AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
DECEMBER 13 – 19, 2014

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Big Banks' Swaps Push-Out Repeal Is a Pyrrhic Victory
Cornelius Hurley, American Banker, 12/18/14
The big banks claimed that without FDIC insurance, they would be forced to pass the increased cost on to innocent end users like farmers, airlines and oil distributors. The implication of this risible threat was that the big banks were in the habit of sharing the entire financial benefit they received from this free insurance with their customers.

Even the most casual observer of our financial system can smell a subsidy as pungent as this… These responses will reframe the entire debate over TBTFs, shifting the argument away from capital requirements and the like and back toward the subsidy and how we make it go away.

If you happen to be one of the five banks that benefit from last week's disgraceful lobbying effort, you can file this under "be careful what you lobby for." If you're a taxpayer frustrated that six years after the financial crisis we still have TBTF banks corrupting our financial system and the body politic, you can file these proposed changes under, "Reframing the TBTF debate."

Democrats Need Elizabeth Warren's brand of populism
Harold Meyerson, Washington Post, 12/17/14
Although 20 Democratic senators joined Warren last weekend in voting against the funding bill as a way to protest its allowing publicly insured banks to trade risky derivatives, five colleagues joined her in the more emphatic gesture of voting against the cloture motion that brought the bill to a vote. They were three staunch progressives — Ohio's Sherrod Brown, Minnesota's Al Franken and Vermont's Bernie Sanders (an independent) — and two senators generally considered among the party's more conservative lawmakers: West Virginia's Joe Manchin III and Missouri's Claire McCaskill.

The breadth of support for the populist critique of the American economy is apparent in a range of surveys. In a Washington Post/ABC poll conducted just before the midterms, 71 percent of Americans said that our economic system generally favors the wealthy — a figure that included 59 percent of conservatives and 56 percent of Republicans.

How Banks Got a Big Win in Washington
Kevin G. Hall, South Carolina State (McClatchy), 12/12/14
While big banks stand to gain the most under the change, several congressional and industry sources privately said that what really helped sell the change was lobbying by regional banks such as Georgia's SunTrust Banks Inc., Pennsylvania's PNC Financial Services Group and Ohio's Fifth Third Bancorp. The rules designed to limit big banks affected them, too, they argued.

Wall Street Prepares Dodd-Frank Assault
Peter Schroeder, The Hill, 12/17/14
Fresh off a victory in the government funding debate that liberals decried as a giveaway to Wall Street, advocates for the financial sector aim to pursue additional changes to Dodd-Frank that they say would lighten burdens created by the 2010 law. Among the top items on the wish list: easing new requirements on mortgages, loosening restrictions on financial derivatives and overhauling the Consumer Financial Protection Bureau…

Advocates for tougher rules on Wall Street said they were encouraged by the liberal uprising, viewing it as a sign that Democrats will not stand idly by while Dodd-Frank is torn apart.

"This past week's drama suggests in some ways that we are, more likely than people once thought, going to win some of those fights," said Lisa Donner, executive director of**Americans for Financial Reform.** "This debate, and how much people engaged in it, really does put members of Congress on notice that the public cares."

GOP to Warren: That Dodd-Frank Rollback Was Just the Appetizer
Erik Wasson, Bloomberg, 12/19/14
Representative Kevin Yoder of Kansas, who spearheaded this week's changes to the Dodd-Frank financial law's regulation of swaps transactions, has a message for the White House: expect more changes in next year's spending bills.

"We have a created a model," he said in a telephone interview yesterday. "This bipartisan success shows a pathway to solving other issues in the financial services area…"

As he looks ahead to what might be achievable when Republicans control both houses of Congress, Yoder said he plans to seek appropriations language making the Consumer Financial Protection Bureau, which he described as a "lone wolf" agency, dependent on Congress for its money.

The CFPB isn't subject to the annual appropriations process and receives funding from the Federal Reserve… Early next year, Yoder plans to meet with community bankers to talk about whether exemptions for smaller institutions should be added to Dodd-Frank.

