AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
JULY 5 – JULY 11, 2014

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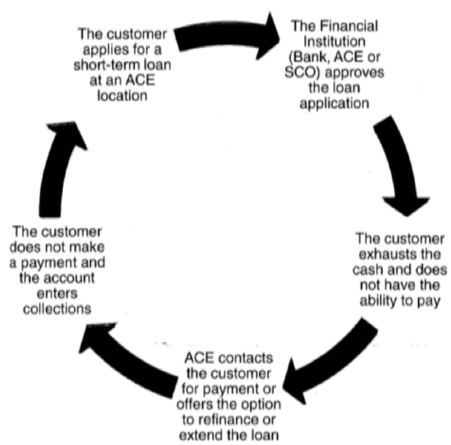
CONSUMER FINANCE AND CFPB



[Payday Lender Ace Cash Express to Pay $10 Million Over Debt-Collection Practices]

Danielle Douglas, Washington Post, 7/10/14

"When customers fell behind on repaying their short-term, small-dollar loans, Ace Cash Express threatened jail time or pressured them into taking out new loans with exorbitant fees to cover the debt. Ace was so intent on squeezing money out of customers that its training manual included a graphic [above] of a step-by-step loan process that could trap delinquent borrowers in a cycle of debt, the Consumer Financial Protection Bureau said Thursday.

"Those sorts of abusive debt-collection practices are at the heart of the $10 million settlement the government watchdog reached with Ace, one of the nation's largest payday lenders. The Irving, Tex.-based company agreed to the deal but denies wrongdoing."

[ACE Cash Express to Pay $10 Million Over 'cycle of debt' Allegations]
Jim Puzzanghera, Los Angeles Times, 7/10/14
"The case against ACE is the first time that bureau officials have accused a payday lender of intentionally pushing people into a debt cycle. The allegations came after an investigation triggered by a routine examination of the company's operations as part of the bureau's oversight.

"The investigation found that ACE's in-house and third-party debt collectors used illegal tactics, such as harassing phone calls and false threats to report borrowers to credit reporting companies, to try to force customers to take out new loans to pay off the old ones, the bureau said."

[GOP Congressman: Choke Point Bureaucrats Deserve Brushback]
Kevin Wack, American Banker, 7/8/2014
"Chairman Darrell Issa vowed to continue his fight against government efforts to tighten access to the payment system. Issa, R-Calif., drew an analogy to baseball, with himself standing on the pitcher's mound, and the various federal agencies that are part of Operation Choke Point waiting in the batter's box…

"Despite his distaste for Choke Point, Issa declined to endorse legislation sponsored by Rep. Blaine Luetkemeyer, R-Mo., that's meant to undermine the multi-agency probe. It would offer legal protection to banks and credit unions as long as their merchant customers meet certain licensure or other criteria. 'You can't pass a law for every bureaucrat to do the right thing [Issa said]. You can only pass laws which are generally good, and then see that they're faithfully enforced.'"

[Choking Illegal Payments Helps Everyone]
Lauren Saunders, The Hill, 7/9/14
"Everyone should be applauding the DOJ for cracking down on such egregious violations of a bank's legal obligations. But I have scarcely heard a single clap. Instead, a chorus of voices has attacked the DOJ and demanded an end to Operation Choke Point and separate but similar efforts by bank regulators.

"Such demands are irresponsible and short-sighted. Payment fraud hurts everyone… After the Target data breach, customers across the country had their accounts frozen and couldn't withdraw cash. People spend millions on identity protection products. Brick-and-mortar retailers and online merchants alike lose business when consumers are afraid to shop. When the scammer's bank processes an unauthorized charge against a consumer's account, the consumer's bank has to deal with the mess…"

[CFPB Issues Report on the Use of Remittance Histories in Credit Scoring]
Greg P. Trudel, CFPB Monitor, 7/7/14

[Report Says Debt Settlement Companies May Leave Clients Worse Off]
Ann Carrns, New York Times, 7/8/14
"A report from the Center for Responsible Lending, a nonprofit research group, finds that consumers who sign on with for-profit debt settlement companies find their debts grow about 20 percent on average before a settlement, with no guarantee that such a settlement will be reached…"

[Republican Attacks on a CFPB Office Renovation Don't Add Up]

Karen Weise, Bloomberg, 7/10/14

"When the U.S. Consumer Financial Protection Bureau opened in 2011, the best available government office space large enough to accommodate its thousand-plus employees was a run-down concrete building on G Street near the White House that once housed the now-defunct Office of Thrift Supervision. The bureau's director, Richard Cordray, has called the dark, musty structure a 'dump.' The U.S. Department of the Treasury said the building, erected in 1976, was in need of 'major renovations,' which the low rent reflected.

"Three years later, the CFPB's plans to fix up the place are under attack by Republicans who fought to block the agency's creation and have tried since to weaken or kill it. Representative Jeb Hensarling of Texas, chairman of the House Financial Services Committee, decries the renovation as a 'blatant waste' of public money. The CFPB says it will cost about $140 million; Republicans predict it will come to much more."

