AMERICANS FOR FINANCIAL REFORM

This Week in Wall Street Reform - April 25 - May 1, 2015

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CONSUMER FINANCE & THE CFPB

Panel votes to dump delay in military lending rules
Leo Shane & Karen Jowers, Military Times, 4/30/15
House lawmakers narrowly voted to remove controversial language delaying new rules on payday lenders from their annual defense authorization bill early Thursday morning, calming concerns from advocates who saw the move as potentially undoing financial protections for military families.

By a 32 to 30 vote, members of the House Armed Services Committee stripped provisions from the legislation that would have delayed Defense Department plans to expand the scope of the 2006 Military Lending Act by requiring a new report due next spring on DoD's rule-making procedures in that regard. Opponents of the clause said the rules are already long overdue, and accused supporters of giving predatory lenders a new opportunity to victimize troops.

Predatory lenders defeated, troops protected, for now!
Ed Mierzwinski, HuffPost, 4/28/15

Protecting Service Members From Predatory Loans
Brent Staples, NY Times, 4/29/15
House Republicans and their masters in the banking industry are pushing to delay a proposed Defense Department rule aimed at shielding service members from predatory loans that trap them in debt and that, under some conditions, can end their military careers. The offending legislation, now before the House Armed Services Committee, deserves to die a swift death.

Update: Early Thursday morning, the House Armed Services Committee voted to remove the language that would have delayed new debt protections for service members.

See AFR Statement: Rep. Tammy Duckworth and Bipartisan Allies Beat Back Attack on the Military Lending Act

House Republicans want to block predatory lending protections for American troops
Zach Carter, HuffPost, 4/29/15
GOP lawmakers tucked the deregulation item into the National Defense Authorization Act -- a major bill setting the military's funding, along with a number of other controversial terms on Guantanamo Bay and other issues. If the banking item is enacted, it would impose a one-year delay on new Department of Defense rules meant to shield military families from abusive terms on payday loans and other forms of high-interest credit. The bill is being considered Wednesday before the House Armed Services Committee.

House targets predatory lending protections for US troops
Steve Benen, MSNBC, 4/30/15

[House GOP Wants To Stop The Pentagon From Protecting Military Families From Financial Predators]
Alan Pyke, ThinkProgress, 4/29/15

[CFPB Considers New Payday Loan Requirements]
Marika Mikuriya, RegBlog from UPenn, 4/27/15

[CFPB Should Heed Concerns of Payday Lenders]
Dennis Shaul, American Banker, 4/30/15

[Connecticut's Governor Tried To Crack Down On Predatory Lending And Got Accused Of Being Racist]
Alan Pyke, ThinkProgress, 4/28/15

[Lawmakers Lend an Ear to Concerns Over Payday Loans]
Eva Hershaw, Texas Tribune, 4/29/15
Lawmakers from both chambers gathered Wednesday to lend support to a range of bills that would limit the loan size and number of installments offered by payday and auto title lenders.

"We have lost some ground, and that is why it is important to do this press conference today – we have a very unified front," said Sen. Rodney Ellis, D-Houston, standing alongside Sen. Royce West, D-Dallas, and state Rep. Tom Craddick, R-Midland. They have all filed bills aimed at regulating the payday and auto title loan industry. "We have to put this back on the front burner," Ellis added.

[Lawmakers face long odds in effort to crack down on predatory lending]
Marissa Barnett, Dallas Morning News, 4/29.15
Faith groups, consumer advocates and veteran lawmakers called on Wednesday for a crackdown on payday and auto title lenders—a massive industry that critics say reaps huge profits by taking advantage of the poor and leaves thousands of Texans enslaved by debt.

But lawmakers conceded that any attempts at reform face an uphill battle in the Legislature—where the measure has failed before—because of the industry's clout and heavy spending on lobby efforts. There's also huge reluctance among the GOP majority to impose greater restrictions on business.

"People need help and these people who need help are being beat down in Texas and being charged larger rates because of fees that should be fixed," said veteran Rep. Tom Craddick, R-Midland.

