AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
OCTOBER 11 – 17, 2014

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CONSUMER FINANCE & CFPB

Obama Signs Order to Tighten Security for Federal Credit Cards
Sarah N. Lynch & Steve Holland, Reuters, 10/17/14
The order, which Obama signed before a lively, packed crowd of regulators at the Consumer Financial Protection Bureau, will add microchips and PIN numbers to government credit cards and debit cards starting in January.

The president also announced that several major companies will take steps to make their own systems more secure and offer more customer protections.

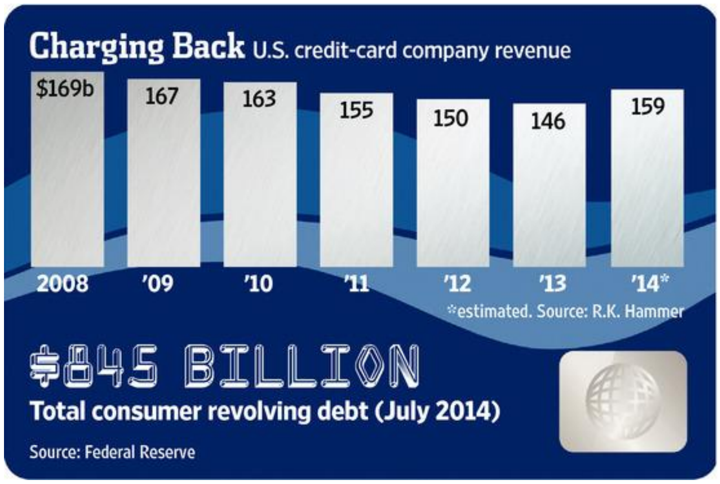
Prepared Remarks of CFPB Director Richard Cordray at Event with President Obama
CFPB, 10/17/14

Why Didn't Chase Tell Customers About Breach, Before It Told Investors?
Ed Mierzwinski, US PIRG, 10/7/14
News stories indicate that while JP Morgan Chase, the nation's biggest bank, informed investors of the recent breach of up to 83 million customer records, it didn't affirmatively reach out to warn actual customers. Worse, it doesn't plan to do so either. That's how the big banks roll, but it isn't good for consumer confidence.

The mega-bank claims that federal standards for breach notification, which purportedly require a threat to certain account-related information, weren't met by the "mere" breach of names, addresses, phone numbers and email addresses. Top gun state consumer officials, including Illinois Attorney General Lisa Madigan, Connecticut AG George Jepsen and New York Department of Financial Services Superintendent Ben Lawsky are investigating to see whether there's more to the story and whether the failure to notify violated state laws.

JPMorgan Breach Raises Alarm About Safety of Financial System
Danielle Douglas-Gabriel, Washington Post, 10/6/14
The hackers who orchestrated the massive cyberattacks on JPMorgan Chase this summer appeared to target far more than mere consumer data, sparking concern among government and industry officials of whether the ultimate aim was to disrupt Wall Street itself, people familiar with the investigation of the incident said…

In the case of JPMorgan, hackers got access to a massive number of accounts — 83 million households and businesses. But security experts and officials are more concerned that the attackers lingered in the system and returned at least five times to see how far they could penetrate the financial giant's internal networks, which are generally thought to be among the most secure in corporate America, said people with knowledge of the attack who were not authorized to speak publicly.



Credit-Card Issuers Are Charging Higher
Robin Sidel, Wall St. Journal, 10/12/14
The U.S. credit-card industry has found its sweet spot: a combination of moderate economic growth, low interest rates and consumers who have struck a balance between spending more and paying their bills on time.

The trends are expected to drive profits to postrecession highs at industry giantsAmerican Express Co. and Capital One Financial Corp. this year and bolster the bottom line at banks with big card units, including J.P. Morgan Chase & Co.

"The current state of the industry is very, very healthy," Eileen Serra, who runs J.P. Morgan's credit-card business, said in an interview.

