AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
April 19-25, 2014

We encourage you to forward this weekly compilation to friends and colleagues.
To subscribe, email **erin@ourfinancialsecurity.org**, with “This Week” in the sublet line.

POLITICAL CLOUT OF FINANCIAL INDUSTRY

Meet Wall Street's Secret Weapon: a Handful of Congress Members Who Do Its Bidding
Alison Fitzgerald & Daniel Wagner, Slate/Center for Public Integrity, 4/24/14
“… The Center for Public Integrity reviewed political finance records, members’ voting records, public statements, and correspondence between Congress and financial regulators to identify the House’s unofficial banking caucus—the financial industry’s go-to lawmakers on the Financial Services Committee.

“In addition to [Reps. Jeb] Hensarling and {Scott] Garrett, the banking caucus includes Reps. Shelley Moore Capito of West Virginia, Sean Duffy of Wisconsin, Jim Himes of Connecticut, Blaine Luetkemeyer of Missouri, Gregory Meeks of New York, Ed Royce of California, David Scott of Georgia, Steve Stivers of Ohio, and Ann Wagner of Missouri.”

BANK OWNERSHIP OF COMMODITIES

Why Should a Bank Be Allowed to Own and Trade Oil, Metals or Land?
Steve Suppan, Institute for Agriculture and Trade Policy, 4/24/14
“The FHCs contend that they must trade and own physical commodities in order to support their commodities derivatives trading on behalf of their clients and themselves. To judge by lawsuits charging Goldman Sachs with price and supply manipulation in the aluminum market, and JP Morgan with price fixing in the electricity market, FHC derivatives trading strategy requires that the physical markets underlying the derivatives trading be rigged.”

See AFR Letter to Federal Reserve (4/16/14). See also Other 98 Petition (4/16/14)

Big Banks Dispute Fed's Case for Physical Commodities Restrictions
Donna Borak, American Banker, 4/23/14
“Wall Street banks — and the trade groups and law firms that represent them — are challenging the Federal Reserve Board's basis for restricting bank ties to physical commodities, arguing it is fundamentally flawed.”

[Barclays Is Expected to Announce Exit From Commodities]
Jenny Anderson, New York Times, 4/21/14
"… Banks are leaving the business in the face of increasing regulatory scrutiny and falling profits. Competition and a relative calm in commodities prices have also pinched profits. JPMorgan Chase is selling its physical commodities business for $3.5 billion. Morgan Stanley is selling its physical oil trading arm to Rosneft of Russia, but is maintaining its holdings in electricity and natural gas. Deutsche Bank announced in December that it would leave the commodities trading business, cutting 200 jobs. The bank said it would no longer trade in agricultural, base metals and coal and iron ore commodities."

[Bank Cutting Commodities Trade Severs Link With Equities]
Isaac Arnsdorf, Bloomberg, 4/24/14
"Banks' pullback from commodities trading is weakening the link between raw materials and equities and helping to re-establish supply and demand as the main factor in setting prices, United Nations researchers say.

"As Barclays Plc, JPMorgan Chase & Co. and Morgan Stanley leave parts of the business, prices of commodities are moving more independently of stocks. The correlation between U.S. equities and corn, cattle and wheat fell to less than 0.05 in January, compared with almost 0.3 in 2008, an analysis by David Bicchetti and Nicolas Maystre, economic affairs officers at the UN Conference on Trade and Development in Geneva, shows.

"Banks, hedge funds and other financial institutions piled into physical commodities and derivatives over the past 12 years, amplifying a run-up in prices for everything from copper to oil, in short supply before the 2008 global recession, the UN found in a 2011 study. The exodus is nudging futures markets back toward their original function, as a way for farmers, miners and other companies in the commodities business to hedge against price swings."

[Goldman Sachs Stands Firm as Banks Exit Commodity Trading]
Ambereen Choudhury, Bloomberg, 4/23/14
"Politicians and regulators have exerted pressure on banks to cut back their commodities business. The U.S. Federal Reserve said it's considering new limits on trading and warehousing of physical commodities. Policy makers are seeking comment on ways to restrict ownership and trading of commodities such as oil, gas and aluminum by deposit-taking banks. New global capital requirements have also made it more expensive for banks to hold commodities.

"Goldman Sachs Chief Executive Officer Lloyd C. Blankfein, who started his career at the firm in the J. Aron commodities unit, has said his company is committed to the division. President Gary Cohn and Chief Financial Officer Harvey Schwartz also started their Goldman Sachs careers in the J. Aron unit. Goldman Sachs and Morgan Stanley both said last week that revenue from commodities rose in the first quarter."

CONSUMER FINANCE & THE CFPB

How Payday Lenders Prey Upon the Poor — and the Courts Don't Help
Emily Bazelon, New York Times, 4/18/14
"Payday loans are often advertised as a short-term lift that helps keep the lights on or allows you to stay in school. But borrowers often become trapped in a debt spiral. According to a new report from the Consumer Financial Protection Bureau, the government's financial watchdog, about 50 percent of initial payday loans play out into a string of 10 or more. 'One could readily conclude that the business model of the payday industry depends on people becoming stuck in these loans for the long term,' the C.F.P.B.'s report said."