[Alabama Supreme Court rules against payday lenders in database case]
Associated Press, 4/27/15
The Alabama Supreme Court has ruled that the state Banking Department can establish a payday loan database to enforce an existing $500 limit on how much people can borrow at one time from the short-term lenders.

The decision was a victory for advocates who have sought restrictions on the loans, but they say it does not go far enough in limiting an industry they said preys upon the financially vulnerable. A payday loan store owner argued that the database is unworkable because much of the industry is online and untouched by state regulation.

[Florida Congressional delegation criticizes proposed rules on payday lending]
Nicholas Nehamas, Miami Herald, 5/1/15
In a rare show of near unity, all but one member of Florida's delegation to the U.S. House of Representatives criticized new rules proposed by the Obama administration on payday lending. In a letter sent to Richard Cordray, head of the U.S. Consumer Financial Protection Bureau, Florida lawmakers wrote that "while we strongly support meaningful and robust safeguards to prevent predatory lending practices in this market, we have continually insisted that any regulatory framework established be carefully balanced with the need to provide consumers with access to a range of financial services. "

The payday lending industry has made campaign contributions to Florida legislators and their political action committees in the past, including those who signed the recent letter, according to a report by **Americans for Financial Reform**, a left-leaning advocacy group. Top recipients of industry funds in the last election cycle included Hastings ($35,000), Murphy ($35,000) and Wasserman Schultz ($31,250).

[Florida reps urge CFPB to use their payday rules as model]
Lydia Wheeler, The Hill, 4/30.15
Florida lawmakers are asking the Consumer Financial Protection Bureau to base its rules for payday lenders on “complete data” and “sound science.” A letter, signed by 26 House Representatives from the Sunshine State, urges CFPB Director Richard Cordray to offer a third set of rules modeled after Florida’s regulations for short-term lenders to follow.

[The dangers of allowing debt-trap lending in NC]
Hope Morgan Ward, The News and Observer, 4/29/15

[Is Operation Choke Point to blame for bank account closures?]
Lauren Saunders, The Hill, 4/30/15

[Debt Collectors Need CFPB's Kick in the Pants]
Ohad Samet, American Banker, 4/28/15

[Consumer Financial Protection Bureau Fines Regions Bank $7.5 Million for Unlawful Overdraft Practices]
Press Release, CFPB, 4/28/15

ENFORCEMENT

[Bipartisan bill to lift veil on Fed settlements reintroduced]
Daniel Wilson, Law360, 4/28/15

EXECUTIVE COMPENSATION

[U.S. Senator Tammy Baldwin Leads Call for Accountability on Risky Wall Street Compensation Practices]
Press Release, Office of Senator Tammy Baldwin, 4/30/15
U.S. Senator Tammy Baldwin today led a call to prohibit compensation practices that incentivize excessive risk-taking beneficial to Wall Street in the short-term, but damaging to the long-term growth and health of the economy and middle class. In a letter joined by nine other senators, Senator Baldwin urged financial leaders in the United States to finalize the overdue mandatory rules included in section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act…

"The pursuit of short-term bonuses at the expense of long-term responsibility was a crucial contributor to the 2008 financial crisis. Section 956 of the Dodd-Frank Act requires regulators to address this problem by banning incentive pay that creates inappropriate incentives,” said **Americans for Financial Reform** Communications Director Jim Lardner. “Regulators have so far failed to implement this requirement and strong action in this area is long overdue. We support the efforts of Senator Baldwin and other legislators in urging regulators to move forward with a strong rule."

[SEC advances executive pay rules]
Peter Schroeder, The Hill, 4/29/15

[SEC proposal could aim more light at CEO pay]
Kevin McCoy and Gary Strauss, USA Today, 4/29/15

[SEC proposes rules on executive pay and performance]
Michael Corkery, NY Times, 4/30/15

[SEC votes 3-2 to propose executive-compensation rules]
Andrew Ackerman and Joann S. Lublin, WSJ, 4/29/15

SEC's Proposed Comp Rules Are of Little Use, Attorneys Say
David McCann, CFO, 4/30/15

INVESTOR PROTECTION AND THE SEC

Who should write the rules to invest by?
Teresa Tritch, NY Times, 4/27/15
Objections to [a fiduciary duty rule] — whether for retirement or non-retirement accounts — boil down to a desire by commission-driven brokers, insurance agents and the firms they work for to continue boosting pay and profits by steering clients into high priced products and services when comparable lower cost ones are available.
Of course, they don't put it that way.

