AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
JULY 12 – JULY 18, 2014

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CONSUMER FINANCE AND CFPB

CFPB Proposes Publishing Detailed Complaints Against Banks
Alan Zibel, Wall Street Journal, 7/16/14
"The Consumer Financial Protection Bureau said it would give consumers the option to allow a detailed description of complaints to be posted on the bureau's website. The plan would expand on short summaries the bureau is already publishing. Bureau officials said the move would help consumers with decisions about which banking products and services to select and pressure banks to improve customer service.

"The proposal, released for 30 days of comment, is likely to increase tension between the CFPB and the banking industry. Banks are already upset about the CFPB's disclosure of hundreds of thousands of anonymous complaint summaries, saying the initiative has unfairly harmed the reputations of financial companies."

Feds Seek to Air Consumer Finance Complaints
Jeff Horwitz, Associated Press, 7/17/14
"The Consumer Financial Protection Bureau has heard from hundreds of thousands of consumers who feel wronged by banks and finance companies. Now the agency wants the public to hear from those consumers, too…

"The current database simply lists the company that is the target of the complaint, a general subject matter like 'deposits and withdrawals,' and whether the complaint has been resolved. By adding narratives, the bureau says, it will help consumers determine where to take their business and identify systemic problems. A similar system is in place at the Consumer Product Safety Commission."

See **joint statement** by Americans for Financial Reform, Center for Responsible Lending, Consumer Action, Consumer Federation of America, Consumers Union, Demos, Greenlining The Institute for College Access & Success and its Project on Student Debt, National Association of Consumer Advocates, National Fair Housing Alliance, National People's Action, and National Consumer Law Center (on behalf of its low income clients).

[Battle Over Postal Banking Reignites](#)
Victoria Finkle, American Banker, 7/16/14
"Lawmakers, financial groups and U.S. Postal Service employees gathered Wednesday here to further discuss a white paper by the postal agency's inspector general to introduce new financial products at post office locations nationwide…

"The daylong conference, hosted by Pew Charitable Trusts, sparked a lively debate on the proposal, with advocates, including Warren, cheering the idea as a way to provide affordable financial products to the underbanked while at the same time shoring up the post office's trouble finances. 'It's time to build on the good work of the Inspector General and to encourage the Postal Service to use its existing statutory authority to expand the basic financial services that it offers,' said Warren…"

Republicans Scold Regulators Over Consumer-Fraud Probe
Cheyenne Hopkins and Jesse Hamilton, Bloomberg, 7/15/14
"Subcommittee Chairman Patrick McHenry of North Carolina said Operation Choke Point is 'inappropriately compelling banks to serve as a moral compass and law enforcement for our market economy.'

"Stuart Delery, an assistant attorney general of the Justice Department's civil division, said the operation is targeting illegal activities. 'When a bank either knows or is willfully ignorant to the fact that law-breaking merchants are taking money out of consumers' bank accounts without valid authorization, and the bank continues to allow that to happen, that is not just a concern for regulators,' Delery said. 'That is fraud, and it can result in true devastation for consumers.'"
See testimony by Lauren Saunders on behalf of Center for Responsible Lending, Consumer Federation of America, U.S. PIRG on behalf of Americans for Financial Reform, National Consumer Law Center (and its low income clients)

'We've Got 'Em On The Run': Texas Cities Work To Rein in Payday Loans
Lydia DePillis, Washington Post, 7/14/14
"Last Thursday, the federal Consumer Financial Protection Bureau entered an order against Irving, Tex.-based ACE Cash Express for some of the same practices that Rowland was on the receiving end of: Being 'relentlessly overzealous' in its pursuit of borrowers, and creating a 'culture of coercion' aimed at trapping them in cycles of debt. It was a high-profile bust, but will hardly curb the industry; the much longer-lived Federal Trade Commission has been taking such enforcement actions for years, and haven't managed to stop the abuse.
"But something else is moving in favor of Rowland and people like her, lured into financial ruin by an immediate need for cash. On July 1, a city ordinance went into effect that makes some of the most pernicious parts of the loan she got illegal. And it's not just Houston: 18 cities in Texas in all have passed a similar set of rules since 2011, finally putting some limits on an industry that state law had previously left almost untouched."

U.K.'s FCA Steps Up Fight Against Payday Lenders Fees
Sarah Jones and Richard Partington, Bloomberg, 7/15/14
"Britain's Financial Conduct Authority proposed rules to prevent what it called "escalating fees" of consumer payday lenders, banning firms from charging more in interest than the amount borrowed."

