Americans for Financial Reform

This Week in Wall Street Reform | April 23 – 29, 2016

Please share this weekly compilation with friends and colleagues.
To subscribe, email erin@ourfinancialsecurity.org, with "This Week" in the subject line.
Archive of past issues posted here.

CONSUMER FINANCE & THE CFPB

CFPB Plans to Supervise Marketplace Lenders | Wall St. Journal
The Consumer Financial Protection Bureau plans to bring the largest online lenders under its supervision as soon as late 2017, the first time the lenders would face federal scrutiny similar to that of banks, according to people familiar with the matter.

The agency aims to unveil a proposal this fall to supervise the largest so-called installment lenders that essentially offer small-dollar loans with set payment periods as well as lenders who tie such loans to car titles. The CFPB is now considering broadening its definition of "installment" lending to wrap in marketplace lenders, which operate online and offer similar types of small-dollar loans with set payments, these people said…

Traditional installment lending and vehicle-title loans have been around for years, but the emergence of new variations and technologies that allow companies to offer loans more widely has spurred the CFPB to consider expanding its oversight to marketplace lenders, said sources familiar with the matter.

Payday Lender Tries to Duck Interest Rates Suit In Ky. | CNBC

First Cash Buys Cash America | Dallas Morning News

Billboards Hit Rep. Wasserman Schultz for Undermining Payday Reform | Allied Progress

A Private Equity Alum's Guide to Better Payday Lenders | NY Times
Thanks to his efforts, New Jersey rid itself of a stake in the industry earlier this year. And starting Friday, through a new guide on the website NerdWallet, where he now works, [James] Zhang hopes to redirect as many people as possible who are seeking these loans.

End Forced Arbitration | Politico
Amanda Werner and Sonia Gill
For more than a quarter century, Big Business has engaged in a stealth campaign to block consumers, employees and small businesses harmed by corporate lawbreakers from finding justice in a court of law. Buried in the fine print of countless contracts for everyday goods and services is language that bars people from holding corporations accountable in court for illegal, and sometimes dangerous, conduct. Instead, individuals are forced to take on companies in an unfair, privatized system of arbitration — a process that tilts heavily in favor of the arbitrator's corporate benefactors.

Within the next few weeks, regulators are set to strike back. The Consumer Financial Protection Bureau and the U.S. Department of Education are expected to propose rules to rein in the abuses of forced arbitration, making for a growing number of federal agencies taking action against this unfettered exploitation of American consumers. The long-awaited moves are critical to protecting consumers from the worst practices by Big Business…

See joint letter urging CFPB to take strong action on forced arbitration.

The "new middle class" – a target for payday loans | BobSullivan.net
Here's all you need to know about the fragile state of the American middle class. An online payday-type lender named Elevate Credit sees the middle class as its target market.

"Decades–long macroeconomic trends and the recent financial crisis have resulted in a growing 'New Middle Class' with little to no savings, urgent credit needs and limited options," the firm says on its website...

You probably think of payday lenders as unsavory places where Americans without checking accounts must go to cash a check, or where folks without credit cards rob Peter to pay Paul so they can pay the electric bill. Well, if Elevate is to be believed, triple-digit rate loans aren't just for the poor anymore.

Retailers press Fed to slash debit fees | The Hill
Retailers are appealing to financial regulators to lower the fees for debit card transactions, reigniting a multibillion-dollar lobbying battle with big banks. The Federal Reserve placed a first-ever cap on how much banks can charge for debit card transactions in 2011. At the time, the Fed said it recognized costs could change and pledged to periodically re-examine the rate for adjustments. The Fed is now collecting data on the debit fees. Depending on what that review finds, it could decide to adjust the fee standard, though it is not required to do so.