Vermont Targets TV Stations, Search Engines in Online Lending Crackdown
Kevin Wack, American Banker, 4/23/14
"Authorities in Vermont unveiled a novel approach Wednesday to the crackdown on online payday lending: they sent a warning to search-engine providers and TV stations that the lenders use to advertise their products… Vermont has some of the toughest laws in the nation with respect to payday lending. The state caps annual interest rates at 24%, and a 2012 state law imposes liability on anyone who assists illegal lenders.

"That two-year-old law is unique among the 50 states. It enabled the Vermont attorney general's office to take a series of steps, announced Wednesday, that are aimed at stamping out online payday lending in the state."

New York's Top Regulator Sues Subprime Auto Lender
Rachel Abrams, New York Times, 4/23/14
"… Benjamin M. Lawsky, New York State's superintendent of financial services, filed a lawsuit on Wednesday against the Condor Capital Corporation, a subprime auto lender that he accused of siphoning millions of dollars away from the accounts of unwitting borrowers.

"The complaint, which also names Condor's owner, Stephen Baron, contends that Condor deliberately avoided issuing refunds by deceiving customers about positive balances in their accounts. To do this, the company would shut down borrowers' access to online accounts after a loan had been repaid, leaving them unable to see whether an insurance payoff, overpayment or other transaction had left excess money behind, according to the suit."

New York's Lawsky Accuses Condor Capital of Customer Thefts
Bob Van Voris, Bloomberg, 4/23/14

The Department of Justice's Operation Choke Point
Daniel Colbert, American Criminal Law Review, 4/23/14
"Online lenders and payment processors would fall within the scope of Operation Choke Point (which targets scammers) only if they have an unusually high number of customers claiming that a payment was unauthorized. If they are knowingly and systematically requesting unauthorized payments, then they are, in fact, a criminal enterprise. Banks and payment processors may lose that business, but that is not a flaw in DOJ's approach. Industry groups also expressed concern that legitimate online lenders may have difficult finding a bank willing to do business with them, as banks will now be wary

of potential investigations or prosecutions. If this problem arises, it only arises because online lending is often designed to circumvent regulations, but that is probably cold comfort to law-abiding lenders. Still, the same could be said of other industries that generate suspicion, like cash-based businesses. Congress was certainly aware of this potential deterring effect, but it thought that the information banks can provide to law enforcement is worth it."

Justice Puts Banks in a Choke Hold

Frank Keating, Wall Street Journal, 4/24/14

"When you become a banker, no one issues you a badge, nor are you fitted for a judicial robe. So why is the Justice Department telling bankers to behave like policemen and judges? Justice's new probe, known as 'Operation Choke Point,' is asking banks to identify customers who may be breaking the law or simply doing something government officials don't like. Banks must then 'choke off' those customers' access to financial services, shutting down their accounts."

New Research Examines Financial Capability-Building Strategies for Low-Wage Workers

Louisa Quittman, Treasury Department, 4/22/2014

"The pilot allowed researchers to examine the impact of the financial counseling on participants' financial capability, including credit history, financial behavior, and attitudes. Overall, the research found that participants who received the one-on-one counseling were more likely to stay current on debt payments at the six and 12-month follow-ups. Moreover, the results demonstrated that integrating access to accounts into the transitional workforce program dramatically increased the banked status of the population. Over the course of the study, the percentage of participants who reported being banked moved from one-third at baseline to almost 60 percent at six months, and more than half still reported being banked at 12 months.

"The study also examined how financial empowerment services can effectively be integrated into an existing workforce program. For example, the pilot provided access to a checking account with no minimum monthly balance, and other features designed to be helpful to low-income workers; additionally, accounts could be opened at the job site by bank employees. There was a higher than expected level of take up and continued use of such accounts. Programs working with clients in financial transition such as transitional employment, welfare-to-work, youth aging out of foster care and prisoner re-entry programs might achieve stronger outcomes if their clients are given tools to better manage their money, improve their credit scores, and plan their financial futures. These findings may be useful to other employers of unbanked, low-wage workers."

How FDIC Is Nudging Banks to Reach Underserved

Joe Adler, American Banker, 4/24/14

"The issue of serving so-called 'underbanked' borrowers has taken on a new urgency since regulators began cracking down on payday and certain other low-dollar, high-interest loans, prompting fears of a credit crunch for low-income consumers. The FDIC is looking at banking by mobile phone and other possible solutions as a way of bridging the gap."