DERIVATIVES, COMMODITIES & THE CFTC

[Banks Racing to Pare Swaps Holdings Ahead of Rules, Goldman Says]

Matthew Leising, Bloomberg, 7/9/14

"Wall Street banks are racing to simplify their swaps holdings before new rules make it more costly to own the derivatives starting in 2017, according to a Goldman Sachs Group Inc. executive. 'They're doing so increasingly through a process known as compression, said Andy Hudis, a managing director at Goldman Sachs who runs the credit valuation adjustment desk in London. Through this technique, offsetting transactions are eliminated so that a bank can reduce, say, 100 trades into 10 that give the identical position."

[Banks May Lose $4.5 Billion a Year from Swaps Shift]

Matthew Leising, Bloomberg, 7/9/14

[House Approves CFTC Reauthorization, Changes to Dodd-Frank]

Michael Dunn and Micah Green, JDSupra Business Advisor, 7/10/14

"After a nearly two year process, on June 24, 2014, the U.S. House of Representatives voted 266-144 to pass [H.R. 4413], the Customer Protection and End-User Relief Act, which would reauthorize the Commodity Futures Trading Commission through 2018.

"While industry groups such as the Futures Industry Association ("FIA") support the bill, it also faces some criticism. For example, **Americans for Financial Reform** suggested that 'H.R. 4413 would seriously interfere with the agency's ability to fulfill its mission and defend our economic security.'"

ENFORCEMENT

[Citigroup Is Said to Be Close to Settling Inquiry Into Mortgage Securities]

Michael Corkery and Ben Protess, New York Times, 7/8/14

*"*Citigroup and the Justice Department are nearing a deal that could cost the bank roughly $7 billion to [settle a civil investigation into the sale of mortgage investments], people briefed on the matter said on Tuesday.

“The settlement, which is expected to be announced within the next week, caps months of negotiations that grew so tense in June that the Justice Department threatened to sue if the bank did not agree to the government’s proposed penalty. The deal, which would be made up of a monetary penalty and relief for homeowners, would remove a huge legal obstacle that has been weighing on the bank’s share price and casting a shadow over its future.

“At one point in the talks, the government demanded that Citigroup pay $10 billion. While the settlement will fall short of that demand, the bank will still pay more than once expected.”

BNP Paribas Pleads Guilty in U.S. to Violating Sanctions
Patricia Hurtado, Bloomberg, 7/10/14
“BNP Paribas SA pleaded guilty in Manhattan federal court to violating U.S. sanctions after agreeing last week to pay a record $8.97 billion to resolve state and federal probes that reached the highest echelons of French and American diplomacy.

“BNP, France’s largest bank, admitted it violated the International Emergency Economic Powers Act and the Trading with the Enemy Act by processing almost $9 billion in banned transactions from 2004 to 2012 involving Sudan, Iran and Cuba. U.S. District Judge Lorna Schofield in Manhattan, accepted the plea entered today by Georges Dirani, the company’s top lawyer. She set the bank’s sentencing for Oct. 3.”

U.S. Scrutiny for Banks Shifts to Commerzbank and Germany
Jessica Silver-Greenberg and Ben Protess, New York Times, 7/7/14
“State and federal authorities have begun settlement talks with Commerzbank, Germany’s second-largest lender, over the bank’s dealings with Iran and other countries blacklisted by the United States, according to people briefed on the matter. The bank, which is suspected of transferring money through its American operations on behalf of companies in Iran and Sudan, could strike a settlement deal with the state and federal authorities as soon as this summer…”

European Banks Seen Facing $50 Billion More in Legal Expenses
Elisa Martinuzzi, Bloomberg, 7/7/14

Prosecutors’ Winning Streak on Insider Trading Cases Ends
Matthew Goldstein, Rachel Abrams and Ben Protess, New York Times, 7/8/14
“The tip ultimately set off a chain of events that led prosecutors to secure 85 insider trading convictions and guilty pleas without one defeat, including the 2011 victory over Mr. Rajaratnam’s older brother, the hedge fund billionaire Raj Rajaratnam. So when prosecutors under Preet Bharara, the United States attorney for Manhattan, indicted the younger Mr. Rajaratnam last year, the case appeared to be coming full circle.

“But on Tuesday, with that perfect record at stake, prosecutors suffered their first insider trading loss… After just under four hours of deliberation, a federal jury of eight women and four men found Mr. Rajaratnam, 43, not guilty of conspiracy to commit insider trading with his brother…”

Despite Exposure of Madoff Fraud, New Ponzi Schemes Emerge
Elizabeth Olson, New York Times, 7/11/14
"[D]espite efforts by the authorities, particularly after the unmasking of Bernard L. Madoff in 2008 in the largest Ponzi scheme in history, these frauds still surface distressingly often around the country. State and federal financial regulators say a new Ponzi scheme operator is found nearly every week, and legal actions are brought against about 100 such questionable investment operations every year…

"Over the last five years, Mr. Maglich said, he has followed about 500 Ponzi schemes on his site, which includes links to legal documents, including those filed by the Securities and Exchange Commission, which posts some of them on its website; the Commodity Futures Trading Commission; and state financial authorities.

"Such swindles are largely viewed as distasteful cousins in the high-rolling world of securities, but they still rake in amounts that could be envied on Wall Street. In May alone, at least nine newly discovered Ponzi schemes were claimed to involve more than $96 million, said Kathy Bazoian Phelps, a Los Angeles lawyer who keeps a running tally on her blog."