Dark money group spends $58,000 attacking Consumer Financial Protection Bureau | Sunlight Foundation

Goldman Sachs opens to the masses | Financial Times

CFPB Director Cordray Responds to Senator Corker Letter | CFPB Monitor

Five Ways Cruz Would Likely Target the CFPB as President | American Banker
Jim Lardner, the communications director for **Americans for Financial Reform**, a coalition of more than 200 consumer groups, said the single-director structure makes the agency more effective. "Once people think about how some commissions have been functioning — the Securities and Exchange Commission, for instance — they will see this proposal for what it is, which is an attempt to undermine the effectiveness of the CFPB and have it wind up in a near perpetual state of partisan gridlock," Lardner said…

A full repeal is the simplest solution for Cruz… Yet of all the options presented here, this is the least likely to succeed. Democrats would be united in opposing such a move, and even some fellow Republicans might balk, said Lardner. "If President Cruz actually tried to abolish the CFPB, he would take some terrible heat from the voters of his own party. ... I suspect a lot of Republicans in Congress if they did a little test marketing of the idea they would tell him to buzz off," Lardner said.

DERIVATIVES, COMMODITIES AND THE CFTC

Who Are The Big Soybean And Grain Buyers? | Barchart

THE ELECTION AND WALL STREET

Bernie Sanders and Allies Aim to Shape Democrats' Agenda After Primaries | N.Y. Times
Barney Frank, a former Massachusetts congressman and fierce critic of Mr. Sanders and his Wall Street proposals, will be a co-chairman of the rules committee, which governs procedure on the convention floor…

Liberal groups have pressured the president on recent appointments to the Treasury Department and his deportation policies. At the same time, a younger generation of activists is challenging presidential candidates in both parties on issues of criminal justice, police violence and the rights of undocumented immigrants.

"A boldly populist, people-oriented type of platform is massively appealing to those who have come of age during the financial meltdown and the period afterward," said Kurt Walters, the campaign director at Rootstrikers, a group that favors limiting the influence of big donors in politics.

ENFORCEMENT

Rattner Drops Bid to Return to Investment Banking | N.Y. Times

EXECUTIVE PAY

How Regulators Changed Their Exec Comp Plan | American Banker
The banking regulators made several critically important changes in their new plan released Thursday to restrict executive pay at financial institutions after their first attempt flopped in 2011.

For starters, the revised proposal casts a much wider net than the initial proposal. Rather than simply applying to C-suite executives, the plan additionally takes aim at "significant risk-takers" — a new designation designed to target employees who have the ability to place large bets for a firm or owe much of their pay to incentive-based compensation.

The regulators "are much smarter about how people get paid than they were five years ago," said Marc Trevino, a partner at Sullivan & Cromwell. "They really understand a lot more about how pay programs work, and I think the rule tries to set limits, but in a world that is much more complicated than the world they were imagining in 2011."

Do the New Wall Street Compensation Rules Affect You? | Wall Street Journal

Citigroup shareholders in rebellion over executive pay | Financial Times
Shareholders in Citigroup staged a significant rebellion over its executive pay scheme on Tuesday as more than a third of votes were cast against the bank. Citi this year increased the potential pay package for Michael Corbat, chief executive, by 27 per cent to $16.5m.

Leading corporate governance groups that advise investors, Institutional Shareholder Services and Glass Lewis, took issue with the scheme. The pay plans were approved but 36.4 per cent of votes were cast against.

Report: Highest-Paid CEOs at the Largest Companies by Revenue | Equilar

This CEO's $148 Million in Pay May Rank Him No. 1 for 2015 | Bloomberg

HEDGE FUNDS AND PRIVATE EQUITY FUNDS

Activists Declare War on Hedge Funds — and Might Be Winning | New York Magazine
When Henry Garrido, the executive director of the largest municipal employees union in New York City, learned a year ago what a raw deal investing in hedge funds had been for his union's pensioners, he couldn't restrain himself. In a fit of pique, Garrido suggested it wouldn't be wrong for his members to conclude that "the system is rigged" after a report by the New York City comptroller concluded that the pension fund had been lining the pockets of hedge-fund managers while the retirees were getting what Garrido termed "lousy" returns.