[Seven Takeaways for Banks from Warren's New Memoir]
Victoria Finkle and Rob Blackwell, American Banker, 4/23/14
"She describes a key encounter in April 2009 in [Barney] Frank's kitchen in Newton, Mass…: 'Financial reform was already too complicated, and he was worried the consumer agency might have to wait. In the fight for any financial reform, we would be up against an army of lobbyists, and he thought it might make more sense to take them on one issue at a time… So he would start with the bank regulations that obviously needed fixing, focusing on the rules covering derivatives, capital reserve requirements, and so forth.'

"To sway the irascible, long-time lawmaker (while 'wedged up against Barney Frank's refrigerator'), Warren ultimately opted for storytelling. She relayed insights from her family following the Great Depression: 'I don't think my grandparents knew anyone who owned stocks or other investments. For them, the Depression had nothing to do with Wall Street and the stock market crash. It was about local bank failures and families losing their savings and their farms."

"'My grandmother had never been very political, and she sure didn't follow high finance,' Warren said. 'But decades later, she was still repeating her line that she knew two things about Franklin Roosevelt: He made it safe to put money in banks and — she always paused here and smiled — he did a lot of other good things."

"Warren says Frank was sold on the spot after the two-minute pitch, which centered on a strategy of doing something 'simple' that 'people can see,' and, more importantly, understand."

[President Warren? Don't Worry, Wall Street. Yet.]
David Weidner, Wall Street Journal 4/24/14

ENFORCEMENT

[What Regulators Must Consider Before Punishing Individual Bankers]
Jeremiah S. Buckley and Ann D. Wiles, American Banker, 4/24/14
"What is clear from these statements is that there will be a real, concrete attempt by DFS – and we expect other regulators as well – to name names and hold individuals accountable in enforcement actions. While it would be hard for anyone to disagree with the basic proposition that individual bad actors should be held accountable for their conduct, a concerted effort to go after individuals raises two significant questions. First, what precautions should regulators take to ensure that innocent individuals are not swept up in an aggressive enforcement effort? And second, outside of the criminal context, what regulatory sanctions are appropriate for individual actors?

"A primary concern when it comes to pursuing individuals is the risk of irreparable reputational and other damage they may incur when facing allegations that may not ultimately result in any finding of misconduct. To his credit, Lawsky recognized that 'when you're talking about an employee's reputation, career, or even personal liberty, you have to have a very high degree of confidence that the action you're taking is just and fair. And you need strong evidence regarding an individual's misconduct before you proceed'."

[Insider Convictions Seen Too Easy in Chiasson Appeal]
Patricia Hurtado, Bloomberg, 4/22/14
"Level Global Investors LP co-founder Anthony Chiasson and ex-Diamondback Capital Management LLC portfolio manager Todd Newman claim they were wrongfully convicted because jurors at their trial were told they only had to find that the defendants knew tips they traded on weren't public.

"Today, the two men will make their case to the U.S. Court of Appeals in New York. If the panel of three judges agrees with them, it may make insider-trading prosecutions more difficult, while also calling into question one of the biggest victories won in the U.S. government's seven-year crackdown on Wall Street.

"Prosecutors have argued that all they need to prove is that traders were aware information they used wasn't public and breached a fiduciary duty, as they did in winning the conviction of SAC Capital Advisors LP fund manager Michael Steinberg. U.S. District Judge Richard Sullivan took the same position in that case as in the trial of Chiasson and Newman."

[Testing the Limits of Inside Information Cases]
Peter J. Henning, New York Times, 4/11/14

[Appeal Judges Hint at Doubts in Insider Case]
Ben Protess and Matthew Goldstein, New York Times, 4/22/14

[Ex-BofA Executive Avoids Jail for Muni Bond Bid-Rigging]
Erik Larson, Bloomberg, 4/23/14
"A former Bank of America Corp. senior vice president, who cooperated with prosecutors probing a conspiracy to rig bids in the $3.7 trillion municipal bond market, won't go to jail for his role in the scheme.

"Douglas Campbell, who faced as long as 35 years in prison, was ordered to pay $300 and received no other penalty at his sentencing today before U.S. District Judge Kimba Wood in Manhattan, the Justice Department said. Testimony by Campbell helped secure convictions of others in the scheme, including three ex-UBS AG employees found guilty following a 2012 trial…

"More than a dozen people from companies including Bank of America, JPMorgan Chase & Co. (JPM) and UBS have pleaded guilty in the investigation by the Justice Department's Antitrust Division. The three banks, plus Wells Fargo & Co. (WFC) and General Electric Co., have paid more than $700 million in restitution and penalties as part of the probe."

EXECUTIVE COMPENSATION

[A Rule to Rein in Wall Street Pay is Too Weak and Way Behind Schedule]
Marcus Stanley and Rebecca Thiess, US News, 4/23/14
"Section 956(b) of [Dodd Frank] requires that financial regulators ban any type of incentive pay arrangements at banks that act to encourage inappropriate risk-taking. The statute tells regulators to write rules to implement the ban within nine months of the

signing of the law. Yet today, almost four years after the law was passed, regulators still have not put these required restrictions on Wall Street pay in place.

