years was the odd duck of big banks when it came to Washington. It kept a lower profile when lobbying lawmakers and regulators, compared to its large counterparts like JPMorgan Chase and Citigroup. And it took pride in the idea that it was a plain vanilla, West Coast bank, far away from Wall Street and the risky activities that got other firms in trouble…

"To protect its interests, Wells has beefed up its lobbying shop and developed a deep bench of policy experts here — including recent key hires from regulatory agencies — and it hired a spokesperson this year to deal exclusively with Washington issues…"

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Selling More Debt Than Degrees
Rory O'Sullivan, US News, 5/29/14
"'You're supposed to find the pain that's driving them to go back to school, and use that to get them to enroll.'

"'I fed off of their own shame, their own disgust they had with their own lives."'

"That's two former recruiters explaining how they reeled in students in one of the worst for-profit colleges – schools that promise career-ready training, usually at a steep cost, often financed through loans that the students have little capacity to repay based on the poor quality of their education.

"Minnesota Public Radio interviewed these recruiters and others who told of harassing tactics, misleading claims, and the targeting of what one called "bottom-of-the-barrel-type students, the ones that rarely had the means."

Credit Tom Miller for Pursuing For-Profit College 'Abuser'
Editorial, Des Moines Register, 5/27/14
"Iowa Attorney General Tom Miller deserves credit for holding one of the industry's abusers accountable. Ashford University in Clinton and its parent company, California-based Bridgepoint Education Inc., have agreed to pay the state of Iowa $7.25 million, according to a settlement announced last week. Much of that money will reimburse former and current Iowa students.

"The school, with more than 63,000 students, 96 percent of them enrolled in online courses, will also make changes to admission practices nationwide and cease misleading and deceptive practices. The settlement was the result of Miller pursuing Ashford for violating Iowa's Consumer Fraud Act. Among his allegations: The school misled students to persuade them to enroll, used high-pressure sales tactics and failed to disclose important information about the cost and likelihood of obtaining a specific degree."

For-Profit Colleges Decry Gainful-Employment Rule as 'Arbitrary and Biased'
Goldie Blumenstyk, Chronicle of Higher Education, 5/27/14
"The for-profit-college industry's trade association, backed by a 100-page report by economists, is coming out swinging against the U.S. Department of Education's draft 'gainful employment' regulation.

"The proposal is 'flawed, arbitrary, and biased,' and will deny educational access to as many as 7.5 million students over the next decade, contends the Association of Private Sector Colleges and Universities, or Apscu, in documents it is filing on Tuesday.

"In a preview of what will be its likely legal challenge should the rule be adopted in its current form, Apscu attacks the department for relying on 'discredited sources' in developing the regulation and says the rule would affect far more for-profit-college students than the department has projected."

For-Profit Colleges Face Test from State, Federal Officials
Alan Zibel, Wall Street Journal, 5/26/14
"Federal and state officials are conducting probes into for-profit colleges over concerns that schools are marketing career-training programs that lack proper accreditation for students in certain fields, according to government agencies and regulatory filings.

"The investigations, being conducted by the Federal Trade Commission and some state attorneys general, focus on whether students are being deceived by for-profit colleges offering programs in career paths such as nursing, education, psychology and law enforcement. States are forcing for-profit colleges to refund money to students who say they were misled…

"For-profit schools, which enroll about 13% of all students in higher education, are facing scrutiny on several fronts. The U.S. Education Department has proposed eliminating federal funding for institutions with high proportions of graduates who default or whose debt levels are high relative to the graduates' incomes. And the Consumer Financial Protection Bureau is examining whether some schools prodded students into high-cost college loans."

See AFR letter and joint letter of 53 organizations to Department of Education.

SYSTEMIC RISK

A Better Solution for Too-Big-to-Fail Banks
Charles W. Calomiris, Wall Street Journal, 5/29/14
"Critics of Dodd-Frank have long argued that the law has not ended the danger posed to taxpayers and the financial system by 'too-big-to-fail' banks. Instead, the law's 'orderly liquidation authority' has institutionalized the problem by creating a formal bailout procedure and earmarking a new source of tax revenue to fund bailouts.

"In March, European Central Bank economists Magdalena Ignatowski and Josef Korte released a paper confirming critics' fears. The largest and systemically most important banks, they found, have not perceptibly changed their risk-taking behavior. Megabanks, it seems, don't take Dodd-Frank's orderly resolution authority as a serious constraint on their behavior… There are other possible reforms, including the replacement of Dodd-Frank's orderly resolution with a new bankruptcy procedure that omits a bailout option..."

OCC to Rotate On-Site Examiners at Banks to Boost Oversight
Jesse Hamilton, Bloomberg, 5/28/14
"To sharpen oversight of the largest financial firms, the U.S. regulator of national banks said it will regularly rotate examiners working inside the companies and shift others to a program that identifies industry risks.

"The Office of the Comptroller of the Currency, criticized for missing some high-profile problems such as JPMorgan Chase & Co. (JPM)'s London Whale losses, will institute a five-year rotation schedule for in-bank examiners, the agency said today in response to a review of its practices by non-U.S. regulators. The agency also said transfers to the risk-analysis group would reduce the number of on-site examiners…

"Lawmakers have accused the regulator of missing early evidence the financial system was under threat before the 2008 credit crisis. A key recommendation from the foreign regulators was to beef up the agency's stable of experts that looks for emerging risks in the banking system. The examiners being pulled from institutions, along with other staff members who focus on policy, will increase the program from 21 employees to 100, the OCC said."