Wells Fargo Charges Into Cards
Emily Glazer & Robin Sidel, Wall St. Journal, 10/12/14

M&T Bank Fined for Touting Free Checking That Wasn't Really Free
Gregory Mott, Bloomberg, 10/10/14
The Consumer Financial Protection Bureau found that Buffalo, New York-based M&T lured consumers with promises of "no strings attached" checking without disclosing key eligibility requirements, the agency said today in a statement. Customers who failed to meet the requirements were switched to accounts with fees, the consumer bureau said. In addition to the refunds for approximately 59,000 consumers who ended up paying fees, the bank will pay a $200,000 fine, according to the agency's statement.

"Tens of thousands of consumers ended up paying for a product they had thought was free," Richard Cordray, the consumer bureau's director, said in the statement. "This is an important reminder to all banks and credit unions that they cannot misstate to consumers whether a financial product or service is free."

'Operation Choke Point' Hits the Mark
Editorial, NY Times, 10/10/14
Payday lenders and their friends in Congress are trying to intimidate the Justice Department and federal regulators into abandoning an important strategy designed to protect depositors from unauthorized withdrawals from their bank accounts.

Opponent Criticizes Andy Barr for Opposing Efforts to Crackdown on Online Payday Lenders
John Cheves, Lexington (Ky.) Herald, 10/17/14
"My beef on this issue is with Congressman Barr standing up for the payday lenders and not lower-income families in Kentucky who need access to financial services," Elisabeth Jensen, Barr's Democratic challenger in the Nov. 4 election, said this week.

Barr's claim that businesses such as coal operators and gun stores have been swept up in Operation Choke Point is unsupported by facts, the crackdown's supporters say… "The people who are most upset here are payday lenders, who would like to be able to continue collecting from the bank accounts of their borrowers even when their loans are not legal in the states where the borrowers live," said Jim Lardner, spokesman for **Americans for Financial Reform**, which opposes the End Operation Choke Point Act.

"But payday lenders also know they are not very sympathetic to the public," Lardner said. "So it's easier for them and for their defenders in Congress to say that a bunch of other industries are being targeted, too. It just doesn't happen to be true."

Duchess Pleads With Country to Support Credit Unions Instead of Using Payday Lending Industry
Rebecca English, Daily Mail, 10/15/14
The Duchess of Cornwall will today issue an impassioned plea to the nation to support credit unions as an alternative to the payday loan industry. Camilla, who herself uses a local banking co-operative, is expected to tell industry leaders: "Credit unions can change the way we talk and think about savings and loans. They can encourage those who have the means to save and bring in from the cold those vulnerable people who struggle to qualify for loans. The simple fact being that if more of us support them by opening savings accounts, they will be able to offer more loans to those who really need them."

The Payday Loan Party Is Finally Over - Now It's Time to Look Back And Ask 'What Were We Thinking?'
Ed Monk, Daily Mail, 10/10/14

Prepaid Debit Cards Said to Face Rules on Overdrafts, Disclosure
Carter Dougherty and Jesse Hamilton, Bloomberg, 10/16/14

Community Banks Could Be Your Best Lending Option
Sandy Gadow, Washington Post, 10/1/14
The QM rules established a lower debt-to-income ratio — the amount of monthly income borrowers must have over and above debt payments has risen to 43 percent from 38

percent – making it much more difficult for first-time buyers as well as anyone with a non-standard financial profile to qualify for a loan. That means a buyer would need either less debt or more income than before.

But local community banks are in a better position to set their own guidelines, which might make them a better alternative for borrowers who don't qualify for loans with mainstream banks.

Bank Clients Might Be Unfairly Denied Accounts

Ann Carrns, NY Times, 10/11/14

Most banks use special consumer data services, like ChexSystems, to evaluate applicants for checking accounts. The services track whether you have had an account closed for bouncing checks or failing to cover overdrafts or for fraudulent activity. When you apply for a new account, the bank checks your file or a score based on the file. If the bank doesn't like what it finds, you don't get the account.