Just five days before New Yorkers went to the polls in bitterly contested presidential primaries defined by the widespread sense among voters that Wall Street is indeed "rigged," the New York City Employees' Retirement System, or NYCERS, where Garrido is a trustee, voted to pull its money out of all hedge funds. That amounts to about $1.5 billion, or 3 percent, of a $50 billion pension fund.

Hedge Fund Crash Coming? | Financial Times (paywalled)
One of the most powerful US hedge fund managers believes that the industry is in 'first innings of a washout' after a string of disastrous market calls inflicted steep losses on many funds. Daniel Loeb's stark comments, in his first-quarter letter to investors in his fund Third Point, come as institutions such as pension funds are questioning the value of investing in hedge funds.

"The first quarter was 'one of the most catastrophic periods of hedge fund performance that we can remember since the inception of this fund,' in December 1996, Mr. Loeb said. 'There is no doubt that we are in the first innings of a washout in hedge funds and certain strategies…' Mr. Loeb recounted a litany of recent woes for hedge funds. Many have been caught on the wrong side of market swings, such as those related to the Chinese economy and its currency, he pointed out."

John Oliver on Puerto Rico's Debt Crisis | HBO

Congress Needs to Act on Puerto Rico's Debt Crisis | PIMCO Blog

Apollo, TPG Turn to Oil Crash to Salvage $31 Billion Caesars Bet | Bloomberg

INVESTOR PROTECTION AND THE SEC

SEC Cracks Down on Novel Earnings Measures That Boost Profits | Wall St. Journal
The Securities and Exchange Commission is stepping up its scrutiny of companies' homegrown earnings measures, signaling it plans to target firms that inflate their sales results and employ customized metrics that stray too far from accounting rules.

The move to intensify oversight signals that regulators have grown weary of the widespread use of some adjusted measures, which often result in a rosier view of profits than what is reported undergenerally accepted accounting principles, or GAAP. The campaign comes after SEC Chairman Mary Jo White said in March that the agency could use its rule-making powers to rein in non-GAAP reporting.

Wall Street Watchdog Has Unfinished Business with Bad Brokers | Reuters
The head of a brokerage industry watchdog says he will leave behind at least one piece of unfinished business when he retires this year: improving access to data so that regulators can more quickly halt problem brokers, and investors can avoid them. In an interview with Reuters on Wednesday, Richard Ketchum, chairman and chief executive of the Financial Industry Regulatory Authority (FINRA), mentioned several ways data should be better collected and used by regulators and investors. He plans to present at least one of them to FINRA's board of governors before he leaves.

SEC Draws NYSE's Fury with Idea a Millisecond Doesn't Matter | Bloomberg

SEC Proposes Design of New Audit System to Better Catch Market Manipulation | Wall Street Journal

Charles Schwab to Cease Selling Load Mutual Funds **| Wall Street Journal**

SEC to Withdraw Order Granting Steven Rattner's Return to Wall Street **| Wall Street Journal**

MORTGAGES & HOUSING

The Line That May Have Won Hillary Clinton the Nomination **| Matt Taibbi, Rolling Stone**
"If we broke up the big banks tomorrow," Clinton asked, "would that end racism…?"

There was a political cliché behind this disconnect. When most people hear the words "Wall Street," they think of the stock market. And since African-American voters have traditionally distrusted and avoided the stock market, at least in comparison to white investors, there is a perception that "Wall Street" is an issue that doesn't really concern black people.

In the subprime era, though, banks actually used this cliché to their advantage. They profited immensely from a real-estate operation that specifically targeted people who stayed away from the financial markets, and carefully guarded their money by putting it in their homes.

According to one study, about two-thirds of all subprime loans between 2000 and 2007 were made to people who already owned their homes. The targets were often elderly, in particular men and women of color. Visiting loan officers convinced these borrowers to use the homes they'd poured their savings into their whole lives as ATM machines.