"What's more… the initial proposal by the regulators was much too weak to get the job done… [It] includes general language telling bank boards of directors to design pay packages that don't encourage excessive risk. But the major specific requirement in the proposal is that large banks set aside at least half of bonus payments to be paid out over three years. To comply with this requirement, a bank could pay their executives half of their bonus at the time it was earned, and then another third of the remaining half the next year, another third the year after that, and a final third three years after the bonus was earned. So as little as one-sixth of the total bonus could be deferred for the full three year period."

Barclays Shareholders Vent Frustration Over Bonuses
Chad Bray, New York Times, 4/24/14
"For nearly three hours on Thursday, shareholders of Barclays aired their grievances with the British bank's top management, ranging from complaints about the security of debit cards to the length of the lines to get into its annual meeting. But one sentiment was nearly universally expressed by the 20 or so shareholders who took the floor in a testy back-and-forth with Barclays executives and directors: employees at its investment bank are paid too much…

"On Thursday, one shareholder said the board's compensation committee should be 'sacked,' and questioned why anyone would need more than 1 million pounds (about $1.68 million) a year in compensation. Another asked why the bonus pool was two-and-a-half times larger than the bank's dividend payment to investors…

"In February, Barclays reported a big fourth-quarter loss of £514 million, which was driven in part by restructuring costs and a £331 million charge for litigation and regulation penalties. But despite that loss, the bank increased its pool for bonuses and other incentives to £2.4 billion in 2013 from £2.2 billion the previous year. That remained £1.1 billion lower than it was in 2010."

Guess Who Makes More Than Bankers: Their Regulators
Paul Kupiec, Wall Street Journal, 4/21/14
"It is true that the very top bank executives make more in a year than most of us make in a lifetime, but compensation of this magnitude is rare. Most banks in this country are small businesses and pay employees modest salaries. The Bureau of Labor Statistics reports that the average annual salary of a bank employee was $49,540 in 2012, not much higher than the average annual across all occupations, $45,790.

"Yet one group in banking stands out as highly paid—federal bank regulators. Before the Dodd-Frank Act, the average employee of a federal bank regulatory agency received 2.3 times the average compensation of a private banker. By 2013 this ratio increased to more than 2.7—and in some cases considerably more."

Are Bank Regulators Overpaid?
Matt Levin, Bloomberg View, 4/21/14
"…Yes, fine, the average regulator makes more than the average employee of a small-business bank that pays its employees modest salaries, but *that's not where they spend*

their time. We have a big sophisticated banking system, and we want big sophisticated regulators to regulate it. If you set regulatory compensation to compete with teller jobs at Bob's Bank and Tackle Store, you'll be able to hire away Bob's tellers, and I suppose they will have some useful insights into regulating small-business banks. (Will they? Why?) But what will they do with the London Whale?"

Dodd-Frank Inc. and the Rise of the Fat Cat Bank Regulator
Editorial, Investor's Business Daily, 4/23/14

FEDERAL RESERVE

Senate Panel to Vote on Fischer, Other Fed Nominees on Tuesday
Jonathan Spicer and Emily Stephenson, Reuters, 4/24/14
"The Senate Banking Committee will vote next week on three nominees to the Federal Reserve's board, including Stanley Fischer for vice chairman, in a big step toward bulking up the U.S. central bank's depleted ranks.

"In addition to Fischer, the panel will vote on Tuesday on the nominations of former senior U.S. Treasury official Lael Brainard and current Fed Governor Jerome Powell, who has been nominated for another term…

"While the Fed is often down a governor or two, it has never had only three board members at any one time. Observers said the shortage of top officials could hamper the Fed's work on monetary policy and bank supervision if lawmakers did not act quickly to rebuild the central bank's board."

White House Considers Former Banking Lawyer for Fed Board
Jonathan Spicer and Emily Stephenson, Reuters, 4/23/14
"A former lawyer with the American Bankers Association is being considered by the White House as a possible nominee to the board of the Federal Reserve… Two sources said the administration is considering Diana Preston, a lawyer who recently left a post at the American Bankers Association, which represents many small banks…"

HIGH-FREQUENCY TRADING

Exchanges, Brokerages Hit With High-Speed Trading Class Action
Nate Raymond, Reuters, 4/18/14
"Dozens of the largest U.S. stock exchanges, brokerages and high-frequency trading firms were hit with a class action lawsuit by the capital of the state of Rhode Island, accusing them of manipulating the U.S. securities markets.

"The lawsuit was filed on Friday in Manhattan federal district court, as the high-speed trading industry came under greater scrutiny following the publication last month of author Michael Lewis' book 'Flash Boys: A Wall Street Revolt'…

"The lawsuit targets stock exchanges operated by BATS Global Markets Inc, Chicago Board Options Exchange, NASDAQ OMX Group Inc and Intercontinental Exchange's

New York Stock Exchange, accusing them of engaging in a fraud designed to manipulate the markets.