The reports function as a sort of blacklist, in that it is very difficult for someone to open a mainstream bank account if their report contains negative information…

"We are concerned about whether this information contains too many imperfections and inconsistencies," said Richard Cordray, director of the Consumer Financial Protection Bureau, in prepared remarks at a forum on Wednesday in Washington, on checking account access.

Beware Paying College Fees With Credit Cards

Susan Tompor, USA Today, 10/12/14

ZestFinance Issues Small, High-rate Loans, Uses Big Data to Weed Out Deadbeats

John Lippert, Washington Post, 10/11/14

In Lending Circles, a Roundabout Way to Higher Credit Scores

Patricia Cohen, NY Times, 10/10/14

Big Banks Have License to Steal -- You Can Help Stop It

Robert Weissman, The Hill, 10/13/14

Buried in the service terms of all kinds of financial products -- as well as everything from cellphones to cable provision, software downloads to rental cars -- are clauses that bar individuals from suing companies that wrong them. These provisions require individuals to seek redress for wrongdoing not in courts of law -- with the right to have their case heard by a jury, guarantees of due process, and the ability to engage in robust discovery -- but in company-selected arbitration schemes.

Perhaps the worst elements of these contracts are prohibitions on class actions -- preventing consumers from banding together over shared wrongs. For low-dollar grievances, this effectively means there is no remedy available.

DERIVATIVES, COMMODITIES & THE CFTC

CFTC's Massad Sees 'Progress' on Global Derivatives Rules

Andrew Ackerman, Wall St. Journal, 10/16/14

European policy makers are far behind their U.S. counterparts in setting up postcrisis regulations for the multitrillion-dollar derivatives industry but Timothy Massad, the top U.S. overseer of swaps, said a coordinated system will ultimately emerge…

“There will inevitably be differences, but I regard this as a glass hall full, not half empty,” Mr. Massad said at a hedge-fund conference sponsored by the Managed Funds Association in New York. “We are making progress, but it will take time.”

ENFORCEMENT

Company Accused of Committing Fraud Will Pay Just $1 Million to Settle — Without Admitting Anything

Alan Pyke, Think Progress, 10/17/14

Athena Capital Research created a computer program that abused the way Nasdaq calculates the closing price of stocks and resolves outstanding buy and sell orders on each trading day, according to the SEC, in order to manipulate the market and earn fraudulent profits. Despite holding just $40 million in assets in the fund that was allegedly using the fraudulent market-rigging tactics, Athena “dominated the market in the last few seconds of a trading day” thanks to a program it dubbed “Gravy.”

The settlement documents do not say how much Athena netted from the alleged violations or provide any information about how the parties arrived at the one million dollar figure. The agency declined to comment on the sum, on its policies about settlements in cases like this one, and on the decision to allow Athena to pay without conceding that it had broken the rules or even agreeing that the SEC’s version of events is accurate.

How Tough Will Tom Perez Be on Wall Street? This Case Could Tell.

Danielle Douglas-Gabriel, 10/10/14

As his name floats at the top of the list to replace Attorney General Eric Holder, Labor Secretary Thomas Perez is facing a critical test of his stance on Wall Street.

The popular Democrat must decide whether Swiss banking giant Credit Suisse can continue to handle the retirement funds of millions of police officers, firefighters and teachers after pleading guilty to helping wealthy Americans evade taxes.

If he gives the bank the go-ahead, he risks alienating congressional Democrats who are up in arms over the prospect of the bank going about its business as usual after admitting to criminal misconduct. The move could also be perceived by anti-Wall Street critics as a sign that Perez would continue the policies of Holder, which they view as inadequate.