U.S. House Panel Says It Can Ignore SEC Subpoenas in Insider-Trading Probe
Patricia Hurtado, Bloomberg, 7/5/14
"The U.S. House Ways and Means Committee and a top staff member say the panel and its employees are 'absolutely immune' from having to comply with subpoenas from a federal regulator in an insider-trading probe.

"The committee yesterday responded to U.S. District Court Judge Paul Gardephe's order to explain why it hadn't complied with the U.S. Securities and Exchange Commission's requests for documents, phone records and testimony of aide Brian Sutter for more than a year. Gardephe gave the House until yesterday to answer…"

Steven Cohen Writes a Big Check to the U.S. Government
Matthew Goldstein, New York Times, 7/10/14
"On April 10, Judge Laura Taylor Swain of Federal District Court in Manhattan gave Mr. Cohen's SAC Capital Advisors up to 90 days to pay the $900 million penalty, part of an overall $1.2 billion criminal settlement reached with prosecutors last November. On Tuesday, the 90th day since Judge Swain accepted the firm's guilty plea, Mr. Cohen's firm made that payment in four installments, according to court records…

"The extra two months to pay the criminal penalty gave Mr. Cohen's newly christened family office, Point72 Asset Management, more flexibility to deploy capital to the roughly 80 portfolio managers and trading teams that remain with his firm. Just days before SAC's guilty plea was accepted by Judge Swain, Mr. Cohen rebranded the firm, which he founded in 1992 with just $25 million, as Point72 — a reference to the address for its main office at 72 Cummings Point Road in Stamford, Conn."

EXECUTIVE COMPENSATION

Left Pushes Regulators to Lift Curtain on CEO Pay
Megan R. Wilson, The Hill, 7/7/14
"Several labor unions and public interest groups **met** last week with leaders at the Securities and Exchange Commission (SEC) to discuss the executive compensation rules, according to new agency documents. Many of those advocates fear regulators will bend to pressure from business groups and water down the final rules, perhaps by adding language that could help companies avoid the disclosure…

"The compensation rules stem from a provision in the Dodd-Frank reform law that requires companies to disclose the median pay of their workforces, and how it compares to the earnings of their CEOs."

The State of Runaway CEO Pay Resistance
Sarah Anderson, Other Words, 7/9/14
"But in the four years since President Barack Obama signed this law, regulators have dragged their feet on implementing these and several other Dodd-Frank executive compensation reforms. In this leadership vacuum, state and local activists and lawmakers are stepping up…

"The Rhode Island state Senate passed a bill in June that would use the power of the public purse to encourage more equitable pay practices. The measure, not yet introduced in the Rhode Island House, would give companies with narrow CEO-worker pay gaps an edge in competing for state contracts. Governments already deny contracts to firms that cause racial or gender inequality through discrimination. Why should our tax dollars subsidize economic inequality…?"

FEDERAL RESERVE

House Republicans Restart Their War on the Fed
Binyamin Applebaum, NY Times, 7/10/14
"House Republicans frustrated by the Federal Reserve's expansive economic stimulus campaign and its growing role as a financial regulator are renewing their efforts to constrain the central bank.

"The Fed would be required to set monetary policy based on a published formula under legislation introduced this week by leading Republicans on the Financial Services Committee. Other bills would eliminate the Fed's responsibility to maximize employment, or eliminate the Fed entirely. The bills face uncertain prospects in the House, and have no future in the Senate while it remains under Democratic control. But they highlight ideas that Republicans are likely to revisit if they win a majority in both houses of Congress in the midterm elections."

Yellen Winning Fierce Policy Debate
Darrell Delamaide, USA Today, 7/8/14
"Janet Yellen believes regulation, not interest rates, should be the main tool to avoid another costly boom and bust in global finance. The chair of the Federal Reserve gave a full-throated defense of her views last week, rebutting a charge from international

experts that the Fed and other central banks are feeding dangerous asset bubbles and endangering the global financial system with their easy money policies…

"Yellen rejected the argument that easy monetary policy was responsible in large part for the 2008 financial crisis or that current Fed policy creates conditions that threaten the global financial system. For her, regulatory requirements for banks like higher capital ratios and restrictions on trading are more effective tools for curbing financial risk and maintaining global stability."

Stanley Fischer Urges Congress to Expand Fed's Mandate
Binyamin Appelbaum, New York Times, 7/10/14
"Stanley Fischer, the Federal Reserve's new vice chairman, said on Thursday in his first public remarks that regulators had made 'significant progress' in improving the resilience of the financial system.

"Mr. Fischer, surveying the regulatory landscape, said financial companies were in better health and rules had been strengthened, addressing some of the problems that contributed to the last crisis. But he cautioned that work in important areas remained incomplete or untested… Mr. Fischer also endorsed a suggestion by one of his predecessors, Donald L. Kohn, that Congress should instruct the Fed to maintain financial stability, adding it to the list of the bank's explicit responsibilities along with stable inflation and maximum employment."

Fed's Fischer: Too Big To Fail Banks Not Going Away
Dunstan Prial, Fox News, 7/10/14
"In his first public address since taking his post as second-in-command at the central bank, Fischer added that the problem of 'too big to fail banks' is an issue that isn't going away any time soon. Fischer said reforms implemented since 2008 will go a long way toward 'reducing the probability of future financial crises.'