“The alleged fraud, carried out with several brokerage firms and sophisticated high-frequency trading firms like Citadel, resulted in the diversion of ‘billions of dollars annually from buyers and sellers of securities to themselves,’ the lawsuit said.”

INVESTOR PROTECTION AND THE SEC

Schwab Agrees to Drop Effort to Prevent Class-Action Lawsuits
William Alden, New York Times, 4/24/14
“The discount brokerage firm Charles Schwab & Company has agreed to pay a $500,000 fine and give up an effort to prevent customers from participating in class-action lawsuits.

“The Financial Industry Regulatory Authority, Wall Street’s self-regulator, said on Thursday that it had reached the settlement with Schwab. The decision resolves a regulatory action that was initially filed in early 2012.

“For more than two decades, individual investors have generally been unable to file lawsuits for disputes with stockbrokers, forced instead to agree to arbitration. But Schwab went one step further in 2011, adding a clause to its customer agreement requiring investors to agree not to band together in class-action suits.”

SEC Takes Aim at Hedged Mutual Funds’ Leverage, Liquidity
Alan Katz, Bloomberg, 4/23/14
“The U.S. Securities and Exchange Commission is reviewing whether certain alternative mutual funds that mimic riskier hedge-fund strategies are complying with leverage and liquidity rules.

“The SEC plans to test around 25 of the funds over the next several months, Jane Jarcho, an associate director in the Securities and Exchange Commission’s examination program, said yesterday in an interview.

“The exams will shed light on how mutual funds are trying to generate yield and how much risk they are taking, Jarcho said. The SEC will also seek to determine whether boards are engaged in appropriate oversight, she said.”

SEC Said to Weigh Shining Light on Broker Role in Routing Stocks
Dave Michaels, Bloomberg, 4/21/14
“The U.S. Securities and Exchange Commission is weighing a requirement that brokers tell investors exactly where their stock trades go to be executed, a proposal that may address complaints that the decisions are sometimes made against the client’s best interests.

“The proposal could give investors more insight into whether they are getting the best price when they buy and sell large numbers of shares, according to three people familiar with the matter. Brokers entrusted with orders in the U.S. stock market can choose from dozens of exchanges and private venues. Some money managers such as T. Rowe Price Group Inc. (TROW) have told regulators that incentives offered by exchanges for attracting orders can put a broker's financial interest at odds with the customer's.

"The SEC faces pressure to overhaul trading after Michael Lewis's 'Flash Boys' book made the claim that high-frequency traders hurt other investors by learning which shares investors plan to buy, purchasing them and selling them back at a higher price. The SEC has said it's reviewing every aspect of how stocks are traded, and regulators are trying to identify changes that could be implemented quickly, the people said."

U.S. SEC Issues New Social Media Guidance for Financial Advisers
Suzanne Barlyn, Bloomberg, 4/23/14
"New guidance about social media from the U.S. Securities and Exchange Commission gives certain financial advisers some leeway to promote client reviews of their services that appear on third-party social media websites.

"The guidance is likely to ease advisers' worries that reviews by their clients on websites such as Yelp Inc or Angie's List could violate an SEC rule that forbids "testimonials," compliance professionals said. The guidance clarifies that advisers registered with the SEC can point prospective clients to those reviews in advertisements, subject to certain conditions."

Ratings Firms Ride Bond Resurgence
Timothy W. Martin, Wall St. Journal, 4/29/14
"Six years after getting a failing grade for their role in the financial crisis, credit-rating firms are at the top of the class. Riding a global bond boom, the two biggest U.S. firms, Standard & Poor's Ratings Services and Moody's Investors Service, this month are expected to post record first-quarter profits. Fitch Ratings said in its annual filing this month that 2013 was "one of its best years ever.'

"Beyond the spike in bond deals, the resurgence is due largely to the absence of major changes to the industry since the crisis: The business model, in which debt issuers pay for ratings, remains in place; regulations proposed years ago are yet to be implemented; and new competitors have gotten little more than a toehold. 'There was a lot of talk, but there wasn't a lot of action,' said Marc Joffe, a former senior director at Moody's and now principal consultant at Public Sector Credit Solutions in Walnut Creek, Calif., who has been critical over the lack of major changes to the ratings world."

MORTGAGES, FORECLOSURES & HOUSING

U.S. Said to Ask BofA for More than $13 Billion Over RMBS
Tom Schoenberg and Hugh Son, Bloomberg, 4/25/14
"U.S. prosecutors are seeking more than $13 billion from Bank of America Corp. to resolve federal and state investigations of the lender's sale of bonds backed by home loans in the run-up to the 2008 financial crisis, according to people familiar with the matter.

"The settlement would come on top of the $9.5 billion the bank agreed last month to pay to resolve Federal Housing Finance Agency claims, said two people who asked not to be named because the negotiations are private. A deal could come within the next two months, the people said.