One of their objections — which is sure to surface again in the comment period — is that confusion will reign if the Department of Labor issues a fiduciary rule for retirement advisers before the Securities and Exchange Commission issues a similar rule for advisers on non-retirement accounts.

That stance was always disingenuous, because the S.E.C. has proven itself incapable of moving ahead on the issue. Waiting for the S.E.C. is even more off point now that the Labor Department proposal is on the table.

Wall Street regulator cites concerns with Labor Department's broker rule
Sarah N. Lynch, Reuters, 5/1/15
The Labor Department's draft rule "is a very good faith effort," said Richard Ketchum, the chief executive of the self-regulatory organization known as Financial Industry Regulatory Authority (FINRA), on the sidelines of a congressional hearing. But some parts of the draft that describe broker dealing activity, he said, "don't really describe any broker-dealer model that I am aware of."

Ketchum's remarks could help bolster the arguments of the brokerage industry, which has been fiercely lobbying against the Labor Department's rulemaking effort.

Elizabeth Warren is Not Impressed with Your Diamond-Encrusted Ring
Alexis Goldstein, Bull Market, 4/29/15
In February, President Obama backed a new Department of Labor proposal to help end the conflicts of interest present in some retirement brokers' advice to clients. The idea is to require all retirement advisers to act in their customers' best interests — something some retirement advisors are notrequired to do today. But not everyone in the Democratic party stands behind the proposal, despite the fact that such biased advice costs Americans an estimated $17 billion a year. This week, Senator Warren used her platform to publicly shame both the companies that give their brokers kickbacks for conflicted advice, and the Democratic Senators defending them.

Bloomberg News reported that five Democratic Senators met with Department of Labor Secretary Tom Perez to argue against the conflict-of-interest rule. Present at the meeting were Senators John Tester (D-MN), Ben Cardin (D-MD), Joe Manchin (D-WV), Joe Donnelly (D-IN) and Gary Peters (D-MI). But while these Democrats are hauling Secretary Perez up to the Hill to castigate him about a rule that would help Americans save more for retirement, Warren is using her pulpit to undermine their opposition.

This week, Senator Warren blasted the insurance industry for the perks they give their annuities salespeople for peddling conflicted advice. Warren wrote in a statement that these "questionable practices" highlight the need for the very rule her five Senate colleagues are lobbying against. And she also sent 15 letters to annuity providers like Allianz and AIG, asking the companies for information about the rewards they offered to their brokers.

Finra CEO Rick Ketchum backs off data collection plan
Mark Schoeff Jr., Investment News, 4/30/15
Finra, the industry-funded broker-dealer regulator, floated the CARDS proposal as a concept release in December 2013. It was formally proposed last September. The mechanism would collect reams of brokerage account information on a

monthly basis and analyze it for sales trends that could potentially harm investors. Finra has said that CARDS would help it become a more data fluent and nimble regulator.

But the proposal has drawn criticism not only from the industry but also from Capitol Hill. Rep. Scott Garrett, R-N.J. and chairman of the House Financial Services subcommittee before which Mr. Ketchum will testify, told Finra last year that he is "far from convinced that this new, costly and burdensome proposal is needed."

U.S. SEC reviewing efforts by some companies to thwart whistleblower awards
Sarah N. Lynch, Reuters, 4/30/15

MORTGAGES & HOUSING

Saddling homeowners with risky loans
Editorial, NY Times, 4/29/15
House Republicans, with the help of several Democrats, recently passed two bills to weaken new rules against predatory mortgage lending. Senate Republicans are now trying to win support for the same measures, arguing that the rules would impose "regulatory burdens" that unduly restrict credit.