Investigators Find a Web of Companies Duping Retirees
Karen Weise, Bloomberg, 7/9/14
"About three dozen companies, in an interrelated web, are marketing and selling pricey ways for retirees to borrow against their pensions, according to a report from the Government Accountability Office. The GAO looked at what's known as pension advances, in which pensioners get a lump sum in exchange for handing over their monthly pension payments for a set number of years. The products, the GAO found, were 'unfavorable' for borrowers, with effective interest rates as high as 90 percent. The advances often also require the retiree to buy life insurance, making them even more costly…

"Many of the companies marketed specifically to low-income people in need of quick cash to pay credit card debts, tuition costs, medicals bills, or other expenses. Two companies specifically targeted military pensions, including one website that also sold patriotic merchandise."

Debt Collection 'Factory' Preyed On Broke Americans: Lawsuit
Hunter Stewart, Huffington Post, 7/15/14
"The suit is the latest effort by regulators to crack down on debt collection abuse. The billion-dollar industry has ballooned in size over the past two decades and is under fire for filing wrongful lawsuits against vulnerable borrowers. The Consumer Financial Protection Bureau (CFPB) announced on Monday that it had sued Frederick J. Hanna & Associates, a Georgia-based law firm that sues consumers for old, outstanding debts owed to banks, debt buyers and credit card companies.

"The complaint against Hanna & Associates alleges that the firm operated as a lawsuit 'factory,' cranking out more than 350,000 suits in Georgia alone since 2009. What's more, the company operates with a skeleton staff of eight to 16 lawyers who merely put their signature on lawsuits, while the bulk of the work at the firm is performed by 'automated processes' and non-attorney staff, according to the CFPB complaint."

Debt-Collection Firm Churned Out 350,000 Suits, Feds Claim
Jacob Gershman, Wall Street Journal, 7/15/14
"The complaint filed by the federal agency in U.S. district court in Atlanta on Monday claims Frederick J. Hanna & Associates, P.C. deployed 'high-volume litigation tactics to collect debts on behalf of credit-card issuers such as JPMorgan Chase & Co., Bank of America Corp. Capital One Financial Corp. and Discover Financial Services, as well as several debt buyers…

"'In Georgia alone, the Firm sued about 78,000 consumers in 2009; about 84,000 in 2010; about 71,000 in 2011; about 57,000 in 2012; and about 60,000 in 2013. In sum, the Firm filed more than 350,000 collection suits from 2009 through 2013,' the CFPB suit said."

House Rebuffs Bid to Limit Congressional Review Of CFPB
Cristina Marcos, The Hill, 7/15/14
"The House on Tuesday rejected a proposal to limit GOP efforts to review Consumer Financial Protection Bureau spending. Rep. Gwen Moore's (D-Wis.) amendment to the fiscal 2015 Financial Services appropriations bill would strike a provision that allows for transfers of funds from the Federal Reserve to the CFPB to be reviewed by appropriators."

See AFR letter on appropriations bill.

ENFORCEMENT

Ernst & Young to Pay Fine in Lobbying Case
Floyd Norris, New York Times, 7/14/14
"Ernst & Young, the audit firm, agreed on Monday to pay more than $4 million to settle accusations by the Securities and Exchange Commission that it violated independence rules by lobbying on behalf of two of its audit clients.

"The S.E.C. case, which involved lobbying by the firm's subsidiary Washington Council EY, did not identify the audit clients and did not indicate that any action had been taken to review the audits. An S.E.C. order in the case did not indicate that any members of the audit teams were aware of the independence violations…

"The S.E.C. investigation appears to have been prompted by a Reuters article on March 8, 2012, that identified three companies — Amgen, CVS Caremark and Verizon — that used Ernst for both audit and lobbying services at the time, and three that had previously done so: AT&T, the Fortress Investment Group and Transocean. It is not clear whether any of those companies were the clients cited in the S.E.C. action."

Madoff Sons Deleted E-Mails, Hindered Probe, Trustee Says
Erik Larson, Bloomberg, 7/16/14

EXECUTIVE COMPENSATION

Unfinished Business: Banker Pay Reform
Bartlett Naylor, The Hill, 7/14/14
"Bankers didn't crash the economy for amusement (we hope). Their reckless and often fraudulent actions resulted in part from compensation structures. Loan originators falsified mortgage documents to maximize commissions. Mortgage securitizers gutted quality control reviews to meet pay-connected approval quotas. Traders doubled down on high-risk positions for higher bonuses. And senior executives disguised their precarious dependence on overnight loans until they could cash in on their stock options.

