AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
JUNE 14 – JUNE 20, 2014

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CONSUMER FINANCE AND CFPB

American Express Revs Up Pursuit of the Masses
Robin Sidel, Wall Street Journal, 6/16/14
"AmEx once boasted a customer base that was the envy of the industry, with its iconic green charge cards and lavish perks. But growing competition for affluent customers from issuers like J.P. Morgan Chase & Co. is driving the New York company to court consumers with a card it pitches as an alternative to checking accounts for people who don't use banks or want a cheaper option.

"After spending 18 months tinkering with Bluebird's formula and adding new features, AmEx is revving up its marketing machine. In addition to a summertime campaign for discounted gasoline, the company financed a documentary film that premiered this month about unbanked consumers. The film was produced by David Guggenheim, who also made 'Waiting for Superman' and 'An Inconvenient Truth.'

"Bluebird is part of a broader strategy to pump more transactions through AmEx's processing network, where it collects a merchant fee each time a customer uses its card."

Payday Nation: When Tribes Team Up With Payday Lenders, Who Profits?
Julia Harte, Joanna Zuckerman Bernstein, Al Jazeera America, 6/17/14
"Today at least seven of the 45 rancherias in California are involved in online payday lending — though it is unclear to what extent they actually manage the businesses with which they are affiliated. In all, some 30 Native American tribes are in the industry, according to Barry Brandon, who heads the Native American Financial Services Association, a trade organization for tribal payday lenders...

"Like the Habematolel Pomo, these tribes appear online as the owners of payday lending enterprises. But the call centers and other operations are elsewhere, and the tribes themselves get as little as 1 percent of the revenue. The entire online payday lending industry brought in nearly $4.3 billion in revenue in 2012.

"Until last year, when federal regulators started cracking down on tribal payday lending businesses, they constituted about a quarter of the online payday lending industry, said John Hecht, an analyst who specializes in payday loans."

The Tribe that said No
Nicholas Nehamas, Al Jazeera America, 6/18/14
"Raycen Raines, a former insurance salesman, was the idea's charismatic evangelist. The business of lending money to poor people at triple-digit interest rates was booming, said Raines. He told tribal officials in late 2011 that they, too, could get a cut of the action and bring in 'a free income stream' to the tribe.

"The Oglala Sioux could certainly use the money. Their reservation, which stretches across approximately 2 million acres of rocky hills and rolling plains, is one of the poorest areas in the United States. Tribal officials estimate the unemployment rate here at 80 percent — even worse in the winter when seasonal work on farms and ranches dries up.

"But the tribe ultimately turned Raines down. 'It was predatory lending,' said Catches the Enemy, who works in the tribe's economic development office."

GE Capital Pays Up For Denying Spanish Speakers Access to Credit Card Repayment Program
Ryan J. Reilly, Huffington Post, 6/19/14
"Synchrony Bank, formerly known as GE Capital, has reached an agreement with the Consumer Financial Protection Bureau and the Justice Department over allegations that it denied access to credit card debt-repayment programs to qualified customers just because they preferred to communicate in Spanish or had a mailing address in Puerto Rico.

"The company will pay $169 million in relief to roughly 108,000 borrowers and get rid of negative credit reports against those customers as part of the agreement, which has yet to be approved in federal court. The bank will separately refund $56 million to customers subjected to deceptive marketing practices as part of an agreement with the CFPB."

GE Capital Bank to Pay $169 Million for Discrimination Against Hispanics
Danielle Douglas, Washington Post, 6/19/14

CFPB Orders GE Capital to Pay $225 Million In Consumer Relief
Press Release, Consumer Financial Protection Bureau, 6/19/14

G.E. Consumer Finance Unit Reaches Settlements
Elizabeth Olsen, New York Times, 6/19/20

CFPB Partnership with Libraries Jumps to New Level
Rachel Witkowski, American Banker, 6/16/14
"A financial education partnership between public libraries and the Consumer Financial Protection Bureau has skyrocketed to more than 98 library systems in the two months since the pilot program launched."

[Capital One to Stop Using Program to Weed out Customers With History of Account Overdrafts]

Danielle Douglas, Washington Post, 6/16/14

"Capital One Financial said Monday that it will no longer use a popular screening program to weed out potential customers with a history of overdrawing their accounts, an industry-wide practice that has pushed thousands of people out of the banking system.

"Before opening a checking or savings account, banks and credit unions screen would-be clients through databases such as ChexSystems that document bounced checks, unsatisfied balances, repeated overdrafts and other behavior that could signal fraud. Instead of barring fraudsters from getting accounts, regulators say institutions are using these databases to exclude people who have simply had trouble managing their money.