That is way off base. The rules, called for in the Dodd-Frank financial reform law of 2010, require that lenders provide borrowers of complex, high-cost loans with written disclosure of the loan rate and maximum monthly payment as well as the consequences of default. They also require lenders to give mortgage applicants a list of counseling organizations that can educate them on risks, rights and responsibilities.

The Baltimore Riots, Inequality and Federal Inaction
Joseph A. Palermo, HuffPost, 4/29/15
While unemployment remains disproportionately high among African Americans when compared to whites, the old "red-lining" tactics of sealing off black people into impoverished neighborhoods gave rise to more modern forms of exploitation such as predatory lending and usurious payday loan centers. Some of America's biggest banks made out like bandits, while the living conditions of millions of people trapped in poverty have grown ever more dangerous and unbearable.

How Baltimore's Police and Poverty Fueled a Youth Revolt
Juan Thompson and George Joseph, The Intercept, 4/29/15
In 2008, Baltimore officials alleged, in a suit supported by testimony from former Wells Fargo loan officers, that the national bank engaged in unscrupulous lending practices, while its staffers called black Baltimore residents "mud people" and referred to loans given out to black residents as "ghetto loans." The city said the bank's predatory lending ultimately exacerbated Baltimore's problem with vacant buildings.

POLITICAL INFLUENCE OF WALL STREET

5 Dem Senators Pressuring DOL to Weaken Fiduciary Rule Got $2 Million From Investment Industry
Ted Knutson, Pulse, 4/27.15
Five Democratic Senators who met with Labor Department Secretary Thomas Perez last week to oppose the proposed fiduciary rule for pension plan advisors have received nearly $2 million in direct campaign contributions from the securities and investment industry.

Friday evening, Bloomberg revealed the session Perez had with Senators Jon Tester, Ben Cardin, Joe Manchin, Joe Donnelly and Gary Peters. None are on the Senate committee which oversees the Labor Department while Montana's Tester and Indiana's Donnelly have seats on the Senate Banking Committee with jurisdiction over the Securities and Exchange Commission. Of the five Democrats, Tester has received the most financial industry contributions since 2009 with $782,956 followed by Michigan's Peters ($420,529); Maryland's Cardin ($404,600); West Virginia's Manchin ($199,100); and Indiana's Donnelly ($186,355), according to federal campaign contribution data compiled by the Center for Responsive Politics.

[Big-bank Threat Backfires]
Jim Lardner, AFR Blog, 4/28/15
During the 2014 election cycle, banks and financial companies were associated with almost half a billion dollars in campaign contributions to candidates for national office. (See AFR's latest "Wall Street Money in Washington" report, drawing on data compiled by the Center for Responsive Politics.) That figure was more than twice the spending level of the next biggest business sector.

What do these institutions expect in return? Benefactors and beneficiaries alike almost always insist there's no quid pro quo. But several weeks ago, insiders at Citigroup, JPMorgan Chase and BankofAmerica broke with that tradition, quietly acknowledging an effort to use their political spending for a very clear purpose: to get Senate Democrats to back away from calls by one of their leaders, Senator Elizabeth Warren (D-Mass.), for a breakup of the biggest banks.

STUDENT LOANS AND FOR PROFIT EDUCATION

WSJ Defends Shuttered For-Profit College Despite Evidence Of Fraud
Hilary Tone, Media Matters, 4/28/15

Don't blow up all for-profit colleges, just the bad ones
Judah Bellin, Washington Examiner, 4/30/15

Ed Department official: Corinthian students affected by closures can automatically get loans erased
Kimberly Heflinh, Daily Reporter, 4/29/15
The closures left students at campuses in California and a few other states struggling to decide whether to have the credits they've already earned transferred to another school or to try to get their federal loans forgiven. Already, some other for-profit schools have sought to recruit these students, and Sen. Dick Durbin, D-Ill., has criticized the department for making a list of areas schools available that included some for-profit schools that face investigations.