It's true: HUD policy really does hurt our neighborhoods **| The Hill**

When seeking a mortgage you don't want to be called a revolver **| Washington Post**

FHFA's Principal Reduction Program (Very Modest and Very Late) **| NCLC**

Fact Sheet: CIT Group's Financial Freedom Responsible for nearly 40% of HECM Reverse Mortgage Foreclosures **| California Reinvestment Coalition**

POLITICAL INFLUENCE OF WALL STREET & REVOLVING DOOR

Blocking Wall Street's Revolving Door **| Brandon Rees, Inequality.org**
The Wall Street investment bank Lazard held its annual shareholder meeting April 19 at Bermuda's luxurious Elbow Beach Hotel. Bermuda is known for its beautiful sandy beaches and, less flatteringly, as an offshore tax haven. Headquartered in New York City, Lazard is incorporated in Bermuda.

Like a tax shelter that lacks economic substance, Lazard's shareholder meeting seemed empty of meaningful content. There was no discussion of the company's performance, as is customary at other shareholder meetings. I felt like the only attendee who was not affiliated with the company.

Lazard's corporate secretary ran through the entire meeting agenda in less than five minutes. Lazard's board of directors and a number of other executives attended the meeting but did not speak. My job was to present an AFL-CIO-sponsored shareholder proposal as is required by the U.S. Securities and Exchange Commission's regulations.

The AFL-CIO's shareholder proposal asked Lazard to ban the payment of unvested equity to senior executives if they enter into government service. Known as "government service golden parachutes," this unvested equity would normally be forfeited after an executive's voluntary resignation.

Rewriting the rules of our economy **| Sen. Tammy Baldwin, Medium.com**
For too long, the so-called 'revolving door' has allowed Wall Street to influence our regulators charged with oversight of the financial industry by promising lucrative jobs and bonuses for favorable treatment. That is why last year, I also introduced reform legislation to close the revolving door between the financial industry and government.

The American people can't afford to have government officials in the pocket of the financial industry that they are charged with overseeing. We need to ensure that government officials are working on behalf of the public interest and our common good. If you're working for the government, you're working for the people—not for an oil company, drug company, or Wall Street bank or money manager.

RETIREMENT SECURITY & FIDUCIARY DUTY RULE

Life insurers meet to plan for possible fiduciary lawsuit | PoliticoPro (paywalled)
Life insurance companies are worried they may look bad in the eyes of customers if they pursue a lawsuit against the Labor Department to stop its landmark fiduciary rule, according to a memo obtained by POLITICO.

The department this month released the final version of a rule that would require financial brokers to act in their clients' best financial interest when offering retirement investment advice, a higher standard of care than they face now. Life insurance companies sell annuities through brokers and offer retirement plans to businesses. They are likely to suffer revenue losses as a result of the rule.

On Tuesday, members of the American Council of Life Insurers are scheduled to meet with lawyers from WilmerHale to discuss a possible lawsuit. The ACLI's board of directors is expected to consider whether or not to proceed on May 5.

Labor chief knocks GOP 'waste of time' on fiduciary rule | The Hill

Pelosi rallies Democrats to defend the fiduciary rule | The Hill

Republicans reject fiduciary rule | ThinkProgress
The Department of Labor (DOL) has finalized rules that require financial advisers who help people make investments for retirement to put their clients' interests ahead of their own. But House Republicans aren't letting the rule go into effect without a fight. On Thursday, the House voted on a resolution that would effectively block the new rules, which require advisers to adhere to a "fiduciary standard," that passed along strict party lines, with 234 Republicans voting yes and 183 Democrats voting no.