"Following numerous investigations highlighting the role of Wall Street pay in the crash, including a high-profile investigation by the Financial Crisis Inquiry Commission, Congress adopted Section 956 of the Dodd-Frank Wall Street Reform Act. This provision directs the regulators to prohibit pay structure that "encourages inappropriate risks.

"Given the central role of pay in the crisis, Congress set an urgent deadline for regulators to prescribe a rule: April, 2011. That's more than three years ago…"

JPMorgan's Dimon Gets $37 Million of Crisis-Era Options
Hugh Son, Bloomberg, 7/17/14
"JPMorgan Chase & Co. (JPM) will let Jamie Dimon collect about $37 million in stock options created during the financial crisis, as the board stands by its leader after risk-management lapses and billions of dollars in legal settlements…

"The bank cited the "importance of Mr. Dimon's continuing, long-term stewardship in realizing the company's potential as a premier financial institution" when it announced the bonus in 2008. It was the first options package Dimon received after becoming CEO in 2006, the New York-based firm said at the time. Dimon could have gotten all or none of the 2 million options depending on his performance, according to the 2008 filing."

FINANCIAL TRANSACTION TAX & HIGH-FREQUENCY TRADING

Speed Traders Should Operate in Good Times and Bad, Study Says
Doni Bloomfield, Bloomberg, 7/15/14
"High-frequency traders, firms capable of buying and selling in millionths of a second, are more likely than manual traders to leave markets in volatile times such as the 2008 financial crisis, according to the study. About 61 percent of all trading in U.S. futures markets is now done by these firms, according to Tabb Group, and the paper suggests their exit could leave markets without enough buyers and sellers to operate effectively…

"The paper, released on May 29, could help explain a number of market anomalies, including the flash crash of May 6, 2010, when the Dow Jones Industrial Average posted an almost 1,000-point decline in a matter of minutes, according to Yadav. A report on the crash by the CFTC and the U.S. Securities and Exchange Commission found that high-frequency firms, which normally buy and sell at about the same rate, contributed to the sudden downturn by mostly selling…"

Barclays Dark Pool Volume Fell 37*%* in Week *of* Lawsuit
Michael J. Moore, Bloomberg, 7/15/14
"About 197 million shares were traded in the dark pool during the week of June 23, down from 312 million the previous week, according to data from the Financial Industry Regulatory Authority. Three of the London-based bank's largest rivals -- Credit Suisse Group AG, UBS AG and Deutsche Bank AG -- saw increases during the week, the Finra data show.

"Barclays lied to customers and masked the role of high-frequency traders as it sought to boost revenue at one of Wall Street's largest private trading venues, New York Attorney General Eric Schneiderman said in a complaint filed June 25. He cited a pattern of misleading and false representations that went on as recently as April."

Wall Street Grabs NATO Towers in Traders' Speed-of-Light Quest
Jesse Westbrook and Sam Mamudi, Bloomberg, 7/16/14
"An 800-foot microwave tower in a Belgian cow pasture transmitted messages for the U.S. armed forces in 1983 when suicide bombers killed hundreds of military personnel at Marine barracks in Beirut, Lebanon. Now it's being used by high-frequency traders."

FEDERAL RESERVE

Yellen Tells Congress That Fed Will Continue to Prop Up the Economy
Binyamin Applebaum, NY Times, 7/16/14
"Senator Elizabeth Warren, the Massachusetts Democrat, asked Ms. Yellen whether JPMorgan Chase had complied with a legal requirement to provide the Fed with a credible plan for its orderly dissolution, should that become necessary.

"'Can you honestly say that JPMorgan could be resolved in a rapid and orderly fashion with no threats to the economy and no need for a taxpayer bailout?,' Ms. Warren asked.

"When Ms. Yellen avoided the question, Ms. Warren persisted, "Have they ever gotten to a plan that you can say with a straight face is credible?"

INVESTOR PROTECTION AND THE SEC

SEC's Washington Insider Trading Probe May Nab 44 fund firms

Stephen Gandel, Fortune, 7/17/14

"The Securities and Exchange Commission has said that as many as 44 fund firms, 'including some of the largest hedge funds and asset managers in the world,' may have traded on insider information coming out of the House Ways and Means Committee. If so, that would make the SEC's congressional insider trading probe one of the largest in history.

SEC Probes 44 Investment Firms on Health-Insurer Trades

Brody Mullins Andrew Ackerman, Wall Street Journal, 7/17/14

"Federal investigators are examining nearly four dozen hedge funds, asset managers and other investment firms to determine whether they violated insider-trading rules after receiving a tip from a Washington research firm.