"The practice is at the heart of an ongoing investigation by New York Attorney General Eric T. Schneiderman into the use of consumer databases by the nation's biggest banks…"

[Ex-Staffer: CFPB Run Like A 'Plantation']

Tim Devaney, The Hill, 6/18/14

"A former employee of the Consumer Financial Protection Bureau (CFPB) on Wednesday compared the workplace atmosphere to a 'plantation,' because of how black employees such as himself were treated…

"Republicans on the committee were shocked, with Rep. Sean Duffy (R-Wis.) referring to the alleged discrimination as 'language that I won't even repeat'... But Democrats on the committee have suggested that this is just the latest ploy by Republicans to undermine the CFPB."

[Waters Highlights CFPB's Success, GOP Efforts to Dismantle It]

Press Release, Committee On Financial Services, 6/18/14

"At today's full committee hearing to discuss 'The Semi-Annual Report of the Consumer Financial Protection Bureau,' [Ranking Member Maxine] Waters cited the impressive number of enforcement actions, rulemakings and consumer complaints handled in just three years since the CFPB opened its doors. She also attacked the Republican campaign to undermine the highly successful and popular agency. Finally, she expressed concern over issues related to diversity and discrimination at the CFPB.

"Waters also responded to Chairman Hensarling's opening remarks at the hearing, which criticized the National Mortgage Database. She pointed out the Database was actually a joint project launched in 2012 between the CFPB and then-Acting Director of the Federal Housing Finance Agency, Republican appointee Edward DeMarco. The Ranking Member also pointed out the hypocrisy of the Chairman's criticism of the CFPB's effort on the mortgage database, since the Chairman's PATH Act actually contains a provision requiring a national mortgage data repository, with only one sentence in the Act devoted to protecting personally identifiable information for consumers."

DERIVATIVES, COMMODITIES & THE CFTC

House Dem: CFTC Bill Would Be 'Sowing The Seeds Of Future Disaster'
Cristina Marcos, The Hill, 6/19/14
"Rep. Louise Slaughter (D-N.Y.) argued Thursday that the Commodity Futures Trading Commission (CFTC) measure on the floor this week would lead to another economic crisis. The bill, H.R. 4413, would reauthorize the agency through 2018 and includes other provisions to reform its regulatory process.

"'Unfortunately, the legislation passed out of the Rules Committee last night is a backdoor attempt to undo some of the reforms and a precursor to another financial crisis,' Slaughter, the top Democrat on the House Rules Committee, said during preliminary floor debate… Rep. Alcee Hastings (D-Fla.), another member of the House Rules Committee, said the bill's provision to require the CFTC to conduct economic analyses of its proposed regulations would bog down their implementation."

New CFTC Chief Fleshes Out Staff
Andrew Ackerman, Wall Street Journal, 6/17/14
"Mr. Massad tapped Clark Ogilvie, a Democratic staffer on the House Agriculture Committee, to serve as his chief of staff; and Cory Claussen, an aide to Senate Agriculture Committee Chairman Debbie Stabenow (D., Mich.), as the CFTC's director of legislative affairs.

"Jonathan Marcus will continue to serve as the CFTC's top attorney and Lawranne Stewart will serve as interim senior counsel, a position she started when Mark Wetjen, a Democratic commissioner, was acting chairman of the agency…

"The appointments come about a week after Mr. Massad announced he'd hired Aitan Goelman, a Washington, D.C.-based trial lawyer, to head the agency's enforcement division."

ENFORCEMENT

How to Punish a Bank
NPR (Planet Money), 6/18/14
"One of the biggest banks in the world, BNP Paribas, is about to be punished. The financial cops are in the middle of deciding what they are going to do. They're trying to figure out how to punish a bank in a way that actually makes it change. There are some standard ways to punish a bad bank. Fines are the first thing every regulator and judge tries. There's also getting the bank to admit guilt. Now they might try something never done before."

France Sees Double Standard in U.S. Prosecution of BNP, but Justice Is Weak
Jesse Eisinger, New York Times, 6/18/14
"In the Credit Suisse case, the criminal charge, which was celebrated by the Justice Department as a sign of its fortitude, was actually just another settlement that failed to impose truly serious consequences. Prosecutors were deeply worried about harming the bank or the financial markets. In the end, the criminal charge was essentially semantic because regulators made sure not to revoke the bank's charter or otherwise curtail its

future business. There was little substantive difference between it and a deferred-prosecution agreement.

“The real problem is not that the Justice Department singles out foreign companies; it’s that the way it metes out corporate justice is so toothless, arbitrary and opaque.”

US, Suntrust Announce Nearly $1B Settlement
Eric Tucke, Associated Press, 6/17/14
“The Justice Department on Tuesday announced the $968 million deal with SunTrust Mortgage, a Virginia-based lender and subsidiary of SunTrust Banks.