"If the Justice Department gets its way, the case against Bank of America will eclipse JPMorgan Chase & Co.'s record $13 billion global settlement over similar issues in November. That settlement, which included a $4 billion agreement with the FHFA, encompassed loans JPMorgan took over with its purchases of Washington Mutual Inc. and Bear Stearns Cos."

Justice Dept. Seeks Mortgage Deal With Bank of America
Ben Protess and Jessica Silver-Greenberg, New York Times, 4/24/14
"The Justice Department, building on a multibillion-dollar mortgage settlement with JPMorgan Chase last year, is now aiming for a deal with Bank of America.

"In a move that raised the stakes for the government's crackdown on banks that sold the troubled mortgage investments during the financial crisis, the Justice Department made Bank of America an opening settlement offer of roughly $20 billion several weeks ago, according to people briefed on the matter…

"The settlement negotiations with Bank of America are playing out as the government is under pressure to extract eye-popping penalties from Wall Street for its role in the financial crisis. For the Justice Department, blamed for its slow response to the financial crisis, the latest civil investigations into JPMorgan and Bank of America suggest that the Obama administration's crackdown on Wall Street is gaining some momentum."

Lawsky Says Ocwen's Use of Hubzu Raises 'Self-Dealing' Concerns
Greg Farrell, Bloomberg, 4/21/14
"Benjamin Lawsky, superintendent of New York's Department of Financial Services, said in a letter to the company dated today that Hubzu, a subsidiary of Altisource Portfolio Solutions S.A., appears to be charging Ocwen customers three times as much as it does others.

"'The relationship between Ocwen, Altisource Portfolio, and Hubzu raises significant concerns regarding self-dealing,' Lawsky said in the letter. In February, Ocwen said its bid to acquire mortgage-servicing rights to $39 billion of home loans from Wells Fargo & Co. would be put on hold at the request of Lawsky's office."

STUDENT LOANS AND FOR-PROFIT COLLEGES

Student Loans Can Suddenly Come Due When Co-Signers Die, a Report Finds
Richard Pérez-Peña, New York Times, 4/21/14
"Most people who take out loans to pay for school have minimal income or credit history, so if they borrow from banks or other private lenders, they need co-signers — usually parents or other relatives. Borrowing from the federal government, the largest source of student loans, rarely requires a co-signer.

"The problem, described in a report released Tuesday by the Consumer Financial Protection Bureau, arises from a little-noticed provision in private loan contracts: If the co-signer dies or files for bankruptcy, the loan holder can demand complete repayment, even if the borrower's record is spotless. If the loan is not repaid, it is declared to be in default, doing damage to a borrower's credit record that can take years to repair."

[CFPB Finds Private Student Loan Borrowers Face "Auto-Default"]
Press Release, CFPB, 4/22/14

[New Trove of Federal Reviews of College Financial Aid Compliance]
David Halperin, Huffington Post, 2/24/14
"The Education Department has faced some criticism in recent years for what seems to be relatively weak enforcement of federal rules, given the overwhelming evidence that some for-profit colleges have been engaged in systematic waste, fraud, and abuse with federal tax dollars. In recent months we have seen signs that the Department may be stepping up some, with the Department's Office of Federal Student Aid sending a letter to troubled Corinthian Colleges alleging 'systematic deficiencies' in the company's operations and demanding student job placement data, and the Department's Inspector General issuing a subpoena to the University of Phoenix regarding a broad range of that school's activities."

[Dem Bill Would Prevent Automatic Student Loan Defaults]
Cristina Marcos, The Hill, 4/24/14
"Rep. Tim Bishop (D-N.Y.) said Thursday that he will introduce a bill to require private lenders to notify students when a loan is placed in automatic default. The New York Democrat said his bill would prevent student borrowers from facing automatic defaults on their loans if a co-signer suddenly dies or files for bankruptcy…

"An automatic default means that the student must pay the full amount of the loan immediately. Individuals who cannot pay off an entire automatically defaulted loan consequently get reduced credit ratings. Under Bishop's bill, lenders would be required to give 90 days to find a new co-signer."

[The Next Massive Bailout: Student Loans]
Dan Kadlec, Time, 4/24/14
"Outstanding student loans continue to balloon, and they now total $1.2 trillion nationally, according to the Consumer Financial Protection Bureau. Among students graduating in 2012, 71% had student loans averaging $29,400, according to a report from the Project on Student Debt. So while today's grads may be part of the most educated generation in history they are also the most indebted twentysomethings the world has ever seen…

"In this popular new arrangement, taxpayers get stuck with the tab. Already the future cost of the forgiveness feature is pegged at $14 billion. To keep students and colleges from running up too big a bill, President Obama is pushing to add a lifetime forgiveness cap of $57,500. That would help. But make no mistake: the next bailout is happening now. It may be more palatable than bailing out banks and car companies. But the costs are mounting."