"In a new court filing, the Securities and Exchange Commission said it is looking at 44 investment funds and other entities, including "some of the largest hedge funds and asset management advisors in the nation," as part of its probe into whether anyone broke the law by buying health-insurance stocks in April 2013 ahead of a government announcement that benefited the firms.

"The SEC's investigation has thus far focused on whether public officials violated the law by leaking word of the change before it was formally announced. The new court filing, for the first time, disclose details into the SEC's pursuit of investors who traded on that information."

Anniversary of Dodd-Frank

Statement by SEC Chair Mary Jo White, 7/17/14

"In my first year as Chair of the SEC, the Commission has made significant progress in putting to work the tools provided by the Dodd-Frank Act. We have implemented new restrictions on the proprietary activities of financial institutions through the Volcker Rule, created a new regulatory framework for municipal advisors, put in place strong new controls on broker-dealers that hold customer assets, reduced reliance on credit ratings and barred bad actors from securities offerings. We have pushed forward new rules for previously unregulated derivatives, and we have begun implementing additional executive compensation disclosures. We have also advanced significant new standards for the clearing agencies that stand at the center of our financial system. And, I expect the Commission will soon implement critical Dodd-Frank Act rules for credit rating agencies and securitization, in addition to finalizing important new rules for money market funds. I want to express my admiration and gratitude to the SEC staff for their hard work and exceptional dedication on all of these efforts.

"Among the many areas the SEC was directed to address under the Dodd-Frank Act, certain ones stand apart to me – asset management, especially private fund advisers; proprietary activities by financial institutions; derivatives; clearance and settlement; credit rating agencies; asset-backed securities; municipal advisors; and executive compensation. The Commission has already completed the mandates in half of these areas. In the other areas, we have issued proposals and shortly will be finalizing some of the most important."

SEC Keeps Private-Equity Investors In Dark, Group Says
Josh Kosman, New York Post, 7/16/14
"Pension funds and other big investors know that half of private-equity fund managers are ripping them off. The trouble is, they don't know which half. While the Securities and Exchange Commission has promised to pull back the curtain on PE industry, the agency won't name misbehaving fund managers in an upcoming report on bogus fees and other PE shenanigans — rankling investors in those funds…

"The SEC's refusal to name names is all the more galling to pension funds because its chief, Mary Jo White, has talked tough about the need for greater transparency in the financial industry."

SEC Mulls Changes to Accredited Investor Standards, 18 Crowdfunders React
Devin Thorpe, Forbes, 7/15/14
"The Securities and Exchange Commission is considering an update to the accreditation standards used to determine eligibility to participate in private securities sales…The implications for the nascent crowdfunding industry is significant…

"A change in the definition of accredited investors could materially reduce the pool of investors eligible to make such investments, potentially reducing the amount of capital raised by the issuers and the platforms that support them."

SEC Official Blasts Regulator Rival In Turf War
Kevin Dugan, New York Post, 7/15/14
"Michael Piwowar, a commissioner at the Securities and Exchange Commission, riffed on names for the Financial Stability Oversight Council, variously calling it the 'Firing Squad on Capitalism,' the 'Vast Left-Wing Conspiracy to Hinder Capital Formation' and the 'Unaccountable Capital Markets Death Panel,' he said in a speech before the American Enterprise Institute."

House Denies SEC Full Funding Sought by White House
Andrew Ackerman, Wall Street Journal, 7/17/14

MORTGAGES, FORECLOSURES & HOUSING

Citigroup Settles Mortgage Inquiry for $7 Billion
Michael Corkery, New York Times, 7/14/14
"The $7 billion deal that Citigroup agreed to strike with the Justice Department involves one of the largest cash penalties ever paid to settle a federal inquiry into a bank suspected of mortgage misdeeds. But another major component of the settlement has little to do with troubled mortgages. As part of the deal, Citigroup has also agreed to provide $180 million in financing to build affordable rental housing…

"Wall Street watchdog groups and housing advocates said the terms of the $7 billion settlement highlight how the federal government has fallen short in its effort to hold banks accountable, noting that neither Citigroup nor any of its executives have been criminally charged for the bank's mortgage problems."

Did Citigroup Get Off Easy With $7 Billion Penalty?
Erika Eichelberger, Mother Jones, 7/14/14
"The Citi officials responsible for the decision to mislead investors should have been the ones to foot the penalty, says Marcus Stanley, the financial policy director at **Americans for Financial Reform**. When the burden of the settlement falls on shareholders, the punishment is diluted. No individual officials are held accountable; consequently, other bank officials may not be sufficiently deterred from committing future misdeeds. (The deal does not absolve Citigroup officials from future civil or criminal charges.)"