“Attorney General Eric Holder said SunTrust's conduct is a ‘prime example’ of the widespread underwriting failures that helped bring about the recent financial crisis.

“As part of the deal, SunTrust has agreed to provide $500 million in homeowner relief and $418 million to resolve allegations that it underwrote bad loans.”

SunTrust Settles With Justice Dept. Over Mortgages; Talks Continue for Citigroup and Bank of America
Michael Corkery and Jessica Silver-Greenberg, New York Times, 6/17/14
“The size of the $968 million settlement with SunTrust pales next to the multibillion-dollar pacts that the government has signed — or is seeking to sign — with the nation’s largest banks. But the SunTrust deal, announced on Tuesday, shows how state and federal authorities have been targeting banks beyond Wall Street.”

BofA Fails to Win Dismissal of U.S. Mortgage Fraud Suit
Erik Larson, Bloomberg, 6/19/14
“U.S. District Judge Max O. Cogburn Jr. in Charlotte, North Carolina, gave the Justice Department 30 days to revise the suit after a magistrate judge earlier found the government’s complaint was deficient and recommended it be dismissed.

“The case is part of a U.S. bid to punish companies for actions it says helped trigger the financial crisis. The Bank of America case and others like it rely on a law dating to the savings-and-loan crisis of the 1980s that allows the government to punish actions taken too long ago to be covered by other laws. It also lets the U.S. seek larger damages awards. ’The court need not reach far outside the complaint or be an expert in economics to take notice that it was the trading of toxic RMBS between financial institutions that nearly brought down the banking system in 2008,’ Cogburn said in his ruling today.”

Ex-Goldman Director Gupta Loses SEC Appeal; Goes to Jail
Bob Van Voris , Bloomberg, 6/17/14

SEC Fines New York Adviser For Whistle-blower Retaliation
Keri Geiger, Bloomberg, 6/16/14
“… The case marks the first time the SEC has brought an enforcement action for retaliation against a whistle-blower since the agency set up the program in 2011 to reward individuals who report securities violations. The 2010 Dodd-Frank Act gave the agency the authority to pay whistle-blowers and punish retaliation against them.”

S.E.C. Fines Hedge Fund in Demotion of Whistle-Blowing Employee
Alexandra Stevenson, New York Times, 6/17/14

BofA Fined on Bills to Charities, School Workers
Hugh Son, Bloomberg, 6/16/14
"Bank of America Corp., the second-largest U.S. lender, agreed to an $8 million fine and returned almost $90 million to clients of its Merrill Lynch unit who were improperly charged fees over six years.

"About 6,800 retirement plans for charities, ministers and public-school workers and 41,000 for small businesses paid purchase charges for mutual funds when none was required from 2006 to 2011, according to the Financial Industry Regulatory Authority. While Merrill Lynch discovered the improper charges in 2006, it didn't inform Finra until 2011, according to settlement papers released today."

House Panel Subpoenaed in Insider Trading Case
Matt Apuzzo, New York Times, 6/19/14
"The investigation focuses on a Washington research company, Height Securities. Last year, it correctly predicted a change in government health care policy, prompting a surge in the stock prices of health insurance companies.

"The Securities and Exchange Commission and Justice Department have been investigating the matter since The Wall Street Journal first reported on it last year. The authorities want to know if someone in the government improperly revealed the forthcoming policy change.

"Even if that happened, though, it is not clear whether anyone committed a crime, officials said…."

EXECUTIVE COMPENSATION

The Highest-Paid CEOs Are the Worst Performers, New Study Says
Susan Adams, Forbes, 6/16/14
"Across the board, the more CEOs get paid, the worse their companies do over the next three years, according to extensive new research. This is true whether they're CEOs at the highest end of the pay spectrum or the lowest. "The more CEOs are paid, the worse the firm does over the next three years, as far as stock performance and even accounting performance," says one of the authors of the study, Michael Cooper of the University of Utah's David Eccles School of Business…

"Another counter-intuitive conclusion: The negative effect was most pronounced in the 150 firms with the highest-paid CEOs. The finding is especially surprising given the widespread notion that it's worth it to pay a premium to superstar CEOs like Jamie Dimon of JPMorgan Chase (who earned $20 million in 2013) or Lloyd Blankfein ($28 million) of Goldman Sachs. (The study doesn't reveal individual results for them.) Though Cooper concedes that there could be exceptions at specific companies (the study didn't measure individual firms), the study shows that as a group, the companies run by the CEOS who were paid at the top 10% of the scale, had the worst performance. How much worse? The firms returned 10% less to their shareholders than did their industry peers. The study also clearly shows that at the high end, the more CEOs were paid, the worse their companies did; it looked at the very top, the 5% of CEOs who were the highest paid, and found that their companies did 15% worse, on average, than their peers."