SEC Charges High-frequency Trading Firm for Orders at End of the Day

Steve Goldstein, Fox News, 10/16/14

FEDERAL RESERVE

Inside the New York Federal Reserve

BBC, 10/7/14

“There are really two elements to this story,” Marcus Stanley of **Americans for Finance Reform** said. “One is the internal Federal Reserve self-evaluation… that did say that Federal

Reserve supervisors tended to be overly deferential to the banks that they supervise [and] tended to be reluctant to take action and reluctant to raise strong criticisms. And then… you get these tapes made by Carmen Segarra which appear to show this exact sort of deferential behavior."

INVESTOR RIGHTS AND THE SEC

SEC Official Says Too Many Regulators Are 'Piling On'
Suzi Ring, Bloomberg, 10/15/14
When too many U.S. authorities conduct overlapping investigations it can disrupt regulatory probes and lead to unnecessary lawsuits, a Securities and Exchange Commission official said.

"A particular firm could be sued by seven different regulators," Scott Friestad, associate director of the SEC's enforcement division, said today at a conference in London. "There's a risk of all piling on and there needs to be care that it makes sense."

MORTGAGES AND HOUSING

Americans Face Post-Foreclosure Hell as Wages Garnished, Assets Seized
Michelle Conlin, Reuters, 10/14/14
Many thousands of Americans who lost their homes in the housing bust, but have since begun to rebuild their finances, are suddenly facing a new foreclosure nightmare: debt collectors are chasing them down for the money they still owe by freezing their bank accounts, garnishing their wages and seizing their assets.

By now, banks have usually sold the houses. But the proceeds of those sales were often not enough to cover the amount of the loan, plus penalties, legal bills and fees. The two big government-controlled housing finance companies, Fannie Mae and Freddie Mac, as well as other mortgage players, are increasingly pressing borrowers to pay whatever they still owe on mortgages they defaulted on years ago.

Using a legal tool known as a "deficiency judgment," lenders can ensure that borrowers are haunted by these zombie-like debts for years, and sometimes decades, to come.

Dodd-Frank Diversity Standards Need Real Teeth
Orson Aguilar & Tunua Thrash-Ntuk, American Banker, 10/8/14
Congress passed the Dodd-Frank Act in an effort to remedy critical failures and implicit bias in our financial system. A key part of that effort is now approaching a crossroads. If all goes well, we could establish standards that lead to a more vibrant, diverse and responsive banking sector. The alternative is that yet another set of well-meaning reforms will wind up as little more than feel-good rhetoric.

Dodd-Frank Mortgage Rule Nears the Finish Line
Joseph Lawler, Washington Examiner, 10/15/14
Regulators will meet next week to vote on the final version of a mortgage rule that is a much-delayed but important provision of the 2010 Dodd-Frank financial reform law. The Federal Reserve Board of Governors announced Wednesday that it would meet Oct. 22 to vote on the final version of a rule initially proposed in 2011 that would require lenders to maintain a 5-

percent stake in loans that are packaged into securities and sold to investors. The rule would exempt certain mortgages that meet safety requirements, known as qualified residential mortgages.

Foreclosure Filings Increase First Time In 3 Years
Brena Swanson, Housing Wire, 10/16/14

New National Data on Foreclosures and Distressed Sales by County
New York Federal Reserve, Community Credit Profiles, October 2014

Like Ben Bernanke, Even Financially Secure Retirees Sometimes Can't Get Loans
Kenneth R. Harney, Washington Post, 10/10/14

Mortgages for Physicians
Lisa Prevost, New York Times, 10/9/14
Heavy student loan debt is often cited as a barrier to homeownership for 25- to 34-year-olds. But many mortgage lenders are eager to extend credit to one category of debt-burdened graduates: those coming out of medical school.

Special mortgage products for physicians are designed to meet the needs of doctors just starting out. New doctors typically have heavy student loan debt and very little money saved, given the modest salaries typically paid to residents, said Josh Mettle, who runs the physician home loan division of Citywide Home Loans, which is based in Salt Lake City. "They almost always have a negative net worth when they begin attending," he said.