"'By raising capital and liquidity ratios for (big banks), and through the active use of stress tests, regulators and supervisors have strengthened bank holding companies and thus reduced the probability of future bank failures,' Fischer said in a speech in Cambridge, Mass."

New Federal Reserve No. 2 Signals Support for Bank Oversight Agenda
Ryan Tracy, Wall Street Journal, 7/10/14

Partisan Divide Over Fed on Display as Congressional Panel Considers Bill
Ben Leubsdorf, Wall Street Journal, 7/10/14
"The polarization of American politics now extends to the issue of whether interest rates should be determined by mathematical formulas.

"The House Financial Services Committee on Thursday **discussed a bill** that would, among other things, require the Federal Reserve to adopt a formal rule to guide monetary policy decisions to tighten or ease credit. An oft-cited model is the '**Taylor rule**,' which calculates changes in the benchmark federal funds rate based on **measures of inflation and economic** output."

FINANCIAL TRANSACTION TAX & HIGH-FREQUENCY TRADING

Chicago Fed Calls for Curbs on High-Frequency Trading
Doni Bloomfield and Sam Mamudi, Bloomberg, 7/10/14
"The Federal Reserve Bank of Chicago entered the debate over whether financial markets are fair, proposing limits on high-frequency trading firms and incentives to bring more buying and selling into public view. Recommendations in a working paper published yesterday include breaking up the trading session into a series of half-second periods, a snail's pace in an era of microsecond trading. The Fed's John McPartland also suggested curbing hidden orders on public markets by mandating that they stay at the back of the queue, executed only after fully public trades at the same price are filled…

"While some of the Fed's suggestions have been made elsewhere, they may give further credence to the argument that computerized financial markets are rife with problems that need to be solved. The proposals from the Fed's office in Chicago, a city that's home to many high-frequency trading firms, follow a barrage of criticism and allegations that speed traders, exchanges and brokers have rigged markets."

No Need to Demonize High-Frequency Trading
Bart Chilton, New York Times, 7/7/14
"We want the benefits of high-frequency traders and their technology, but we need to make sure the technology is being deployed safely and responsibly because everyone has a stake in the outcome. It is still an amazing mystery to me, and shocking to some, that many high-frequency trading firms are not even required to register with the S.E.C. or the Commodity Futures Trading Commission. That means regulators at times may not have direct access to books and records needed for investigations.

"Furthermore, there are only limited requirements that trading programs be tested or have kill switches, although the best high-frequency trading firms would not dream of not doing so. These basic, fairly pedestrian steps would allow those that use such market technology to be vetted and would better safeguard against the human error and better protect markets…"

Bart Chilton on Regulation of High-Speed Trading
Video, Bloomberg, 7/8/14

High-Speed Trading Risk Blamed On Short-Sighted Regulations
Dave Michaels and Cheyenne Hopkins, Bloomberg, 7/8/14
"The Securities and Exchange Commission's rules for a national market system have come under scrutiny as lawmakers examine whether high-frequency traders have exploited changes introduced by regulators, exchanges and brokers. The SEC's rules require all exchanges and brokers to connect to one another to ensure that investors receive the best available prices when they buy shares.

"The Senate Banking Committee's hearing Tuesday could intensify pressure on the SEC to change rules it enacted over the past decade. SEC Chair Mary Jo White has said the agency will examine whether its rules have pushed trading away from public markets in favor of private venues such as dark pools…"

[SEC's High-Speed Trader Plan Embraced by Exchange Leaders](#)
Dave Michaels, Bloomberg, 7/9/14
"A sweeping blueprint designed by the U.S. Securities and Exchange Commission to reduce conflicts of interest in the stock market won support from leaders of exchanges and large money managers.

"Chief executives from the New York Stock Exchange to institutional investors including Citadel LLC and Invesco Ltd. (IVZ) backed the commission's call to rein in some high-frequency trading and make secretive trading venues known as dark pools disclose more about how they work. The SEC also should move forward with a plan to require that brokers provide investors with detailed maps of how their orders are filled, the executives said yesterday at a hearing of the Senate Banking Committee.

"The testimony signaled industry support for SEC Chair Mary Jo White's agenda even as some market participants have pressed the agency to do more."

INVESTOR PROTECTION AND THE SEC

Finra Launches Probe of Retail Broker Routing Practices
Scott Patterson, Wall Street Journal, 7/8/14
"Finra is sending 'sweep letters' to about 10 brokers this week after studying routing patterns by the firms on its Order Audit Trail System, which tracks stock-market trading action, said Tom Gira, executive vice president of Finra's market regulation department, in an interview…

"The letter asks brokers for information about how they determine where to route orders so that the price is 'as favorable as possible for its customer under prevailing market conditions…' Finra is focusing on so-called nonmarketable limit orders, or orders that will only trade if a stock reaches a specific price. Retail brokers often route such orders to exchanges, giving them the opportunity to collect a rebate exchanges offer. The letter also seeks information about how brokers route orders to other brokers and additional payments they receive to sell their order flow to trading firms."