White House: No Further Changes to Dodd-Frank Through Spending Bills
John Heltman, American Banker, 12/18/14
A top White House adviser said President Obama will not allow any further amendments to be made to the Dodd-Frank Act through spending packages.

Republicans Risk White House in 2016 by Eviscerating Dodd-Frank
Barry Elias, Money News, 12/19/14
In an effort led by the Republicans, the Dodd-Frank financial reform legislation has been effectively eviscerated, recreating the very financial environment that crippled the global markets and economy six years ago…

While neither political party has a monopoly on poor public policy, a pattern seems to be emerging that identifies Republicans more strongly with the greatest financial crisis in our lifetimes.

With Dodd-Frank Rollback, The Big Bad Banks Are Back
Steve Denning, Forbes, 12/12/14
Even Obama administration officials were forced to work late into the evening lobbying Democrats to support the bill, arguing that this bill was less bad than any deal than they would get next year when the GOP controls both chambers of Congress. The measure ultimately passed 219-206, with 57 Democrats supporting the bill.

On the surface, the House vote was a huge legislative victory for the big banks. Yet Citi may regret its big victory on Capitol Hill," writes by Rob Blackwell in the industry-friendly American Banker [see previous edition of "This Week"] That's because "in finally getting what they wanted, big banks also thrust themselves back into the limelight in the worst possible way, simultaneously reminding the public of their role in causing the financial crisis and in their continuing influence over the various levers of the U.S government. In one fell swoop, they undid whatever recovery to their battered reputation they'd made in the past four years and once again cast themselves as the prototypical supervillain in a comic book movie."

Elizabeth Warren Gets Her Own Folksong on Park Avenue
Max Abelson and Dakin Campbell, Bloomberg, 12/18/14
Chanting and clapping outside Citigroup Inc.'s Park Avenue headquarters today, about 50 protesters tried to thrust the bank into the 2016 presidential race.

"As part of running for president, you have to answer 'The Citigroup Question' -- where do you stand on breaking up Citigroup?'" said Zephyr Teachout, who challenged Andrew Cuomo for this year's Democratic nomination for New York governor. "Do you think Citigroup should be broken up, or do you think things are OK?"

The protest, organized by the Progressive Change Campaign Committee, singled out the bank that Massachusetts Democrat Elizabeth Warren denounced in the Senate last week, saying its lobbyists drafted the derivatives deregulation that Congress added to its $1.1 trillion spending bill. The lawmaker became the subject of a reworded folksong.

Massive Bill's Reform Deficit
Editorial, Scranton Times, 12/16/14
Amid the rubble of the Great Recession, Congress passed the Dodd-Frank reforms to help get taxpayers off the hook for the greed and incompetence of big investment banks that, infamously, proved "too big to fail."

One of those key reforms was aimed directly at a principal cause of housing bubble implosion and global economic meltdown in 2008. It precluded big banks from using taxpayer-insured deposits and other public subsidies to gamble in high-risk derivative markets..

But as part of a $1.1 trillion compromise to continue running the government that Congress passed over the weekend, the crucial Dodd-Frank reform effectively was repealed. Big investment banks once again will be able to use federally insured deposits and other public protections to throw the dice on lightly regulated derivatives — private profit, public risk. Through Sept. 30, according to **Americans for Financial Reform**, the financial industry spent more than $790 million on lobbying Congress and accounted for more than $433 million in campaign contributions to congressional candidates during the election cycle covering 2013 and 2014.

[I]n Washington, money not only talks, it writes the law.

A Window Into Washington in an Effort to Undo a Dodd-Frank Rule
Jonathan Weisman, New York Times, 12/15/14
In June, as the House appropriations committee was drafting the annual bill to fund the Treasury Department, the judiciary and a vast mishmash of other agencies, a Kansas Republican known best for skinny-dipping in the Sea of Galilee proposed to dismantle a signature overhaul passed after the financial crisis.

Christmas Comes Early for Banking Corporations
Emiene Wright, Charlotte Newspaper, 12/17/14
Hey there, taxpayer! Crossed Wells Fargo and Bank of America off of your gifts list yet? Actually, you have, and you're not going to be happy when you get the bill.