FEDERAL RESERVE

Three Fed Governors Sworn in Just in Time for Meeting
Pedro Nicolaci da Costa, Wall Street Journal, 6/16/14
"President **Barack Obama**'s three latest picks for the **Federal Reserve Board**, including Vice Chairman **Stanley Fischer**, have been sworn in just in time to participate in a two-day policy meeting this week.

"Former Treasury official **Lael Brainard** was also sworn in Monday, along with **Jerome Powell**, who has been reappointed for a second term at the board. The oaths were administered by Fed Chairwoman **Janet Yellen** in the Fed board room, the central bank said Monday. The Fed's influential Washington-based board, which directs the country's interest rate policy, is now operating with five members out of the seven that would comprise a fully-staffed board of governors."

Stop the Federal Reserve's Power Grab
Steve Forbes, Fox News 6/17/14
"The U.S. central bank is amassing sweeping powers that are turning other regulators at both the federal and state levels, into secondary players. It is on its way to bringing the entire financial industry, not just banks, under its sway…

"Fed officials have openly acknowledged, in the words of Fed Governor Daniel K. Tarullo, that the 'aims and scope of prudential regulation have been fundamentally redefined since the financial crisis.' But less widely appreciated is the potential of the Fed's increasingly meddlesome and capricious controls to ensnare not only banks but insurers, mutual fund companies, hedge funds, equity funds, venture capitalists and anything and anyone else who engages in lending and investing on any meaningful scale…"

FINANCIAL TRANSACTION TAX & HIGH-FREQUENCY TRADING

Levin Hearing Ups Volume in High-Frequency Call to Action
Silla Brush, Cheyenne Hopkins and Sam Mamudi, Bloomberg, 6/18/14
"For the U.S. stock market's biggest players, the writing on the wall is getting easier to read.

"Executives from exchange operators and fund companies are starting to join lawmakers and regulators in warning that the world's largest equities market is beset with conflicts that can harm investors and undermine confidence.

"Support for a solution increased yesterday at a hearing led by Senator Carl Levin as representatives from New York Stock Exchange owner Intercontinental Exchange Inc.

(ICE), IEX Group Inc. and Vanguard Group Inc. said trading rebates and payments to brokers for investor trades warrant greater government scrutiny. The systems, embedded in market plumbing over the last two decades, were cited as one of the reasons high-frequency firms now account for about half of volume."

'Flash Boys' in The Hot Seat at Hearing
Matt Egan, CNN Money, 6/17/14
"It's been just over two months since the 'Flash Boy' author dropped a bombshell by arguing that U.S. markets are 'rigged'by high-frequency traders (HFT). That controversial claim is now at the center of countless regulatory probes, a series of lawsuits and intense debate among various people and companies with money in the market.

"The debate shifted Tuesday to the U.S. Senate, where lawmakers convened a hearing to discuss how high-frequency trading works and whether it's fair to all investors. The discussion focused on how brokerages like E*Trade (ETFC) route their trade orders to stock exchanges. Brad Katsuyama, the hero in Lewis's book, played a starring role in the hearing."

At Senate Hearing, Brokerage Firms Called Out for Conflicts
William Alden, New York Times, 6/17/14

High-Frequency Trading Rebates Under Scrutiny in Senate
Silla Brush and Cheyenne Hopkins, 6/17/14
"Executives from Intercontinental Exchange Inc., owner of the New York Stock Exchange, Bats Global Markets Inc., IEX Group Inc. and Vanguard Group Inc. told the Senate's Permanent Subcommittee on Investigations that rebate fees and payments to brokers for orders should face greater regulatory scrutiny. High-frequency traders now account for about half of U.S. stock trades…

"Eric Schneiderman, the New York attorney general, has subpoenaed high-speed traders including Chopper Trading LLC, Jump Trading LLC and Tower Research Capital LLC as part of a probe into automated trading, a person familiar with the matter said in April. The Securities and Exchange Commission and Commodity Futures Trading Commission are also investigating whether the traders benefit unfairly from better access to data or other incentives.

INVESTOR PROTECTION AND THE SEC

Credit Rating Industry Dodges Reforms, Despite Role In Financial Meltdown
Alison Fitzgerald, Center for Public Integrity, 6/18/14
"The ratings industry has mostly escaped reform despite its central role in the financial crisis because the Securities and Exchange Commission has failed to implement many proposed changes and the companies themselves have fought off others.

"The Dodd-Frank financial reform law, which passed in 2010 in response to the crisis, devoted an entire section to fixing the broken credit rating industry. The changes were supposed to boost oversight, increase competition, reduce investor reliance on credit ratings, and make the companies liable for negligent practices. The law also required the SEC to consider changing the entire business model to eliminate the conflicts of interest that arise when credit ratings are paid for by the companies issuing the securities.