SEC Readies New Rules for Money Funds
John Waggoner, USA Today, 7/10/14
"The Securities and Exchange Commission may soon roll out new regulations for money market mutual funds, at least those used by institutional investors. The rules would abolish the constant $1-a-share price for money funds and put limits on the amount investors could withdraw in times of stress, according to the *Wall Street Journal*.

"Money funds were one of the biggest problems during the 2007 financial collapse in the wake of the failure of Lehman Brothers. One fund, the Reserve Fund, saw its share price fall below $1 – 'breaking a buck,' in mutual fund parlance. The subsequent run on money funds led to collapse of the commercial paper market – short-term IOUs vital to many companies' daily functioning. Eventually, the government had to backstop both money funds and the commercial paper market.

“Proposals to require a floating share price have been vehemently opposed by the fund industry, which says that abandoning the constant $1 share price could lead to massive outflows from the funds, and undermine the public's faith in the $2.6 trillion industry. Many investors use money funds as a checking account or as a parking space for their money between investments.”

SEC Poised to Finalize Money-Fund Rules in Coming Weeks
Andrew Ackerman, Wall Street Journal, 7/9/14

Further Entrenching Proxy Advisers
Hester Peirce, The Hill, 7/10/14
“Last week, the Securities and Exchange Commission (SEC) took an unimpressive measure to address a growing problem in the way American companies are governed. SEC staff issued guidance in connection with proxy advisory firms (PAs). PAs have become an increasingly important driver of a range of corporate decisions on issues from executive compensation to board composition. These PA firms do not represent the interests of investors and may have conflicts that pit their interests in direct opposition to shareholders. The SEC staff's guidance fails to get to the heart of the PA issue…

“A better solution would have been a clear statement from the SEC — not its staff — that investment advisers should only expend resources to vote if doing so is of economic value to their clients…”

MORTGAGES, FORECLOSURES & HOUSING

Fair-Lending Ruling Means Pricier Loans for Consumers
Peter Weinstock, American Banker, 7/6/14
“At the time of the settlement, the [Nixon State] bank had approximately $8 million of unsecured loans of $500 or less per borrower. The top interest rate charged was less than 10%--a reasonable rate that is well below what consumers would get from most other lenders. The FDIC, which has long been encouraging banks to develop small-dollar loan programs, considers any rate below 35% acceptable. Nonetheless, the FDIC alleged that Hispanics paid more than Anglos based on a regression analysis…

“What has happened since then… is that the bank has increased the interest rates charged on such loans to 18%, with very little pricing reduction for such issues as funds on deposit, length of relationship and credit history. The bank eliminated discretion and charges everyone the same price…

“Did the DOJ action help? Some people received DOJ-ordered restitution (including people who had defaulted on their loans in the first place), but this was a small group of people, some of whom obviously received a windfall. On the flipside, clearly access to credit in Nixon, Texas, was diminished… So, for the community, for the customers and for the bank, the DOJ action has been a classic lose, lose, lose. It may be no coincidence that Nixon State Bank just sold itself to another Texas bank.”

Suntrust to Pay Up to $300M to Settle HAMP Claims
Phil. W. Hudson, Atlanta Business Journal, 7/3/14
“According to a filing with the Securities and Exchange Commission Thursday, the settlement includes up to $274 million in consumer remediation, $20 million to fund

housing counseling for homeowners, $10 million paid toward restitution to Fannie Mae and Freddie Mac, and a cash payment of $16 million to the U.S. Treasury.

"Atlanta-based SunTrust Banks Inc. (NYSE: STI) expects to take a $204 million pre-tax charge in connection with the settlement…

"The complaints alleged SunTrust made misrepresentations and omissions regarding how long it would take to make a decision on whether borrowers qualified for HAMP, the duration of the HAMP 'trial period' and how borrowers would be treated while on a trial period… [T]housands of homeowners who applied for a HAMP modification with SunTrust suffered harms that included damage to their credit scores, excessive capitalized interest, and the deprivation of the borrower's ability to make an informed choice about how to save or dispose of his or her home.'"

TARP Watchdog Finds That SunTrust's Outrageous Malfeasance Hurt Borrowers
Rebecca Thiess, AFR Blog, 7/16/14
"[I]t was revealed that SunTrust, which received $4.85 billion in federal taxpayer funds through TARP, both misled mortgage servicing customers who sought mortgage relief through HAMP and failed to process HAMP applications. ***The company was so negligent that they put piles of unopened homeowners' applications in a room, the floor of which actually buckled under the weight of unopened document packages.*** Their practices meant that many homeowners were improperly foreclosed upon, as documents and paperwork were lost and applications were completely ignored."

Fannie Mae, Freddie Mac Propose Liquidity Rules for Mortgage Insurers
Zachary Tracer & Clea Benson, Bloomberg, 7/11/14

REVOLVING DOOR & POLITICAL POWER OF WALL STREET

Wall Street Offers Clinton a Thorny Embrace
Nicholas Confessore and Amy Chozick, New York Times, 7/7/14
"Mrs. Clinton was the industry's home state senator, and the financial sector was the second-largest giver to her presidential campaign in 2008. In her post-State Department life, she has been showered with lucrative speaking fees from Goldman Sachs, J. P. Morgan and other financial firms. In her talks, she says it is unproductive to vilify the industry, and she avoids the kind of language that puts off financial executives, as when President Obama referred to 'fat cat' bankers in 2009.