Eighty-four percent of graduates from medical school this year reported having student loan debt, and the median amount was $180,000, according to the Association of American Medical Colleges.

How Mortgage Rates Affect Car Purchases, Credit Card Debt And Jobs
Dina El Boghdady, Washington Post, 10/9/14

POLITICAL INFLUENCE OF WALL STREET

Wall St. Pumps More Money to Republicans, as Ideology Trumps Issues
Gabriel Debenedetti & Emily Stephenson, Reuters, 10/13/14
[T]he upswing in donations reflects an ideological shift, as right-leaning hedge fund managers and private equity executives increasingly throw big money into key national races rather than focusing on specific issues, industry insiders and campaign finance experts said. Nearly 62 percent of disclosed financial sector donations in congressional races have gone to Republicans or Republican-aligned groups in this election cycle, compared with 53 percent in 2010, the last midterm election cycle, according to the Center for Responsive Politics…

STUDENT LOANS

Consumer Regulator Vows Action as Student Loan Borrowers Suffer
Shahien Nasiripour, Huffington Post, 10/16/14
In October 2012, the federal agency charged with protecting households from predatory financial companies issued a report lamenting the lack of opportunities for distressed borrowers to rework their troubled private student loans…

On Thursday, some two years after first alerting the public about the problem, the CFPB finally suggested it would do something.

In a new report laying bare the runarounds and hopelessness distressed student loan borrowers are treated to by lenders and loan servicers, a top CFPB official said it was time for the agency to examine new rules to better police the historically under-regulated student loan market. "That's something that we are going to take a very close look at ... and we are going to weigh every option to see that these problems get corrected," Rohit Chopra, CFPB student loan ombudsman, said on a call with reporters.

Private Student Loan Borrowers Lodge More Complaints About Default Risk: CFPB
Catherine Dunn, Investor Business Times, 10/16/14
Private student loan borrowers are increasingly telling regulators that they're at risk of defaulting on unaffordable payments but that lenders and loan servicers aren't budging. In a report released Thursday, the Consumer Financial Protection Bureau, or CFPB, says private student loan complaints are up 38 percent from last year, to 5,300.

CFPB Report Finds Distressed Private Student Loan Borrowers Driven Into Default
Press Release, CFPB, 10/16/14

Are Student Loan Borrowers Being 'Driven Into Default'?
Jonnelle Marte, Washington Post, 10/16/14

Lenders Challenge Premise of CFPB's Student Loan Findings
Rachel Witkowski, American Banker, 10/16/14
[L]enders and industry representatives are pushing back against the findings, arguing that the CFPB's view doesn't match what they see in the market. They argue that private student loans make up a small fraction of the overall $1 trillion student debt market — and an even smaller portion of the defaults, suggesting many complaints are about federal, not private, loans.

U.S. Senate Report Questions For-Profit Schools' Approach to Vets On GI Bill
Mark Brunswick, Minneapolis Star-Tribune, 10/13/14
A report released recently casts some pretty unfavorable light on the for-profit college and university industry and its continued pursuit of student veterans using their GI Bill benefits.

The report from the U.S. Senate's Health, Education, Labor, and Pensions Committee, "Is the New G.I. Bill Working?" says bluntly, "The fact that so many veterans are continuing to enroll in high-cost, for-profit colleges with questionable outcomes raises questions regarding whether aggressive deceptive and misleading marketing efforts are continuing."

Bill Seeks Oversight of Private Colleges
Mike Bush, Albuquerque Journal, 10/10/14

[College Loans Crowding Out Other Debts]
Michelle Singletarry, Washington Post, 10/9/14

SYSTEMIC RISK

Are Regulators About to Let Another Bank Get Too Big to Fail?
David Dayen, Fiscal Times, 10/10/14
CIT, mostly a small-business and commercial real estate lender, was on the verge of collapse in 2009 when it got over-extended with bad mortgage lending and credit markets tightened. The bank received $2.3 billion in TARP funds, but the government rejected a bigger lifeline, and soon after, the bank fell into bankruptcy, the fifth largest in U.S. history.