"Four years after President Barack Obama signed Dodd-Frank into law, many of the reforms to the credit rating industry have not been implemented, and the private sector continues to rely on the same companies for investment opinions."

House GOP Cuts IRS, SEC Funding

David Rogers, Politico, 6/17/14

"House Republicans rolled out a $21.3 billion financial services bill Tuesday that cuts more than $2 billion from President Barack Obama's budget requests — chiefly at the expense of the Internal Revenue Service and Securities and Exchange Commission.

"The IRS is promised $10.9 billion, about $341 million below current funding and $1.5 billion less than what Obama has asked for in the new fiscal year that begins Oct. 1. The SEC is essentially frozen in place at $1.4 billion, $300 million below the president's request… On balance, the SEC has fared better than its smaller sister agency, the Commodity Futures Trading Commission. But in both cases, House Republicans—whose leadership has greatly benefited from Wall Street campaign donations—have taken the position of rejecting any major new funding for the two regulators going into November's elections."

More Heat for the SEC

Darrell Delamaide, USA Today, 6/17/14

"At stake is whether the SEC is going to continue to be a minimalist force in financial regulation, sitting on the sidelines as it did a decade ago while investment banks under its supervision took on an inordinate amount of risk and big-time criminals like Bernie Madoff bilked investors out of billions right under the agency's nose…

"[SEC Commissioner Kara] Stein already fired off one broadside in April, publicly criticizing the SEC's decision to let Royal Bank of Scotland keep its privilege of tapping U.S. capital markets without SEC review in spite of a criminal conviction and fines of more than $1 billion for various legal infractions.

"Stein has a bigger vision for the SEC. It is a major regulator, for instance, of the much-maligned 'shadow banking' sector, the supposedly unregulated financing alternative to banks facing stiffer regulations."

Insider Trading Research Says SEC Won't Sweat Small Stuff

Joseph Ciolli, Bloomberg, 6/20/14

"Menachem Brenner, the New York University professor whose study found evidence that leaked information pervades derivatives markets, says regulators are either too poor or too busy to chase every insider-trading lead.

"Options on U.S. companies that are being taken over have higher volume, prices and bid-ask spreads than other contracts in the 30 days before purchases are announced, according to the May 2014 paper by Brenner, his New York University colleague Marti

Subrahmanyam and Patrick Augustin of McGill University. Compared with what the study showed, the number of insider cases brought by the U.S. Securities and Exchange Commission 'appears small,' they wrote.

"'The SEC has a limited budget, and now they have to decide upon a set of priorities -- where they'll invest their time and money,' Brenner said in a phone interview on June 19. 'They may be viewing some of these trades as small-time compared to all the big things out there, and they might not want to waste their time.'"

SEC to Meet June 25 to Consider Adopting Cross-Border Swap Rules
Bloomberg BNA (paywalled), 6/19/14
"The Securities and Exchange Commission will meet June 25 to consider the adoption of rules on the application of 'security-based swap dealer' and "major security-based swap participant' definitions to cross-border swap transactions under the agency's purview."

COBRA's Mother Takes on Wall Street in Fight Over 401(k)s
Robert Schmidt, Bloomberg, 6/18/14
"[Phyllis] Borzi, an assistant secretary at the U.S. Labor Department, has spent four years battling the full force of the financial lobby, interference from the White House and pressure from lawmakers of both parties over rules for individual retirement accounts and 401(k) plans.

"She has long argued that people's retirement savings can be eroded by high fees or imprudent investments recommended by advisers with hidden incentives. She is pushing for brokers to be held to a legal standard that they must act in a client's best interest, an obligation known as a fiduciary duty…

Consumer advocates compare Borzi to Gary Gensler, the ex-U.S regulator who clashed with Wall Street as he tried to make private trading of derivatives more transparent. [The CFA's Barbara] Roper said the comparison is apt -- up to a point. Gensler's style "is more iron fist, velvet glove," Roper said. "Phyllis doesn't bother with the glove."

Retirees Suffer as $300 Billion 401(k) Rollover Boom Enriches Brokers
John Hechinger, Bloomberg, 6/17/14
"The complaints against Tarr and other brokers illustrate the underside of America's retirement rollover boom. Former employees shifted $321 billion from 401(k)-style plans to individual retirement accounts in 2012, up about 60 percent in a decade, according to Cerulli Associates, a Boston-based research firm. As a result, IRAs hold $6.5 trillion, more than the $5.9 trillion in 401(k)-style accounts.