"But as Wall Street hopes for a warm embrace from the former secretary of state, Mrs. Clinton must grapple with a populist surge coursing through politics, on both the right and the left…"

Warren Wades into W. Va. Senate to Dash Wall Street
Kevin Cirilli, The Hill, 7/10/14
"Sen. Elizabeth Warren (D-Mass.) will portray Rep. Shelley Moore Capito (R-W.Va.) as a friend to Wall Street -- not West Virginia -- during a campaign stop for Capito's Democratic opponent Natalie Tennant on Monday. A senior Tennant campaign aide told told The Hill that Warren is 'expected to draw a stark contrast' with her own record as a

member of the Senate Banking Committee to Capito's time on the House Financial Services Committee.

"'I've seen Congresswoman Capito in action on the House Financial Services Committee, and time and again I have seen her put the interests of Wall Street banks ahead of the needs of working families,' Warren said in a statement to The Hill.

"Capito laughed off Warren's criticism. 'She doesn't have any idea what she's talking about," Capito told The Hill in response to Warren's criticism. 'I think she says that about anybody that she's campaigning against.'"

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Is the New GI Bill Benefiting For-Profit Colleges Instead of Veterans?
Moyers & Company, 7/8/14
"But it's unlikely that the new G.I. Bill's investment in educating today's vets will have the same impact as the 1944 version. That's because a lot has changed in America's higher education system since the post-war years. Over the past four decades, there has been exponential growth in for-profit colleges, which are marketing their programs to veterans and grabbing an outsized share of the $10 billion dollars that the government spends educating veterans each year.

"In 2012, a 2-year investigation by the Senate Committee on Health, Education, Labor and Pensions found that the for-profit sector was aggressively recruiting new students, only half of whom would complete their degrees. According to the report, 'the vast majority of the students [at for-profit colleges] left with student loan debt that may follow them throughout their lives.' At the same time, the schools were vastly profitable, and in 2009 paid their executive officers average annual salaries of $7.3 million."

Corinthian Colleges Throws in the Towel
Cameron Saucier, USA Today, 7/5/14
"For-profit Corinthian Colleges, a national college corporation, cut a deal late last week to sell 85 of its campuses and gradually liquidate 12 others, according to several published reports…

"The publicly traded company has confronted major federal restrictions concerning its access to federal student aid: the primary source of its revenue. The past year, the Department of Education, the Consumer Financial Protection Bureau and more than a dozen attorneys general had investigated Corinthian for allegedly falsifying job placement rates and misplacing student attendance records, according to a published report in the *Los Angeles Times*.

"In response, the DOE put a 21-day hold on Corinthian's access to federal student loan money. The loan freeze threatened to derail the corporation, which receives $1.4 billion a year in government financial aid, according to the *Journal* report."

For-Profit College Corinthian Drops Out as Industry Faces Crisis
Jacob Harper, Equities, 7/7/14

Corinthian Takedown Signals Tougher Enforcement
John Lauerman, Bloomberg, 7/7/14
"For four years, the Education Department has threatened to rein in for-profit colleges and their soaring student debt. Now it has found a way.

"The department has taken its toughest regulatory action ever against a for-profit college: putting Corinthian Colleges Inc., with more than 70,000 students, on the path to going out of business. At least two other large players, ITT Educational Services and Education Management, are also at some risk of stricter enforcement, analysts said…

"Now, simply by enforcing existing rules more strictly, the department has found a way to quickly force the dissolution of a for-profit college, Urdan said. The agency had demanded documents related to job placement, and Corinthian was late in producing them. Rather than negotiating, the department put a three-week hold on tuition payments that normally take a maximum of three days to fulfill."

Department of Education Says It Is Not Responsible for Closing For-Profit College
Molly Hensley-Clancy, BuzzFeed, 7/9/14
"After Corinthian Colleges announced in June that a financial penalty imposed by the Department of Education had placed it in danger of immediate collapse, observers and analysts were quick to credit the government with intentionally moving to shut down one of the sector's most troubled colleges…

"But on yesterday's call… a senior education official said the department did not intend to shut down Corinthian and did not know what would happen when it imposed a 21-day delay on Corinthian's access to federal loan money. [The Department] had to make clear it had not intentionally shut down the school in part because of its fraught history with attempts to regulate the for-profit industry, said Ben Miller, a senior policy analyst with the New America Foundation. When the department tried in 2011 to impose regulations that would shut down programs at poor-performing for-profit schools, it was accused of colluding with Wall Street short-sellers that benefited from sharp drops in stocks at for-profit colleges…"

What Happens to Students When a For-Profit College Giant Closes?
Julianne Hing, Colorlines, 7/8/14
"Corinthian students will likely face troubles about whether credits from courses they've taken can be transferred to other universities, says Kinser. They'll likely have difficulty figuring out alternative education opportunities or whether there are other programs that they can be moved into. Critics of for-profit schools have long complained that schools have unique accreditation schemes that make students' credits non-transferrable, and therefore renders them useless, if a student hopes to complete their degree elsewhere. With Corinthian's closure, those questions are all the more pressing."