Waters, Durbin Introduce Legislation to Strengthen Students' Legal Rights
Press Release, Office of Rep. Maxine Waters, 4/28/15

For-profit college's collapse is particularly devastating for this veteran
Abby Jackson, Business Insider, 4/29/15

See Joint Statement: **Corinthian Students Deserve Federal Loan Relief, Say 34 Organizations Including AFR**

SYSTEMIC RISK

SEC nods to industry in proposals on CEO pay, overseas swaps
Dave Michaels and Silla Brush, Bloomberg, 4/29/15
The U.S. Securities and Exchange Commission delivered a pair of rule proposals Wednesday that tilted toward the interests of Wall Street and corporate America as the regulator plodded through a backlog of mandates from the 2010 Dodd-Frank Act. The five-member SEC voted unanimously to propose a measure that would allow overseas banks to conduct some derivatives trades without having to comply with U.S. regulations…

Marcus Stanley, policy director for **Americans for Financial Reform**… questioned the SEC's [derivatives] proposal. "We have lots of doubts and questions here about the direction they're going," Stanley said. "If they're going to permit foreign subsidiaries of U.S. banks to sidestep the clearing and exchange trading requirements even for transactions conducted in the U.S., that's a problem."

Warren said to join Vitter in seeking to curb Fed crisis lending
Jeff Kearns Christopher Condon and Jeanna Smialek, Bloomberg, 4/28/15

Big Banks Use Loophole to Avoid Ban
Aruna Viswanatha, Wall St. Journal, 4/30/15
Big banks are using a little-known loophole to avoid triggering a Securities and Exchange Commission ban on selling certain lucrative products to clients in the wake of enforcement actions.

Small-Bank Regulatory Reform Stymied as Key Senators Can't Agree
Victoria McGrane, Wall St. Journal, 4/30/15
Calls to lighten the regulatory burden on small- and medium-size banks continue to mount, but disagreement among key lawmakers is complicating legislative prospects for the foreseeable future. Negotiations between staffs for Senate Banking Chairman Richard Shelby (R., Ala.) and the panel's top Democrat, Sen. Sherrod Brown of Ohio, stalled recently on a bipartisan regulatory package. The two sides haven't met in two weeks, according to aides.

Regulators Sound Alarm on High-Frequency Trading Firms
Andrew Ackerman, Wall St. Journal, 4/30/15

Fed's Tarullo Seeks Simpler Capital Rules for Small Banks
Victoria McGrane, WSJ, 4/30/15

Sen. Shelby Presses Democrats on Bill Aiding Smaller Banks
Victoria McGrane and Ryan Tracy, WSJ, 4/29/15

THE 2016 CAMPAIGN & OTHER TOPICS

The Virtual Candidate
Ryan Lizza, The New Yorker, May 2015 issue
Warren told me recently that the most dramatic policy fight of her life was one in which Bill and Hillary Clinton were intimately involved. She recalls it as the "ten-year war." Between 1995 and 2005, Warren, a professor who had established herself as one of the country's foremost experts on bankruptcy law, managed to turn an arcane issue of financial regulation into a major political issue.

Bernie Sanders on the Issues
Gerry Mullany, NY Times, 4/30/15
He has proposed breaking up the nation's largest banks, saying the six biggest ones wield too much control over the economy. He has also proposed barring banks' chief executives from serving on the Federal Reserve's 12 regional boards of directors, saying their membership on those boards poses a conflict of interest and undermines regulation of the financial services industry.

How Hillary Clinton is running against parts of her husband's legacy
Anne Gearan and Philip Rucker, Washington Post, 4/29/15
Another area of possible departure is on policies regulating major financial institutions, which in the wake of the financial crisis and the Occupy Wall Street movement have become an important cause of many Democrats. The Glass-Steagall regulatory law, for example, was repealed during the Clinton administration, and many progressives would like to see it restored.

"It's possible that she will part with the Clinton administration on its policies toward Wall Street," [Robert] Reich said.

Hillary Wants a Piece of the Elizabeth Warren Love Fest
Patrick Caldwell, Mother Jones, 4/24/15

Every Tax Needs A Victim
Edgar Wilson, OpEd News, 4/29/15