Draghi's Asset-Backed Drive Rouses Academic Skeptics
Jeff Black and Alessandro Speciale, Bloomberg, 5/27/14
"The ECB is seeking ways to help companies and households access credit to boost prices and sustain the Euro area's gradual economic recovery. While the central bank's lending survey showed conditions for new loans stabilized in the first quarter, lending to companies and households has been contracting for almost two years.

"Policy makers working on a package of measures to prevent inflation staying too low for too long have looked to the ABS market as a way of encouraging banks to lend to smaller companies that are often shunned by risk-averse lenders…

"The market involves packaging individual loans such as mortgages, auto credit or credit-card debt and selling them on to investors. That allows banks to share the risk of default by borrowers, encouraging them to offer more credit…"

Dodd-Frank and Regulation Gone Rogue
Diane Katz, Washington Times, 5/29/14
"A bit of wisdom was actually uttered on Capitol Hill last week. The nation's chief securities regulator told the House Committee on Financial Services that it was 'extraordinarily important' for policymakers to 'listen to the expertise' of professionals before running regulatory roughshod over industry…

"What prompted the comment from Mary Jo White, chairman of the Securities and Exchange Commission, was a lawmaker's reference to the recent designation of Prudential and two other insurance companies as 'systemically important' financial institutions. The Dodd-Frank statute invites the government to impose heightened regulation on such 'nonbank' firms."

OTHER TOPICS

After Crisis, a New Spirit of Reining in the Banks
Floyd Norris, New York Times, 5/29/14
"It is widely believed that there has long been something that could be called a regulator-banker complex. People with similar views on the proper level of regulation move back and forth between the two groups. Their hats change, but not their policy preferences…

"But the financial crisis changed many things. And one of them was that consensus… The new reality has been on display this spring, as United States banks lobby to repeal, or at least tone down, some of the harsher requirements of the Dodd-Frank financial overhaul law."

Why Geithner Drives Liberals Nuts

Ben White, Politico Pro, 5/23/14

"This is no mere relitigation of history: The same tensions between progressive and more business-friendly Democrats that Geithner's tenure helped expose are already simmering ahead of the 2016 presidential race. And dissatisfaction with the bailout and its aftermath is often cited for possible low Democratic turnout in the 2014 midterms. The outcome of these debates over how to handle Wall Street will help shape the balance of power within the Democratic Party for years to come.

"'The fallout from that period will play a role in 2014, but the real impact will come in 2016 when the Democratic candidate, Hillary Clinton or whoever else, will have to make some serious judgments on the Obama years,' said Mike Konczal of the left-leaning Roosevelt Institute. "'People will have to make a call about whether Obama and his administration, including Geithner, did enough to reform Wall Street and boost the economy or should have done much more in very different ways.'"

Carney Says Capitalism Must Reassess Bankers' 'Sense of Self'

Jennifer Ryan, Bloomberg, 5/28/14

"The financial crisis and trading scandals revealed how banks lost their way and staff operated for personal gain without regard to their impact on society, the Bank of England Governor said in a speech yesterday. Rules to prevent such behavior should embody the idea that firms and employees bear responsibility to the system in which they function, he said."

Private Equity at Work: Buying High When Financial Markets are Flying High May Mean Disappointing Returns

Eileen Appelbaum & Rosemary Batt, Center for Economic and Policy Research, May 2014

"Private equity draws on financial commitments from large institutional investors and wealthy individuals for its investment funds. Pension funds are the industry's biggest investors and supply 35 percent of the capital committed to PE funds. On the advice of high-paid consultants and advisors, private equity investors commit a minimum of $10 million to a private equity fund and often much more. Our analysis of PitchBook data finds that the current allocation to private equity of the top 32 pension fund investors averages $7.9 billion each. At these levels of investment, it is usually assumed that investors are sophisticated players in financial markets who are not intimidated by numbers, not easily fooled by pitches for too-good-to-be-true investment opportunities, and, unlike naïve retail investors, too savvy to rush into investments at market peaks. But are they?"

Want to Spot the Next Bubble? Look at Where Harvard Grads Work.

Matt O'Brien, Wall Street Journal, 5/28/14

"And the getting looks best right before a crash. Which is when, the argument goes, the Harvard M.B.A. Indicator hits its highest levels, like it did in 1987, in 2000-2002, and in 2005-2008. See, as economist Hyman Minsky explained, financial stability is destabilizing. The longer markets are calm, the more people plan on them staying that way. People take bigger risks and take on bigger debt because it doesn't seem like anything can go wrong — until it does, and all this leverage turns small losses into big ones due to forced selling from margin calls.

“But this era of complacency can last a long time. And it's when Wall Street exerts its strongest gravitational pull on Harvard kids. The money keeps getting better and better, *and it looks like it always will*. All they have to do is follow the Excel-filled road laid out before them.

“That's why the more Harvard grads that head for Wall Street, the worse a sign it is for markets. It usually means that the irrational exuberance is about to give way to rational panic.

“The good news now, though, is that Harvard kids aren't flocking back to Wall Street in anywhere near the numbers that they did before the financial crisis. As you can see in the chart below from the Harvard Crimson, ‘only’ 31 percent of seniors will be working in finance or consulting next year; down from a high of 47 percent in 2007.”

Why FDIC Data Suggests a Lending Surge Is Coming Soon
Joe Adler, American Banker, 5/28/14
“Banks are still feeling negative effects from last year's sudden rise in medium- and long-term interest rates, but plenty of signs in the Federal Deposit Insurance Corp.'s latest industry update continue to point to a lending resurgence in the near future.

“Institutions took a definite hit in the first quarter as the higher rates — which took effect in the second quarter of 2013 — have caused mortgage refinancing to dry up, posing an immediate profit challenge. But returning loan growth — particularly at community banks — is still persistent in other categories that had languished following the crisis, offering hope that the credit market is on its way again to producing revenue growth.”