"A three-month Bloomberg investigation found that former employees at major companies such as Palo Alto, California-based Hewlett-Packard (HPQ) Co. and United Parcel Service Inc., as well as AT&T, have complained that sales representatives lured them into rolling over their 401(k) nest eggs into unsuitable IRA investments. The investigation was based on interviews with retirees and brokers, confidential arbitration records and other documents.

"While retirees can generally leave their savings in 401(k) plans, financial firms entice them with cold calls, Internet ads, storefront signs and cash incentives to switch to IRAs. They tout the advantage of the IRA's wide variety of investment choices over the typical 401(k) plan's limited menu."

MORTGAGES, FORECLOSURES & HOUSING

BlackRock, Pimco Sue Deutsche Bank, U.S. Bank Over Trustee Roles
Al Yoon, Wall Street Journal, 6/18/14

Seven Ways Banks are Relaxing Loan Terms
Slide Show, American Banker, 6/18/14

S.E.C. Investigating Carrington's Mortgage Deal With New Century
Matthew Goldstein and Peter Eavis. New York Times, 6/17/14
"Lightly regulated firms are moving into mortgage servicing, buying batches of the business from established banks. Regulators have recently expressed some concerns about how these new servicers are performing and their dealings with borrowers. In addition, the servicers' financial strength has yet to be fully tested by a big drop in home prices."

CFPB Provides Guidance on the TILA-RESPA Integrated Disclosures Rule
Marc Patterson, CFPB Monitor, 6/19/14
"On June 17, 2014, the CFPB staff and Federal Reserve co-hosted a webinar on the final TILA-RESPA Integrated Disclosures Rule that will be effective for applications received by creditors or mortgage brokers on or after August 1, 2015. The webinar is the first in a planned series intended to help creditors, mortgage brokers, settlement agents, software developers, and other stakeholders familiarize themselves with the rule's architecture and its substantive and procedural disclosure requirements. The CFPB staff used the initial webinar to provide a basic overview of the final rule and new disclosures that we have previously covered here…"

REVOLVING DOOR & POLITICAL POWER OF WALL STREET

JPM Appoints Melissa Bean as Chair of Midwest Operations
Kristin Broughton, American Banker, 6/19/14
"Melissa Bean, a former three-term member of Congress, has been named chair of JPMorgan Chase's (JPM) Midwest business…

"She represented the 8th district of Illinois, in the western Chicago suburbs, from 2005 through 2011. While in Congress, she served on the House Financial Services and Small Business committees. She was also a member of the Blue Dog Coalition, a group of fiscally conservative Democrats."

[IEX Group Hires Former Top SEC Official](#)
Scott Patterson, Wall Street Journal, 6/16/14
"IEX Group Inc., the upstart trading venue that says it protects investors from predatory high-speed-trading tactics, has hired a top former regulator to help with its efforts to transform into a stock exchange.

"IEX hired John Ramsay, former acting head of the Securities and Exchange Commission's Trading and Markets division, which oversees major market players such as broker dealers and stock exchanges. Mr. Ramsay, who left the SEC in March, marks the biggest new hire for IEX, which was featured in Michael Lewis's 'Flash Boys' for its efforts to create a market that stymies high-frequency-trading firms."

McCarthy Elected as House Majority Leader, Scalise as Whip
Derek Wallbank and Michael C. Bender, Bloomberg, 6/19/14
"Republicans elected Kevin McCarthy of California as U.S. House majority leader, promoting a member of Speaker John Boehner's leadership team seen as a friend to business and Wall Street, and chose Representative Steve Scalise of Louisiana to succeed McCarthy as majority whip.

"A former sandwich shop owner, McCarthy, 49, has worked for years to build relationships with small business. He has served for six years on the Financial Services Committee, and his top donor is Goldman Sachs Group Inc. (GS)."

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Finding Shock Absorbers for Student Debt
Susan Dynarski, New York Times, 6/14/14
"But how can we help in the short term? We should allow student-loan payments to rise and fall with income, as we do with Social Security and taxes. If borrowers hit a tough spell, payments should drop automatically. If they score well-paying jobs, payments should rise. This is called 'income-based repayment'…

"It's crucial that payment adjustments be automatic for the borrower. In fact, 'Automatic for the Borrower' is a proposal released in March by a network of nonprofit groups. I've also written a brief on this idea for the Hamilton Project, a Brookings Institution initiative. Australia, Britain and New Zealand have developed automatic, income-based loan payment programs.

"How would such a system work in the United States? Invisibly. We don't do much paperwork to pay our Social Security contributions: We fill out an initial W-4 form and our employer handles the rest. Loan payments can be handled the same way."