The bankruptcy wiped out preferred stock from the TARP deal, and CIT never repaid the government. But it emerged from bankruptcy with a new CEO, John Thain, the notorious former head of Merrill Lynch who was ousted during the crisis for, among other things, a million-dollar re-decoration of his office, complete with a $35,000 commode.

CIT… now wants to buy OneWest, itself a crisis-era construct. OneWest rose from the ashes of IndyMac, the Los Angeles-area savings and loan, which spectacularly failed in July 2008 under the weight of too many risky mortgages. A consortium of Wall Street tycoons, led by hedge funders George Soros and John Paulson and several former Goldman Sachs executives, bought IndyMac's assets from the FDIC for $1.55 billion in 2009. The consortium stands to double their money in the merger.

To this day, the public doesn't know exactly how much public money OneWest has received under the loss-sharing agreement. This rankles Kevin Stein, associate director of the California Reinvestment Coalition (CRC), which comprises over 300 community organizations across the state. Stein said he asked OneWest executives how much money they've received in the loss-sharing agreement, and the bank wouldn't tell him. CRC then filed a Freedom of Information Act request with the FDIC, seeking information on the payouts to OneWest. Initially the FDIC responded by saying that the deal was no longer in the public interest. Stein was incredulous. "Things done during the financial crisis are not a matter of public interest?" CRC continues to fight for the information.

Too-Big-to-Fail Banks Face Up to $870 Billion Capital Gap
John Glover and Jim Brunsden, Bloomberg 10/14/14
Too big to fail is likely to prove a costly epithet for the world's biggest banks as regulators demand they increase holdings of debt securities to cover losses should they collapse. The shortfall facing lenders from JPMorgan Chase & Co. (JPM) to HSBC Holdings Plc could be as much as $870 billion, according to estimates from AllianceBernstein Ltd., or as little as $237 billion forecast by Barclays Plc.

The range is so wide because proposals from the Basel-based Financial Stability Board outline various possibilities for the amount lenders need to have available as a portion of risk-weighted assets. With those holdings in excess of $21 trillion at the lenders most directly affected, small changes to assumptions translate into big numbers.

"The direction is clear and it is clear that we are talking about huge amounts," said Emil Petrov, who heads the capital solutions group at Nomura International Plc in London. "What is less clear is how we get there. Regulatory timelines will stretch far into the future but how quickly will the market demand full compliance?"

Regulation AB II: A New World for Securitizations
Charles A. Sweet, Bloomberg BNA, 10/9/14

Regulators Launch Crackdown on 'Shadow' Banking Sector
BBC, 10/14/14

OTHER TOPICS

Elizabeth Warren: Obama 'Protected Wall Street' Over Middle Class Families
Peter Schroeder, The Hill, 10/12/14
In an **interview** with *Salon*, Warren said the administration repeatedly favored Wall Street when it came time to draft rules and punish wrongdoers. "He picked his economic team and when the going got tough, his economic team picked Wall Street," she said. "They protected Wall Street. Not families who were losing their homes. Not people who lost their jobs. ... And it happened over and over and over…"

At the same time, Warren did credit the president for helping steer the Consumer Financial Protection Bureau into reality despite harsh GOP opposition. Warren came up with the idea for an agency devoted to consumer issues, and Obama tapped her to first build it.

Interview With Elizabeth Warren
Thomas Frank, Salon, 10/12/14

Citi Chairman O'Neill: Too Many Banking Regulators
Christina Rexrode & Victoria McGrane, Wall St. Journal, 10/13/14

Conservative Group Projects Huge Dodd-Frank Price Tag
Kevin Cirilli, The Hill, 10/13/14