[Those Master's-Degree Programs at Elite U.? They're For-Profit]
Kevin Carey, Chronicle of Higher Education, 4/21/14
"This is the point in the conversation where public and private nonprofit colleges like to feel superior to those pretenders in the for-profit sector. They shouldn't. Other new numbers from the Department of Education suggest that traditional colleges, too, have

dived headfirst into the business of inventing and selling overpriced two-year credentials backed by government debt. They just call them 'master's degrees.'

"Every four years, the federal government conducts a comprehensive survey of college financial aid. According to the latest results, the median debt accrued by students completing master's degrees in 2012 was $57,600, a 31-percent increase from just four years earlier, after adjusting for inflation. The amount of debt at the 90th percentile grew even more: $153,000, up from less than $113,000 in 2008."

Union Target: For-Profits

Colleen Flaherty, Inside Higher Ed, 4/21/14

"A relatively small group of New York City teachers' announcement that they'd reached a collective bargaining agreement with their school might have gone unnoticed by those in higher education circles last week, but for one significant detail: their employer is Kaplan, Inc., a major player in for-profit higher education.

"Collective bargaining agreements for faculty members in profit-education are extremely rare, but that's something unions would like to change.

SYSTEMIC RISK

Banks Cling to Bundles Holding Risk

Gretchen Morgenson, New York Times, 4/19/14

"… What are collateralized loan obligations, or C.L.O.s? Translated into simple English, they are bundles of mostly commercial loans that are sold in various pieces to investors. They are similar to collateralized debt obligations, or C.D.O.s — those instruments that imperiled so many institutions in 2008 — but C.L.O.s are simpler and in some cases less risky. The loans in C.L.O.s provide money to companies, many of them subject to leveraged buyouts, that might not receive bank funding.

"Some $431 billion worth of C.L.O.s are currently outstanding, according to the most recent figures from the Securities Industry and Financial Markets Association. Roughly $150 billion worth were issued before 2009. That group represents the riskiest securities in the asset class, regulators say. Another $150 billion in C.L.O.s, issued after 2009, contain fewer problematic assets; those remaining, raised after the pending Volcker Rule restrictions had been announced, are viewed by regulators as the least risky of all."

The Volcker Rule - Swiss Cheesed or Beefed Up?

Gerald Epstein, Triple Crisis, 4/21/14

"The problem with the Dodd-Frank bill is that it passed along responsibility for the complex "rule-making" process to five federal regulators, who were tasked with writing the fine details governing the implementation of the financial reform law. By design on the part of the banks, this rule-making process gave the Wall Street lobby an open playing field to obstruct, gut, and re-write the financial reform. Consequently, it was not until December 2013, a full year after the original deadline, that the actual detailed wording of the Volcker Rule was finalized.

"Moreover, most of it will not be implemented until 2015 or 2016, six years after passage of the Dodd-Frank legislation. Why so much time? The answer: the banks hate the

Volcker Rule and have invested millions of dollars in lobbying and buying off politicians and their staff members to delay and water down the measure. This presents us with an important question: Had the rule been so thoroughly Swiss-cheesed by the banks that it had too many holes to be of any value? Or does it still have enough substance to make the financial system safer and more socially productive?"

Wolves of Wall Street: Financialization and American Inequality
Colin Gordon, TruthOut, 4/23/14
"It's no secret by now that the recent spike in American inequality, and the gains rapidly accruing to those at the upper end of the income distribution ladder, are driven in large part by 'financialization'—the growing scale and profitability of the financial sector relative to the rest of the economy, and the shrinking regulation of its rules and returns. The success or failure of the financial sector has a disproportionate impact on the rest of the economy, especially when the combination of too much speculation and too little regulation starts inflating and bursting bubbles. And its returns flow almost exclusively to high earners. An overcharged finance sector, in other words, breeds inequality when it succeeds and when it fails."

JPGoldman Stanley Intact as Basel Change Keeps Bank Ties
Yalman Onaran, Bloomberg, 4/21/14
"The largest U.S. banks can remain entangled with each other now that global regulators have loosened proposed limits on the financial web that led to investor panic in 2008 and prompted bailouts.

"The Basel Committee on Banking Supervision, which set out a year ago to block banks from relying too heavily on each other, changed course last week, opting to let firms preserve most derivatives and repurchase agreements among themselves. The panel revised formulas for evaluating exposure and used a broader definition of capital. Those tweaks spare about $1 trillion in deals at seven of the biggest U.S. banks that would have exceeded proposed limits, according to a November study by the Clearing House, an industry group…

"Ninety-five percent of derivatives contracts in the U.S. banking system were concentrated at JPMorgan Chase & Co. (JPM), Citigroup Inc. (C), Bank of America Corp., Goldman Sachs Group Inc. and Morgan Stanley at the end of last year, according to the Office of the Comptroller of the Currency. The data don't show to what degree they are counterparties to each other."