Lax State Oversight of For-Profit Schools Puts Students and Taxpayers at Risk
Report, National Consumer Law Center, 6/18/14

[Federal Sanctions Threaten Sustainability of Corinthian Colleges]

Chris Kirkham, Los Angeles Times, 6/19/14

“A besieged chain of for-profit colleges based in Orange County has signaled that it is in danger of shutting down after the U.S. Department of Education sharply cut back its access to federal money for student loans and grants.

“Plagued by complaints that it had falsified student job placement rates, Santa Ana's Corinthian Colleges Inc. disclosed Thursday that the Education Department had heightened its financial scrutiny of the company. And it warned that the sanctions may jeopardize cash flow crucial to keeping the company afloat…

“Like many for-profit college corporations, Corinthian relies heavily on federal student loan and grant dollars, which make up more than 85% of the company's revenue. The Education Department's sanctions deal a direct blow to Corinthian's access to such funds.”

[Corinthian Colleges Warns of Possible Shutdown]

Stephanie Gleason and Josh Mitchell, Wall Street Journal, 6/19/14

[Base Taxpayer Support on Higher Standards]

Matthew Boulay, Orlando Sentinel, 6/20/14

“Should taxpayers have to foot the bill for the very worst programs in the nation that are under investigation for deceiving students?

“New common-sense regulations proposed by the U.S. Education Department would cut off taxpayer dollars for career colleges with the lowest performance metrics for several years in a row and whose graduates are not able to obtain "gainful employment." This rule would apply to most for-profit programs as well as career programs at nonprofit and public schools, although only the for-profits are complaining.”

[An Enemy In Common? The Case Against For-Profit Colleges]

Matthew Boulay, WBUR Radio, 6/20/14

“Investigators and regulators at the state and federal levels have been training their sights on for-profit colleges and trade schools to bring pressure on the industry to clean up its act, particularly its targeting of veterans.

“For-profits see service men and women returning from Afghanistan and Iraq as gold mines, as each soldier represents tens of thousands of dollars in federal GI Bill benefits and access to federally subsidized student loans. Eight of the 10 schools receiving the most GI Bill dollars are now for-profit colleges, according to a recent U.S. Senate committee study.

“Together, those eight schools reaped more than $1 billion in GI Bill benefits in 2010. This in spite of the fact that almost half a million veterans dropped out of those colleges within the first year, most within the first four months of enrolling.”

SYSTEMIC RISK

To Lift Capital Standards, We Must Dispel The Bank Debt Myth
Salvatore Ferraro, Sydney Morning Herald, 6/20/14
"Being forced to hold more shareholder equity raises a bank's cost of capital because bank debt is cheaper than equity, so the argument goes. Faced with a higher cost of capital, bankers argue that higher capital ratios can only be met by shrinking the number of loans they write.

"Yet studies confirm that bank debt is not cheaper than equity. The key insight developed more than 50 years ago by Nobel prize winners Merton Miller and Franco Modigliani is that raising more equity reduces a bank's leverage and its risk profile. Investors therefore demand less compensation for holding the bank's equity and its cost of equity declines…

"Forcing banks to hold significantly more loss-absorbing capital would deliver a safer and more stable financial system and better protect taxpayers, and make it easier for the RBA and Australian Prudential Regulation Authority to manage systemic risk. The costs of such action, notably higher lending rates, are modest compared with the costs of managing a financial crisis, a point highlighted by Stevens."

AIG's Collapse: The Part Nobody Likes to Talk About
Hester Peirce, American Banker, 6/16/14
"The standard AIG story lays all the blame for the company's problems on AIG Financial Products—an allegedly unregulated, irresponsible, derivatives dealer hiding within an otherwise solid insurance company…

"This widely repeated narrative ignores or downplays a critical aspect of AIG's downfall—the insurer's securities lending program run for the benefit of its regulated life insurance subsidiaries. An endnote in [Former Treasury Secretary Tim] Geithner's tome explains that securities lending was one of 'AIG's major liquidity needs' at the time of its rescue. As I describe in a recent working paper, the company got itself into hot water by lending securities from its life insurance companies' portfolios. AIG took the cash collateral it received for these short-term loans and—in a departure from insurance industry practice—invested much of it in longer term, illiquid residential mortgage-backed securities.

"The securities lending program grew from about $10 billion at the end of 2001 to over $80 billion by the end of 2007. When borrowers stopped renewing the loans, returned their securities, and asking for their cash back, AIG was in a bind—the borrowers' cash was tied up in reinvestments."

U.K. Bid for EU Bank-Structure Carve-Outs Hits Legal Snag
Jim Brunsden, Bloomberg, 6/17/14
"The U.K. government's push to shield its bank-structure rules from a European Union overhaul suffered a setback as lawyers for the bloc said flexibility built into a draft proposal may breach EU law.