This weekend the Senate passed a $1.1 trillion spending bill that glided through the House last week with little to no debate, despite its measures that rolled back vital financial reforms, including Wall Street regulation and campaign financing rules.

U.S. Rep. Kevin Yoder of Kansas Defends Measure Relaxing Banking Rules
Dave Helling, Kansas City Star, 12/17/14

Congressman Behind Controversial Citigroup Wall Street Provision Is MIA
Edward Arnold, Opposing Views, 12/1/614

Wall Street, DC
Lisa Gilbert & Bartlett Naylor, The Hill, 12/16/14

The Big Banks Win Again - at Your Expense
Anna B. Wroblewska, Motley Fool, 12/17/14

CONSUMER FINANCE AND CFPB

[Payday Lenders Throw Millions at Powerful Politicians to Get Their Way]

Blake Ellis and Melanie Hicken, CNN, 12/18/14

Since the beginning of 2013, high-cost loan providers and those with ties to the industry have spent more than $13 million on lobbying and campaign donations to at least 50 lawmakers, according to a new report from the nonprofit **Americans for Financial Reform**…
To get the government off their backs, these "quick-fix consumer lenders" are attempting to cash in on the "$13 million tab" they've built up through lobbying and campaign contributions over the last two years, says Gynnie Robnett, campaign director at **AFR** and one of the report's authors.

The Online Lenders Alliance, for example, has ramped up its lobbying efforts significantly. Between 2012 and 2013, its spending jumped more than 40%, according to lobbying records.

"They have no problem using the money they make off of vulnerable cash-strapped consumers to curry favor in D.C.," said Robnett.

Officials Urged to Support Tougher Loan Regulations

Union Leader, 12/4/14

Clergy and community organizers are urging New Hampshire congressional representatives to support tough regulations on high-interest payday and auto-title loans.

Granite State Organizing Project and the United Valley Interfaith Project said their representatives recently met with representatives of Sens. Jeanne Shaheen and Kelly Ayotte and Rep. Annie Kuster. They urged the officials to encourage the Consumer Financial Protection Bureau to issue a strong rule reining in the worst abuses of payday and car-title loans.

Report: Texas Payday Lenders and Prosecutors Team up to Criminally Pursue Borrowers

Forrest Wilder, Texas Observer, 12/17/14

Knoxville City Officials Push For Limits On Payday Loan Shops

Jeff Mondlock, Wbir, 12/9/14

Knoxville city leaders are looking for a way to tackle the growth of payday loan shops around town. They presented a resolution at the December 9th council meeting asking the Metropolitan Planning Commission to look into a recommendation that would create a one quarter mile distance requirement between each shop.

CFPB Conducts Consumer Savings Research Pilot Under Project Catalyst

ACA International, 12/17/14

The CFPB will evaluate practices to promote regular saving habits among prepaid card users using research findings from American Express.

Under Project Catalyst—the Consumer Financial Protection Bureau's initiative to encourage innovations that make financial products more consumer-friendly—the CFPB will conduct a research pilot to evaluate saving behavior among low- and moderate-income prepaid card users who often do not have access to or use traditional savings accounts and who may face unique challenges building regular saving habits.

[Reading the Fine Print on Pension Advance Agreements]
John F. Wasik, NY Times, 12/12/14

[CFPB Sues Texas Company for Sham Credit Card]
Consumer Financial Protection Bureau, 12/17/14

[How Dodd-Frank Financial Regulation Is Messing Up That Thing Where You Surf Zero-APR Credit Cards This Christmas]
Clyde Wayne Crews Jr., Forbes, 12/18/14

[How I Ended Up in a Congressional 'Choke Point' Report]
Joe Adler, American Banker, 12/14/14

ENFORCEMENT

[How a Memo Cost Big Banks $37 Billion]
Andrew Grossman, Emily Glazer & Christina Rexrode, Wall St. Journal, 12/18/14
Assistant U.S. Attorney Richard Elias was leafing through a pile of J.P. Morgan Chase & Co. documents while tending to his newborn son in 2012 when he found something that came back to haunt the three largest U.S. banks. In a memo, one J.P. Morgan employee warned her bosses they were putting bad loans into securities being created before the financial crisis hit.