From Benghazi to the Boardroom: The Road to the $7 Billion Citigroup Settlement
Ben Protess, Jessica Silver-Greenberg and Michael Corkery, New York Times, 7/13/14
"The deal caps months of contentious talks that began with a $363 million offer by Citigroup followed by a $12 billion demand from the Justice Department, the people said, a yawning gap that stemmed from the radically divergent methods used to calculate the cost of the settlement. Citigroup linked its initial offer to the bank's relatively small share of the market for mortgage securities.. The Justice Department, however, rejected that argument, emphasizing instead what it saw as Citigroup's level of culpability based on emails and other evidence it had uncovered.

"A behind-the-scenes account of the negotiations, based on interviews with the people briefed on the matter, shows that the government's bargaining position in mortgage cases often hinges on a desire to destroy Wall Street's argument that market share should dictate punishment…

"The main breakthrough toward a settlement took a simple feat of accounting: The bank agreed to shift a portion of the settlement from state attorneys general to the Justice Department, preventing Citigroup from claiming a tax deduction on the settlement. More important for the Justice Department, that move meant that the bank would pay a far heftier sum than one based entirely on its share of the market for mortgage securities."

SunTrust Systematically Ignored Loan Modification Appeals, TARP Watchdog Finds
Rebecca Thiess, AFR Blog, 7/16/14
"[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."

Justice Department, Bank of America Remain at Odds Over Mortgage Settlement
Danielle Douglas, Washington Post, 7/16/14
"Bank of America offered to pay more than $12 billion, with most of the money going toward consumer relief, but Justice demanded a stiffer penalty, according to people familiar with the talks who were not authorized to speak publicly. Bank chief Brian Moynihan sought a meeting in June with Attorney General Eric J. Holder Jr., who declined the offer because the sides were too far apart…

"Since negotiating the $13 billion JPMorgan Chase settlement last year, West has stressed that Justice expects banks to acknowledge their misdeeds and help struggling communities recover from the impact of their behavior through consumer relief."

Who Advised Cuomo on Mortgage Industry Investigation? A Mortgage Lobbyist
Justin Elliott, ProPublica, 7/17/14
"In early 2007, when he was New York State attorney general, Andrew Cuomo brought on a longtime confidant as a consultant on mortgage industry investigations, a move that has gone undisclosed until now. The friend was Howard Glaser and he had another job at the same time: consultant and lobbyist for the very industry Cuomo was investigating.

"Glaser, who went on to become a top state official in Cuomo's gubernatorial administration, was operating a lucrative consulting firm, the Glaser Group, with a host of mortgage industry clients…

"Before becoming a lobbyist for the mortgage industry, Glaser worked in the late 1990s under Cuomo at the Department of Housing and Urban Development, where he was known as Cuomo's 'right-hand man" and "hammer.'"

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Companies that Offer Help with Student Loans Are Often Predatory, Officials Say
Rachel Abrams and Jessica Silver-Greenberg, New York Times, 7/13/14
"Student loan debt hovers at more than $1 trillion, a threefold surge from a decade ago, and a record number of college students who graduated as the financial system nearly imploded have an average debt load of more than $20,000…

"Debt settlement companies, which offer to help borrowers lower their monthly loan payments for a hefty upfront fee, have long been fraught with problems. But federal and state regulators are spotting new instances of abuse as the companies shift away from their traditional targets — credit card and mortgage debt — to zero in on student loans. The companies are coming under fire for potentially questionable tactics.

"On Monday, Illinois is expected to become the first state to bring legal action against debt settlement companies in connection with their student loan practices, contending in two separate lawsuits that Broadsword Student Advantage and First American Tax Defense duped vulnerable borrowers into paying for help that never arrived."

Flunking Out, at a Price
Gretchen Morgenson, New York Times, 7/12/14
"For years, federal and state regulators have done little as dubious operators of for-profit colleges and trade schools have pocketed tuitions funded by taxpayer-backed loans. Many students left these colleges with questionable educations and onerous debt loads that cannot be erased in bankruptcy.

"Regulators have finally woken up to this ugly reality. And, once again, taxpayers and borrowers will pay the price of regulatory failures… But taxpayers and Corinthian students — a vast majority of whom have borrowed to finance their educations — will be the biggest losers. When Corinthian eventually vanishes, its graduates will be left holding degrees from a defunct institution. This will make it even tougher for them to get jobs, resulting in higher default rates on their federal student loans…"

Corinthian Colleges Needn't Disclose Financial Woes In Ads, Judge Says
Chris Kirkham, Los Angeles Times, 7/11/14
"California Atty. Gen. Kamala Harris argued that, despite its uncertain future, the company has continued to advertise to new students in a 'false and misleading' way. Harris' office filed for a temporary restraining order in San Francisco Superior Court last week, requesting that the company disclose its financial instability when advertising to prospective students.