"Michel Barnier, the EU's financial-services chief, proposed in January to ban about 30 of the bloc's largest banks from proprietary trading and to hand regulators the power to split them up. The U.K. sought and obtained caveats in the plan that allow the government in London to press ahead with implementing its own measures, known as the Vickers rules."

U.K. May Restrict Growth at Banks That Don't Manage Their Risks
Ben Moshinsky, Bloomberg, 6/19/14

What Happens If Investment Funds Are Labeled 'Too Big To Fail'?
Douglas Holtz-Eakin and Satya Thallam, Forbes, 6/19/14
"One of the major new tools to come out of the 2010 financial regulatory reform ('Dodd-Frank') was the Financial Stability Oversight Council (FSOC). Unfortunately the FSOC's authority to designate nonbanks as a 'threat to financial stability' is increasingly becoming the hammer with which everything looks like a nail.

"The idea of the FSOC is simple. Complex financial firms stretch across markets and products – making them hard for a single agency to regulate effectively. Getting it right is important; witness 2008 when the failures of Lehmann Brothers and other single firms had far-reaching effects. The FSOC is intended to be a hub for all the regulators to address system-wide risks…

"Last month the FSOC hosted a conference on the topic of asset managers. This follows a report on the subject released last fall, on which 16 former senior financial regulators commented it "seems intended to lead, ineluctably, to the imposition of the double-barreled blunderbuss of capital controls and liquidity constraints." They go on to point out the ham-handed nature of treating the many varied and unique nonbank financial institutions to a single bank-centric regulatory regime, executed by a Federal Reserve with little specialized knowledge of these areas. To wit, the Securities and Exchange Commission has traditionally had the purview of investment vehicles such as mutual funds, and is more likely to have the necessary issue expertise to appropriately regulate them — balancing benefits and costs."

FDIC's Hoenig: Dodd-Frank Hasn't Ended 'Too Big to Fail'
Bloomberg BNA (paywalled), 6/19/14
"Thomas Hoenig, the vice chairman of the Federal Deposit Insurance Corporation, spoke June 19 to the National Economists Club and, in answer to a question, said almost half of the implementing rules to the 2010 law haven't been written.

"He singled out two pieces of the sweeping law as 'most important' —Title I, which requires banks to put together resolution plans, and Title II, which gives the FDIC the authority to resolve failing megabanks.

"'How we deal with that going forward will be critical,' Hoenig said."

OTHER TOPICS

David Brat Gets It Right About Subprime Crisis
Editorial, Investor's Business Daily, 6/16/14
"The Beltway hates it when Tea Party pols speak the truth. So when David Brat blamed the recession on Washington, it of course set up an intellectual firing squad to stop him. But it's shooting the same old blanks…

"With little resistance from Republicans, Democrats and their media toadies have been able to hijack the crisis narrative and demonize private banks. The Wall Street bashing helped the Obama administration justify financial "reform" and centralize credit in the hands of the state.

"Market defenders such as Brat are a serious threat to the left's final goal of turning banks into public utilities, so it unleashed its pundits, including David Corn, who hurled brickbats about Brat repeating 'the conservative canard that Freddie Mac and Fannie Mae brought down the housing market.'"

Dave Brat's Win Over Eric Cantor Exposed the Unholy Tea Party-Wall Street Alliance
Alec MacGillis, New Republic, 6/12/14
"The Tea Party wave that built around the country in 2009 and 2010 was fueled by many things—resentment over foolhardy homeowners getting mortgage relief, backlash against the Affordable Care Act, and anxiety over federal spending. But if its rhetoric was to be believed, the movement was also driven by a healthy dose of old-fashioned anti-Wall Street populism—anger over the TARP bailouts, the AIG bonuses, the Obama administration's failure to prosecute any of the bankers who'd brought us close to ruin.

"Something funny happened, though, as the pitchforks made their way to confront the money changers at the temple: Wall Street and big business co-opted them. It turned out that some elements of the Tea Party movement were much more opposed to Obama than they were to self-dealing CEOs and bankers, and perfectly willing to join with the latter to fight the former. This quickly produced the confounding spectacle of a purportedly populist uprising that was working hand in hand, and in many cases funded by, the business elite. And the nexus for this alliance was the Republican leadership in Congress. When Republicans were trying to block the Dodd-Frank financial reform bill, they took Frank Luntz's devious advice to label the bill a "bailout" for the banks—deploying Tea Party rhetoric to attack a bill that was in fact bitterly *opposed* by the bailed-out banks. In recognition of this effort, Wall Street in 2010 swung its campaign spending sharply toward GOP candidates, including many running under the Tea Party banner."

Wall Street Just Lost a Bestest Buddy In Eric Cantor
Mark Gongloff, Huffington Post, 6/10/14