[Whistle-Blower on Countrywide Mortgage Misdeeds to Get $57 Million]
Matthew Goldstein, NY Times, 12/17/14

EXECUTIVE COMPENSATION

[CEO-Pay Rule Is 7,196 Hours in the Making]
Andrew Ackerman, Wall St. Journal, 12/17/14
That's how long staff of the agency have spent since 2011 on a proposal requiring companies disclose median worker pay and compare it with CEO compensation, according to SEC Chairman Mary Jo White.

[The Disgusting Way Insiders Traders Rig America and How Courts Let Them]
Robert Reich, AlterNet, 12/18/14
If a CEO tells his golf buddy that his company is being taken over, and his buddy makes a killing on that information, no problem. If his buddy leaks the information to a hedge-fund manager like Chiasson, and doesn't tell Chiasson where it comes from, Chiasson can also use the information to make a bundle.

Major players on Wall Street have been making tons of money not because they're particularly clever but because they happen to be in the realm where a lot of coins come their way.

Last year, the top twenty-five hedge fund managers took home, on average, almost [one billion dollars each]. Even run-of-the-mill portfolio managers at large hedge funds averaged $2.2 million each.

FINANCIAL TRANSACTION TAX

[Financial Transaction Tax – The Roller Coaster Continues](#)
Peter Wahl, Weed, 12/16/14
In May 2014, the Council of EU Finance Ministers (ECOFIN) had announced that an agreement on the Financial Transaction Tax (FTT) would be delivered by the end of the year (see October 2014 Newsletter). However, the ECOFIN failed to reach a breakthrough on 9 December, and therefore talks will have to continue in 2015.

HOUSING AND MORTGAGES

[A Home of One's Own](#)
Editorial, NY Times, 12/13/14
Critics have said that Mr. Watt's new programs for low-down-payment mortgages might cause another subprime fiasco. But the programs incorporate the proven elements of success, including clear lending standards, fixed-rate loans with private mortgage insurance and counseling for borrowers to ensure that they understand their obligations.

[Least Expensive Homes Languish Underwater Even As Equity Rises](#)
Joe Light, Wall St. Journal, 12/17/14

[Political Theater: Community Groups Giving HUD "Grinch Of The Year" Award](#)
Trey Barrison, The Housing Wire, 12/17/14

INVESTOR RIGHTS AND THE SEC

[Sen. Hatch's 2015 Priority: Torpedo DOL Fiduciary Efforts](#)
Melanie Waddell, Think Advisor, 12/15/14

POLITICAL INFLUENCE OF WALL STREET AND REVOLVING DOOR

[Wall Street Spent $1.2 Billion in Campaign Donations, Lobbying This Election Cycle](#)
Jeremy Greenfield, TheStreet.com, 12/11/14
Financial services companies have spent $1.2 billion on campaign contributions and lobbying Congress in the most recent election cycle, according to [a new report](#).
The spending is the largest ever for the sector in mid-term elections, and financial services is the largest source of campaign contributions and the second-largest spender on lobbying, according to the report from [Americans for Financial Reform](#)…

[Elizabeth Warren's Latest Wall Street Attack Her Boldest Yet](#)

David Dayen, The New Republic, 12/9/14

If anyone thought that Senator Elizabeth Warren would ease up on her battle with the White House over Treasury Undersecretary for Domestic Finance nominee Antonio Weiss, they can put such thoughts to bed. In a speech today at the "Managing the Economy" conference in Washington [organized by **Americans for Financial Reform**, the Economic Policy Institute and the Roosevelt Institute], Warren made clear that her fight is about much more than one nominee at the Treasury Department. She crafted a direct challenge to three decades of bipartisan collusion between government and Wall Street, in a highly unusual manner for any politician, let alone one recently drafted into the Senate Democratic leadership. The Weiss affair has become secondary to this bigger competition for what principles will shape the Democratic Party, and what role Warren will play in it.