"A judge Friday morning denied the request for an expedited restraining order and scheduled a full hearing on the matter for Aug. 13."

Everest College's Fate Renews Debate Over For-Profit Colleges
Koran Addo, St. Louis Post-Dispatch, 7/14/14

For-Profit Schools Can't Prey On Students
Editorial, Chicago Sun-Times, 7/13/14
"To protect future students, the U.S. Department of Education is slated to announce in October a final 'Gainful Employment rule.' It would cut off financial aid to schools whose graduates spend too big a percentage of annual earnings on student debt or have high rates of default on their loans. In other words, it targets schools that are little more than factories for student defaults.

"Finally, the tide is turning against predatory schools, and it's not hard to see why we need the rule. Last week, California-based Corinthian Colleges Inc. said it will sell six suburban Chicago schools operating under the Everest name as part of a settlement with the U.S. Department of Education, which caught Corinthian falsifying data on how many of its graduates secure jobs. In 2012, Illinois Attorney General Lisa Madigan sued Westwood College, alleging it engaged in deceptive practices that left students deep in debt and without the promised qualifications they needed to get jobs. A suit filed by California alleged a for-profit college in that state advertised job placement rates of up to 100 percent for some programs when there was no evidence a single student had landed a job."

Davis Seeks Protections for Military in For-Profit Colleges
Chris Jennewein, Times of San Diego, 7/13/14
"Rep. Susan Davis continued her effort to strengthen accountability standards of for-profit colleges by offering an amendment that would close a loophole that encourages these institutions to recruit veterans and service members… A rule known as the '90/10 Rule,' requires a for-profit school to obtain at least 10 percent of its revenue from a source other than Title IV education funds, the primary source of federal student aid.

"Since Tuition Assistance and the G.I. Bill are not defined as Title IV they count toward the 10 percent requirement, similar to private sources of financing. Davis's amendment would close this loophole requiring TA and G.I. assistance to be considered as federal funding under the rule. Because of the loophole, service members and veterans can be particularly vulnerable because for-profit schools have a strong incentive to enroll service members and veterans, who then need to take out private loans, as federal assistance doesn't always cover the full cost of tuition. This can subject the student to a large debt without the high-quality education they were expecting."

SYSTEMIC RISK

Banks Profiting by Market's Belief in Too Big to Fail
Cheyenne Hopkins, Bloomberg, 7/16/14
"Big banks argue that too-big-to-fail is solved, or at least on its way out, and that more recent data shows that any borrowing advantage they gained after the bailouts has shrunk dramatically since tougher regulations were put in place. They also argue that size alone isn't the enemy, and that big, global banks offer economies of scale that make it easier to conduct transactions and provide credit worldwide.

"But skeptics abound. Some say governments have made the problem worse by aiding consolidation, as in the takeovers of shaky firms by bigger banks that regulators encouraged in 2008. Even supporters of the focus on the 'to fail' instead of the 'too big' concede the new system has yet to be proven, particularly when it comes to cross-border issues. U.S. Federal Reserve Chair Janet Yellen admits she is worried: 'I'm not positive that we can declare, with confidence, that too-big-to-fail has ended until it's tested in some way,' she told Congress."

On Its Fourth Anniversary, Has Dodd-Frank Begun To Bite?
Eileen Appelbaum, The Hill, 7/17/14
"Despite this clear warning, issued three months before the Dodd-Frank provisions affecting private equity firms went into effect, the industry was taken aback by the results of the SEC's monitoring of fund advisers' activities. Two years later at the private fund compliance forum, Andrew Bowden, the current director of the OCIE, shocked his listeners when he reported on the insights gleaned from monitoring private equity firms. Bowden pointed to the vagueness of many limited partnership agreements with fund investors that enabled advisers to charge fees to portfolio companies and require payment for expenses that could not have reasonably been contemplated by investors in private equity funds. The SEC, he reported, had identified this type of misbehavior and possible violations of law in more than half the cases it has examined.

"The largest failings are associated with fees that private equity firms charge portfolio companies for advice on business operations — advice that investors believe is provided by private equity firm employees. This creates a backdoor means of collecting fees that investors are not aware of. Even more egregious is causing portfolio companies to sign contracts for monitoring services that extend long past the time that the private equity fund owns the company. The sale of the portfolio company triggers a huge payout on the contract for services that will never be provided. This arrangement, as Bowden observed, 'has the potential to generate eight-figure, or in rare cases, even higher fees' — without the knowledge of private equity investors.