SYSTEMIC RISK

Nearly 600,000 Sign Petition for "21st Century Glass-Steagall Act"
Value Walk, 7/9/14
"At the Capitol this afternoon, U.S. Senator Elizabeth Warren (D-Mass.) received petitions in which nearly 600,000 Americans call for action on the 21st Century Glass-Steagall Act. This bipartisan bill, introduced by Senator Warren along with Sens. John McCain (R-Ariz.), Maria Cantwell (D-Wash.), and Angus King (I-Maine), would address the problem of Wall Street banks that have become too complicated, too conflicted and too powerful, as well as simply too big.

"The petitions, gathered by Credo, the Progressive Change Campaign Committee, Public Citizen, **Americans for Financial Reform**, Dr. Mitchell Gershten (a private citizen), and MoveOn.org, were also delivered to the offices of all the other Senators, asking them to support the bill. The 21st Century Glass-Steagall Act would reinstate the principle that used to separate commercial banks, which enjoy the benefits of deposit insurance and other forms of public support, from the high-risk world of investment banks and hedge funds.

"'The original Glass-Steagall Act served our country well,' said Lisa Donner, Executive Director of **Americans for Financial Reform**. 'It laid the foundation for an unprecedented half century without financial panics or crises. Just as important, it contributed to a more right-sized banking system and one more focused on serving the economy and the society as a whole, rather than on enriching itself at others' expense.'"

600,000 Signatures and Counting for the 21st Century Glass-Steagall Act
AFR, 7/9/14

Banks Face Added Capital Requirements
Viktoria Dendrinou and David Enrich, Wall Street Journal, 7/6/14
"Global banking regulators are considering new measures that would make it harder for banks to understate the riskiness of their assets, including potentially ending the long-standing treatment of all government bonds as automatically risk-free, according to people familiar with the discussions.

"The changes under consideration by the Basel Committee on Banking Supervision, the Switzerland-based group that sets global banking rules, could force banks to raise billions of dollars in extra capital…

"The potential changes would address two of the most controversial elements of bank accounting. Banks' treatment of government bonds as without risks became a punch line during Europe's financial crisis when Greece defaulted on its widely held debts; investors continue to treat some European government bonds as far from risk-free. Meanwhile, banks' discretion to estimate the riskiness of their own assets has contributed to the perception among many investors that banks' capital ratios aren't reliable indicators of their financial health.

"The question of how banks assess their assets' risks is pivotal because of how regulators and investors measure lenders' ability to absorb future losses. A key gauge is the ratio of a bank's equity to its 'risk-weighted' assets. As a bank's risk-weighted assets decline, its capital ratios rise. Thus, banks have an incentive to play down the riskiness of the loans and securities they hold."

[Lew Confronted Over Volcker Rule Effect as Bond Inventories Fall](#)

Matt Robinson, Bloomberg, 7/10/14

"The head of the U.S. House Financial Services Committee is calling on Treasury Secretary Jacob J. Lew to make sure that new regulation doesn't inhibit corporate bond liquidity.

"Representative Jeb Hensarling, a Republican from Texas, asked Lew to ensure implementation of the Volcker Rule doesn't reduce trading of company bonds, according to a letter sent this week, the Financial Times reported earlier today. The rule restricts banks from making certain types of bets with their own money."

Bond Anxiety in $1.6 Trillion Repo Market as Failures Soar

Liz Capo McCormick, Bloomberg, 7/7/14

"In the relative calm that is the market for U.S. Treasuries, a sense of unease over a vital cog in the financial system's plumbing is beginning to rise.

"The Federal Reserve's bond purchases combined with demand from banks to meet tightened regulatory requirements is making it harder for traders to easily borrow and lend certain desired securities in the $1.6 trillion-a-day market for repurchase agreements. That's causing such trades to go uncompleted at some of the highest rates since the financial crisis.

"Disruptions in so-called repos, which Wall Street's biggest banks rely on for their day-to-day financing needs, are another unintended consequence of extraordinary central-bank policies that pulled the economy out of the worst financial crisis since the Great Depression. They also belie the stability projected by bond yields at about record lows.

Wall Street's Worst-Case Scenario: A Run on Bonds

Nick Summers and Lisa Abramowicz, Bloomberg, 7/3/14

"And all it takes is a few mouse clicks to sell—something that has begun to worry Wall Street. Since the financial crisis, $900 billion has flowed into bond mutual funds and ETFs such as Scout Unconstrained, bringing the industry's total holdings to $3 trillion. Fund investors who sell shares get their money back almost immediately, as if they were making a withdrawal from a money-market fund. The bonds that the funds own are far less liquid, often trading in telephone conversations or e-mails between brokers, away from exchanges. If too many people decide to get out of bond funds at the same time, the wave of selling could lead buyers to sit on their hands, bringing the system to a halt…

"The Fed's low-interest-rate policy reduced the yields on safe, short-term vehicles such as money-market funds, savings accounts, and CDs, and led investors to seek higher returns from bond funds, including ones that invest in risky high-yield debt and other speculative issues. Unlike money-market funds and CDs, though, bonds lose value when rates rise, depressing the prices of bond mutual funds and ETFs. And the riskier the bond, the more vulnerable it is to rising rates. Wall Street firms are warning clients that if fund investors who view bonds as safe are hit with sudden losses, there could be something akin to a run on the bond market.