At a conference ostensibly about the role of the Federal Reserve in economic policy, Warren pivoted to her main concern—Wall Street's outsized influence on our government. She highlighted the 1,447 former government officials who lobbied for the financial services sector during the Dodd-Frank debate, and how big banks like Goldman Sachs and JPMorgan Chase meet with top regulators several times a week.

Elizabeth Warren Escalates Fight over Treasury Nominee Antonio Weiss, Goes to War with Wall Street Wing of Democratic Party

Yves Smith, Naked Capitalism, 12/20/14

Warren upped the ante in a speech on Tuesday, making Weiss, who is now head of investment banking at Lazard, a symbol of what is wrong with the relationship between the government and Big Finance: that of far too much coziness between the large, influential players and financial regulators. And in sharpening and further documenting her critique, she has put the Robert Rubin wing of the Democratic party in her crosshairs.

It is hard to exaggerate Rubin's role in shaping Democratic party economic and financial regulatory policy. Rubin was a former Goldman co-chairman before becoming Treasury secretary and was later a board member and vice-chairman of Citigroup. All Democratic party Treasury secretaries after his time in office were proteges of his. A boatload of former Goldman and Citigroup employees that have rotated through major government posts are also members of what a regulatory expert calls the Rubino gang. Rubin's support **was also critical** to Obama's rise. Rubin has exercised intellectual influence over the Democratic party through the Hamilton Project, which has sponsored a raft of good for banks, bad for the middle class policies such as unfettered free trade, a strong dollar, financial services deregulation, and balanced budgets.

Antonio Weiss Should Not Become Undersecretary for Domestic Finance

Simon Johnson, Baseline Scenario, 12/17/14

The Obama administration has continually refused to put forward any potential nominee for a senior position who has shown serious backbone with regard to financial reform. There appears to be a litmus test. If you want to be tough on reform – in the sense of confronting Too Big To Fail head-on or even just reducing the reckless risks that big banks take with derivatives – you cannot have a senior administration job.

A few reformers have, of course, managed to get through. Gary Gensler took financial reform seriously and implemented the Dodd-Frank law as chair at the Commodity Futures Trading Commission. The administration seems to have been surprised by how tough he was – and they did not reappoint him. Janet Yellen became chair of the Federal Reserve Board, but only because the White House could not get sufficient support for Larry Summers. And Tom Hoenig and Jeremiah Norton are strong voices for sensible policy at the Federal Deposit Insurance Corporation – but they were both put in office by the Republicans.

There is no balance of views at the top of the US Treasury.

STUDENT LOANS AND FOR-PROFIT COLLEGES

In Battle Against For-Profit College Sale, Activists Turn to the States
Molly Hensley-Clancy, 12/17/14
In letters written to six state governors, released today and provided exclusively to BuzzFeed News, the Center for American Progress' Higher Ed Not Debt Campaign encouraged states to take matters into their own hands regarding the controversial sale of 56 Corinthian campuses to ECMC Group, a nonprofit student loan guarantor that many say is unfit to handle the struggling schools.

46 Groups Raise Concerns About Sale of Corinthian Campuses
Andy Thomasan, Chronicle of Higher Education, 12/17/14
Forty-six organizations signed a letter on Wednesday expressing reservations about the proposed sale of 56 Corinthian Colleges campuses to the nonprofit ECMC Group.The letter raises a number of concerns, including reports that ECMC, which has a student-loan-servicing arm, has run roughshod over borrowers; that the proposed terms of the sale inadequately serve the campuses' current students; and that ECMC's plan to reduce tuition at the campuses by 20 percent doesn't go far enough.

"We urge you to stand up for students by insisting on sale terms that provide adequate student relief and protections," reads the letter, which is addressed to Education Secretary Arne Duncan, Attorney General Eric Holder Jr., and Richard Cordray, director of the Consumer Financial Protection Bureau.

See **joint letter** to Secretary of Education Arne Duncan, Attorney General Eric Holder, and CFPB Director Richard Cordray.