"Apparently many private equity firms will miss no opportunity to enrich themselves, no matter how small. The SEC is now investigating whether undisclosed kickbacks that private equity firms receive for steering portfolio companies to group purchasing services represent a conflict of interests between the best interests of the portfolio company and the payoff to the private equity firm. The kickbacks are modest in comparison, with payouts for monitoring services. Blackstone, for example, is reported to have received approximately $7 million between 2011 and 2013 in such kickbacks — a little more than one-tenth of 1 percent of its $6 billion income from fees during those three years."

[To Satisfy Regulators' Concerns, Banks Need to Improve Modeling Process]
Steve Culp, Forbes, 7/17/14
"Since 2008, banks have become more or less acclimated to operating in an environment of permanent volatility. Pressures on profitability have been intense, and banks have scrambled to replace lost revenue sources. While this has been going on, however, banks are also trying to stay in front of new and complex regulations aimed at preventing the kind of solvency and resiliency issues that caused problems for banks – and for the global economy – in 2008 and thereafter.

"In the U.S., banks and other systemically important financial institutions have now been through stress testing, as mandated by Dodd-Frank and conducted by the Federal Reserve. Preparing for stress tests is a major undertaking, but failing a stress test is a very rare event. For most banks, the really heavy lifting begins after the stress test. That is when banks must address 'Matters Requiring Attention' (MRAs) and 'Matters Requiring Immediate Attention' (MRIAs) — specific concerns identified by the Fed in the course of the stress test. Dealing with these issues requires technical expertise and sound processes along with large numbers of highly skilled people."

Insurers' Dodd-Frank Change Faces Hurdle
Ryan Tracy and Michael R. Crittenden, Wall Street Journal, 7/17/14
"A bill championed by insurers that would give the Federal Reserve more flexibility in regulating large insurance companies like MetLife and Prudential Financial Inc. passed the Senate unanimously last month. But while the bill has broad support in the House, top Republicans are considering packaging it with other changes to Dodd-Frank, a move that would reduce the likelihood of its passage, according to people familiar with the discussions…

"The push to get a bill through Congress comes amid heavy lobbying pressure by the nation's largest insurers, who have been meeting with regulators and lawmakers to warn against imposing banklike capital rules on their industry…"

Banks Would Lose Deposit-Insurance Windfall Under FDIC Proposal
Jesse Hamilton, Bloomberg, 7/15/14
"Some of the biggest U.S. banks would lose their ability to reap financial windfalls from lower deposit-insurance premiums under a set of changes proposed by the Federal Deposit Insurance Corp…

"The proposal, open for 60 days of public comment, would require banks to use a standard approach -- taking away the benefit some had gained by using internal models to measure counterparty risk. Those models created an imbalance in which assessments were skewed by what calculations banks used rather than their actual risks, according to the proposal."

'Litmus Test' for Regulators Over Money Market Funds
Peter Eavis, New York Times, 7/15/14

For Proof Wall Street Is Changing, Look at Citigroup's Numbers
Neil Irwin, New York Times, 7/15/14
"Sure, JPMorgan may be bigger, and Goldman Sachs might be more associated with hot-shot Wall Street dealmaking. But Citigroup has a mixture of immense size ($1.9 trillion in assets); incestuous ties to the government (both the current Treasury secretary and the vice chairman of the Federal Reserve are former Citi executives); and sprawling reach that makes it hard to manage. (Just this year, the Fed rejected Citi's plan to return capital to shareholders because

the regulators doubted the bank's ability to project how its international businesses would fare in a downturn)…

"Our mid-2007 vintage Citigroup had $2.2 trillion in assets on its balance sheets: loans, securities and the like, which have fallen to $1.9 trillion. That's a 14 percent drop, not even accounting for inflation. Seven years ago the bank's assets were equivalent to more than 15 percent of the United States's annual G.D.P.; now that's down to around 11 percent.

"But there has been another, perhaps more important, shift in Citigroup's balance sheet. Back in 2007, only 37 percent of its liabilities were customer deposits — generally considered among the most stable sources of funding for a bank. Back then, most of its funding came from other sources, including $394 billion in short-term securities: 'repurchase agreements,' also known as 'repo'…

"None of this means that Citigroup, or Wall Street more broadly, is fixed, or that a financial crisis can never happen again. But it is an important backdrop to the debate over where financial reform should go next. It just may be that the biggest risks to a stable financial system aren't lurking on the balance sheets of giant banks like Citi, but in corners of the financial world with less regulation and less scrutiny."