“The worry isn’t only that investors’ bottom lines would take a hit. It’s that a mass selloff could swamp the market, with demands for redemptions forcing fund managers to unload their bonds at rock-bottom prices. The ensuing losses would encourage even more investors to redeem, perpetuating the downward spiral.”

Misbehaving Bankers Threaten Financial System, BOE's Bailey Says
Ben Moshinsky, Bloomberg, 7/10/14
"Bank of England Deputy Governor Andrew Bailey said banks' misconduct risks undermining the entire financial system following increasingly large fines.

"Misbehavior has 'broader consequences,' Bailey, who leads the central bank's Prudential Regulation Authority, said in an interview in London today. 'The risk of loss of confidence in the integrity of financial markets is very, very big. This threatens a vital underpinning of the system'…

"Bailey, who is tasked with leading an overhaul of the U.K. system of bank supervision, said regulators are still dealing with issues dating back to the 2008 financial crisis.

"'We'd all love to be saying 'we're in the new world now, let's get on with it' but we are still dealing with issues that have their roots in the past,' he said. 'You wouldn't be human if you didn't say sometimes "I wish we could get this legacy past us." It's not our choice, we don't have that luxury.'"

BOE May Stop Lenders Using Own Risk Models: Bailey
Video, Bloomberg, 7/10/14

OTHER TOPICS

Did You Know That Antonin Scalia's Son Is Sabotaging Wall Street Reform?
Patrick Caldwell, Mother Jones, July/August, 2014
"Ambrose Bierce once quipped that a lawyer is one skilled in the circumvention of the law. By that definition, Eugene Scalia is a lawyer of extraordinary skill. In less than five years, the 50-year-old son of Supreme Court Justice Antonin Scalia has become a one-man scourge to the reformers who won a hard-fought battle to pass the 2010 Dodd-Frank Act to rein in the out-of-control financial sector. So far, he's prevailed in three of the six suits he's filed against the law, single-handedly slowing its rollout to a snail's pace. As of May, a little more than half of the nearly four-year-old law's rules had been finalized and another 25 percent hadn't even been drafted. Much of that breathing room for Wall Street is thanks to Scalia, who has deployed a hyperliteral, almost absurdist series of procedural challenges to unnerve the bureaucrats charged with giving the legislation teeth.

"Scalia has 'created this sense that we're paralyzed, because if we write a rule we're just going to be reversed,' says Lisa Donner, executive director of the watchdog group **Americans for Financial Reform**. The threat of more suits, she says, has 'cast a real chill' over Wall Street regulators, particularly at the Securities and Exchange Commission (SEC).

"Scalia's legal challenges hinge on a simple, two-decade-old rule: Federal agencies monitoring financial markets must conduct a cost-benefit analysis whenever they write a new regulation. The idea is to weigh 'efficiency, competition, and capital formation' so that businesses and investors can anticipate how their bottom line might be affected. Sounds reasonable. But by recognizing that the assumptions behind these hypothetical projections can be endlessly picked apart, Scalia has found a remarkably effective way to delay key parts of the law from going into effect."

U.S. Banks Mired In Trading Doldrums

Joanna Slater, Toronto Globe and Mail, 7/10/14

"A major engine for profits at the largest U.S. banks is sputtering as tranquil markets and increasing regulation squeeze trading revenues. A new round of bank earnings kicks off Friday with a second-quarter report from Wells Fargo & Co. and continues next week with a parade of trading heavyweights, including Citigroup Inc., JPMorgan Chase & Co.and Goldman Sachs Group Inc.

"Revenues from trading – an area that once powered profits – continued to slump. Some banks have already braced investors for bad news. In May, Citigroup chief financial officer John Gerspach said he expected trading revenue to decline 20 to 25 per cent in the second quarter compared with a year earlier. JPMorgan Chase & Co. has predicted a 20-per-cent decline."

Reforming the Banks for Good

Jennifer Taub, Dissent, Summer, 2014

"A stronger financial system is possible. We can still follow the approach that worked after the Great Crash of 1929. Beginning in 1933, the Roosevelt administration shut down failed banks, built a wall between traditional banking (deposit taking) and investment banking (securities operations), and regulated securities offerings and markets. This important firewall created under the Glass–Steagall Act was dismantled beginning in the 1980s and completely knocked down in 1999 with the Gramm–Leach–Bliley Act. The Roosevelt administration also worked from the bottom up through the Home Owners Loan Corporation (HOLC), which refinanced one-fifth of all outstanding home mortgages in America. Though some borrowers re-defaulted, 80 percent were able to save their homes. When it dissolved, HOLC returned a surplus to the government.

"In contrast to the 1930s, this time around we have not restored financial stability, we have not rescued homeowners, and we have not carried out the necessary reforms to the financial sector. Notwithstanding the sincere efforts of many dedicated legislators and regulators, financial reform has been diluted and delayed by the powerful banks."

Junk Loans Turned Into AAA Debt at Record Pace

Kristen Haunss, Bloomberg, 7/10/14

"Deals packaging junk-rated corporate loans into securities with ratings as high as AAA are being done at a record pace, fueling a boom in the underlying debt that the Federal Reserve says is showing signs of froth."