OTHER TOPICS

America's Surge Toward Oligarchy
JP Sottile, Consortium News, 4/24/14
"During the first two years of a rulemaking process that still isn't complete, logs obtained by the Sunlight Foundation showed that Goldman Sachs pleaded its case during 181 rulemaking chinwags. Jamie Dimon's JP Morgan Chase attended 175 meetings with regulators. Morgan Stanley sat in on 150 meetings. And Bank of America hung out with regulators 122 times.

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

Ex-Barclays Executive Sees ‘Golden Decade’ for Banking
Elisa Martinuzzi, Bloomberg, 4/21/14
“The world’s securities firms are poised for 10 years of growth, according to Hans-Joerg Rudloff, the former chairman of that business at Barclays Plc…

“’Investment banking has a brilliant future,’ Rudloff, 73, said in an interview in Milan on April 16, making his first public comments on the business since retiring from Barclays in February. ‘The industry is looking at a golden decade.’

“The growing need for capital will propel profits, once securities firms finish adapting to tighter rules designed to prevent a repeat of the financial crisis and shield depositors from trading losses, said Rudloff, who during his five-decade career helped foster the expansion of the Eurobond market in the 1980s.”

Takeaways From the Latest Clinton-Era Document Dump
Aliyah Frumin, Ned Resnikoff and Amanda Sakuma, MSNBC,4/18/14
“Janet Yellen called for more regulation to prevent “systemic risk” in financial markets: In 1999, Janet Yellen—then the chairperson of the White House Council of Economic Advisors, but now the chair of the Federal Reserve—was a vocal proponent of more financial regulation. A March 1999 memorandum from Council of Economic Advisers senior economist Doug Elmendorf (who is now the director of the Congressional Budget Office) said Yellen ‘believes systemic risk is a serious problem to which unfettered private markets would give insufficient weight.’

“Those words turned out to be rather prescient. As Yellen advocated for greater financial regulation, Clinton’s Treasury Secretary Robert Rubin was aggressively working towards deregulation of financial markets. His reforms are widely believed to have contributed to the background conditions which enabled the 2008 financial crisis.”

“In notes from a meeting with other administration economic advisers—including Rubin, then-Fed Chair Alan Greenspan, and Deputy Treasury Secretary Larry Summers—Yellen also raised concerns about ‘too big to fail’ financial institutions.”

New Batch of Clinton Documents Is Released
David S. Joachim, New York Times, 4/18/14
“The financial crisis of 2008 and the recession that followed cast a critical light on legislation signed by Mr. Clinton nearly a decade earlier that deregulated much of the financial services industry. It also provoked criticism of Robert E. Rubin, Mr. Clinton’s Treasury secretary, who took a lucrative job at one of the law’s main beneficiaries, Citigroup, after he left office.

“But in 1998, as senior administration officials prepared to meet with the chief executives of Citicorp and Travelers, who were proposing a megamerger to form Citigroup that relied heavily on deregulation, Mr. Rubin expressed concern over the regulatory effects of combining retail banking, investment banking and insurance, which was prohibited at the time.

"'It would upset the existing balance between the elected administration and the independent agencies — diminishing the role of the elected administration in a critical area of economic policy-making,' Mr. Rubin wrote.

"Mr. Rubin added that the legislation was 'gravely flawed'… Nearly 18 months later, under pressure from top Republican lawmakers, Mr. Clinton signed a version of the bill into law."

Goldman, Morgan Stanley and Other Banks Battle for Business Trading Stocks
Justin Baer and Saabira Chaudhuri, Wall Street Journal, 4/21/14
"Investment banks are slugging it out over stock trading. For years, equities had taken a back seat to the bigger and often more-profitable business of buying and selling fixed-income securities and commodities. But as those units are squeezed by new regulation and uncooperative markets, banks are putting more muscle behind catering to ... equity investors. Lately, executives say, the fight has grown more intense."

Financial Justice (book review)
John Atlas, Huffington Post, 4/22/14
"Financial Justice" (2013, Praeger-ABC/CLIO) is the untold story of how a diverse group of progressive organizations took on the powerful financial lobby, pushed Congress to create a strong new consumer protection agency (The Consumer Financial Protection Bureau), and against the odds, and won. Keys to the victory were Elizabeth Warren and a new umbrella entity called **Americans for Financial Reform** (AFR) led by two extraordinary organizers, Heather Booth and Lisa Donner."

Daley, Former White House Chief of Staff, Joins Hedge Fund
William Alden, New York Times, 4/24/14
"… Mr. Daley, 65, who was a JPMorgan Chase executive before joining the Obama administration in 2011, has been named a managing partner and the head of United States operations at Argentière Capital, a Swiss hedge fund based in Zug. He will stay in Chicago. The move is the latest career twist for Mr. Daley, who has moved between Washington and the business world over the last two decades."

Another Big Democrat Goes Alternative as Daley Joins Fund
Rob Copeland, Wall Street Journal, 4/24/14