Secrecy of 'Too Big to Fail' Panel Targeted in Bipartisan Bill
Cheyenne Hopkins and Robert Schmidt, Bloomberg, 7/16/14
"Democratic and Republican lawmakers are cooperating on legislation that would lift some of the secrecy around the U.S. council that decides which companies pose the biggest risks to the financial system. The proposed legislation, drafted with help from the main lobbying group for mutual funds, would require the Financial Stability Oversight Council to give firms early notice that they could be designated systemically important -- a status that puts them under Federal Reserve oversight in an effort to dispel any perception they are 'too big to fail...'"

Goldman Sachs's Stress-Test Stumble Leads to Cut in Repo Lending
Michael J. Moore, Bloomberg, 7/16/15

OTHER TOPICS

Wall Street Regulation Needs to be Tougher, Americans Overwhelmingly Agree in New Poll
AFR/CRL Statement, 7/18/14
"Nearly five years after the financial crisis, a new national poll shows continued bipartisan support for tough regulation of the financial industry and its products and services, along with a pervasive sense that more needs to be done.

"A sweeping majority of voters (78%) believe that financial rules and enforcement need to be strengthened, and that Wall Street's bad practices have not changed enough. The survey was conducted at the end of June 2014 by Lake Research Partners on behalf of Americans for Financial Reform and the Center for Responsible Lending.

"By a 3:1 margin, voters agree that getting tougher on Wall Street will help prevent future crises, rejecting the counter-argument that regulation will damage the economy. This is true of Democratic, Independent, and Republican voters alike – by margins of 85% to 7%, 78% to 9%, and 72% to 15% respectively."

Poll Finds 64% of Voters Believe Stock Market Is Rigged Against Them

Jim Puzzanghera, Los Angeles Times, 7/17/14

“The survey by Better Markets, a nonprofit advocate for stronger financial regulations, also found that 60% of voters support stricter federal regulation of banks and other financial institutions.

“About 74% of Democratic voters and 56% of independents favored tougher oversight, while just 46% of Republicans did, according to the nationwide poll of 1,000 people likely to vote in this fall's elections…

“About 89% of respondents said the federal government does a poor or fair job of regulating the financial industry.”

Dodd-Frank at Four

Bartlett Naylor, Huffington Post, 7/17/14

“From the beginning, it was recognized that Dodd-Frank would not be a perfect child. The financial crash introduced America to moral hazard--the idea that some banks were too big to fail and would inevitably engage in reckless risk-taking knowing they'd be bailout out. While some members of Congress attempted to cut down the size of the mega-banks in Dodd-Frank, they fell short. Now, paradoxically, the mega-banks are even more mega. JP Morgan is the largest bank on the planet (using international accounting standards) having acquired the failed Washington Mutual, which was the largest savings-and-loan, and Bear Stearns, a major investment bank.

“Key lawmakers now press for additional important reform, a new child if you will. Sens. Sherrod Brown (D-Ohio) and David Vitter (R-La.) promote substantially higher bank capital requirements. Sens. Elizabeth Warren (D-Mass), John McCain (R-Ariz.) and others want to break up the largest banks by divorcing commercial and investment banking, a return to Glass-Steagall.”

Dodd-Frank, Financial Institutions, and Public Opinion

Karlyn Bowman and Jennifer Marsico, Forbes, 7/18/14

“Let’s be clear: there is no public opinion on the complex piece of legislation known as Dodd-Frank. Americans rarely give specific legislative guidance. They speak in broad terms about their concerns and values. And today, four years after the passage of Dodd-Frank, the severity of the crash and ensuing downturn continue to shape their beliefs about financial and other key institutions, government regulation, and the gap between the rich and poor.

“Fear isn’t an emotion you see often in polls, but it was palpable in the aftermath of the crash. Seventy percent said they were following economic news very closely in September 2008, putting the events a few percentage points shy of the top news stories of 22 years in Pew’s polling. Seventy-nine percent worried the economy was going into a depression. The preliminary Reuters/University of Michigan Index of Consumer Sentiment registered the largest decline in the 50-plus year history of the survey in October. Although there is some tentative evidence that Americans believe the economy is picking up, they don’t believe it is healthy. Five years after the crash, in 2013, just a third told Pew the US economic system was more secure than it had been before the crash. In a new GQR poll, eight in ten say another crash is likely in the next ten years. Hardly anyone believes their household incomes have fully recovered.”