Declaring Corinthian Colleges Too Big To Fail: A Terrible Idea
David Halperin, HuffPost, 12/17/14

Whistleblower Suit Alleges For-Profit College Tricked Veterans Into Debt
Molly Hensley-Clancy, Buzzfeed News, 12/16/14

A For-Profit College Tries the Charter School Market
Anya Kamenetz, National Public Radio, 12/14/14

Durbin: "I Begged The Education Department" to Cut Funds to Disgraced For-Profit College
Molly Hensley-Clancy, Buzzfeed News, 12/12/14

Watchdog Agency Cracks Down On Student-Loan 'Debt Relief' Companies
Kelly Field, Chronicle Of Higher Education, 12/12/14

Controversial Debt Relief Firms Target For-Profit College Students
Molly Hensley-Clancy, Buzzfeed News, 12/11/14

[CFPB Blasts 'Debt Relief' Services]
Michael Stratford, Inside Higher Ed, 12/12/14

[For-Profit Education Giant Wins In 9th Circuit]
Tim Hull, Courthouse News Service, 12/16/14

SYSTEMIC RISK

[Banks Win More Time to Sell Private Equity Stakes]
Kevin McRory, USA Today, 12/18/14
In a victory for the financial industry, the Fed approved the new timetable for the so-called Volcker Rule, a key safety provision of the Dodd-Frank Wall Street Reform and Consumer Act enacted after the 2008 financial crisis. The rule bars most such investments as part of a ban on proprietary trading by banks — transactions that could undermine the fiscal strength of some institutions and affect the broader economy if the trades turned out to be losing bets…

Americans for Financial Reform, a non-profit coalition of consumer, labor and other groups, called the Fed action disappointing and said it "raises serious questions about regulators' intentions to properly enforce the Volcker Rule."

"Since proprietary trading can occur through the mechanism of external funds, the delay in divestment requirements for covered funds will greatly weaken the enforcement of other crucial parts of the Volcker Rule as well," the organization said.

[Fed Delays Volcker Rule, Giving Wall Street Another Holiday Gift]
Zach Carter, Huff Post, 12/18/14
The Fed's delay comes less than a week after Congress granted Wall Street a reprieve from another reform that had been mandated by the 2010 Dodd-Frank financial reform law. The measure, known as the swaps push-out rule had eliminated federal subsidies for trading in risky derivatives -- the complex contracts at the heart of the 2008 banking meltdown. Bank watchdogs say the Volcker Rule delay adds insult to injury.

"Swaps pushout was a club," said Marcus Stanley, policy director for **Americans for Financial Reform**. "This is a stiletto."

Big banks including Goldman Sachs and Morgan Stanley have billions of dollars invested in private equity firms that they would have to sell at a loss based on current prices, according to a Bloomberg report from early December. Dodd-Frank gave banks four years to unwind their investments in speculative enterprises, setting a deadline of July 21, 2014. The Fed had previously extended that deadline by one year, and now plans to push it out to July 2017.

[Fed Gives Banks More Time to Sell Private-Equity, Hedge Fund Stakes]
Ryan Tracy and Scott Patterson, Morningstar, 12/18/14
Consumer advocates said the move raises questions about how regulators will enforce the rule. "It's disappointing," said Marcus Stanley, policy director for **Americans for Financial Reform**, a nonprofit consumer watchdog. "Whether the Volcker rule is going to be successfully implemented is still up in the air."

Firms such as Goldman Sachs Group Inc., Morgan Stanley and J.P. Morgan Chase & Co. will benefit from Thursday's news. Goldman alone has about $7 billion invested in private equity, according to a November regulatory filing.

OTHER TOPICS

Waxman's Parting Words: 'We Need Government'
Julian Hattem, The Hill, 12/16/14
Outgoing Rep. Henry Waxman (D-Calif.) said on Tuesday that his decades in office should be remembered as proof that government can make a difference.

During what could be his final public remarks as a member of Congress, Waxman pointed back to updates to the Clean Air Act, mandatory labels for food and other laws passed during his tenure that he said are now accepted as common sense.

Lawsky to Banks: Speed Up Payments Innovation — Or Else
Ian McKendry, American Banker, 12/18/14