White House threatens to veto bill blocking financial adviser rule | The Hill

Statement of Administration policy on House resolution to kill DOL fiduciary rule | White House

Fiduciary Rule Should Push FINRA Arbitration | OverhaulFinancial Plannig

Report: 6 Ways the DOL Fiduciary Rule Protects Retirement Savers | CFA

STUDENT LOANS & FOR-PROFIT EDUCATION

It's almost impossible for students to sue a for-profit college | Washington Post
"These clauses let companies engage in questionable activity, feel more comfortable with aggressive recruiting," said Robert Shireman, a senior fellow at the Century Foundation and co-author of the report. "Most students when they're signing up for college are assuming this is their ticket to a great future. They are not considering the possibility that what the college has been telling them is exaggerated or untrue."

Shireman and his colleague, Tariq Habash, got a hold of enrollment contracts from 271 schools and found four types of restrictive clauses — forced arbitration, go-it-alone, gag and internal process requirements — meant to prevent students from banding together or airing their grievances outside the confines of the school. Traditional nonprofit colleges rarely use these clauses, which have become a standard feature in many contracts drawn up by for-profit institutions receiving federal financial aid dollars, like Kaplan University or Devry University, the report said.

Few students are aware these restrictions exist until problems arise and they try to seek redress.

[Low-income students don’t have the luxury of meandering through college](#) | The Atlantic
In a [report](#) published this month, The Century Foundation takes a look at the cycle of poverty that Baltimore’s young people often find themselves in and offers recommendations for how cities and lawmakers might begin to break some of the challenges they face. While the report, by Stefanie A. DeLuca and Susan Clampet-Lundquist, touches on everything from housing vouchers to mentorship, the role that some postsecondary schools seem to play in exacerbating inequalities is particularly interesting. The researchers found that many of the low-income Baltimore-area young people they have been following for nearly a decade gravitated toward for-profit colleges or trade schools when they decided to continue their education after high school. These schools tended to have lower graduation rates and higher student-loan default rates than local four-year universities.

[Case Builds against For-Profit Colleges Denying Students Legal Rights](#) | Huffington Post

[For-profit college Latin lesson: caveat emptor](#) | Idaho Statesman

[Harkin: Protect against abuses by for-profit colleges](#) | DesMoines Register

[Four Lessons from a For-Profit University Graduate](#) | Forbes

[Letter: End forced arbitration in for-profit colleges](#) | Leadership Conference on Civil & Human Rights

SYSTEMIC RISK

[Regulators to Call for Banks to Have Year’s Worth of Liquidity](#) | Wall St. Journal
The regulation would require about 30 of the country’s biggest banks to adjust their balance sheets, cutting the odds they would run into the kind of funding crunch that crippled Bear Stearns and Lehman Brothers in 2008. But critics say it could also crimp banks’ profits by forcing them to devote more resources to low-return investments or higher-cost sources of cash, and could disrupt markets by forcing banks to curb their trading in certain types of instruments or pull back from certain types of loans.

The rule is being crafted by three agencies: the Federal Reserve, the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency. The FDIC will release details of the liquidity proposal at its board meeting Tuesday, along with voting on an unrelated postcrisis rule to rein in incentive-compensation on Wall Street. That [bonus-pay proposal](#) is being prepared by six regulators and was released last week by one of them, the National Credit Union Administration.

The core element of the new regulation is the “net stable funding ratio,” or NSFR. This new requirement would force banks to show they have sufficient “stable funding” to help them endure a year of extreme duress.

[Living Wills Only Work If Regulators Are Psychic](#) | American Banker

[Too Big to Fail? So What, Say Bank Depositors](#) | Wall Street Journal

[Speech: Citi CEO rejects bank bashing](#) | Citi
"So on behalf of my nearly 70,000 colleagues who live and work in the United States - the vast majority of whom don't actually work on Wall Street - I'm here to say that what we do is worth doing. ... And it's not just worth doing because it's personally and professionally rewarding. It's worth doing because banking is the essential lifeblood of economic and social progress."

OTHER TOPICS

[The Quiet War on Corporate Accountability](#) | New York Times

[Mercatus Center says federal regs cost economy $4 trillion in one year](#) | The Hill

[The securities analyst who took on Donald Trump – and won](#) | Politico