AFR Americans for Financial Reform

This Week in Wall Street Reform | August 16–21, 2015

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CONSUMER FINANCE & THE CFPB

Leader in payday loans makes his presence felt at Minnesota Capitol
Ricardo Lopez, Minneapolis Star-Tribune, 8/10
Brad Rixmann, chief executive of Burnsville-based Payday America, is a giant on the payday lending scene, operating the largest such business in the state. He also is a major player in Minnesota politics, having doled out nearly $550,000 in state campaign donations over the last decade.

As Rixmann's contributions have grown, so has his business, aided by state law that allows him to charge triple-digit interest rates on loans that can go up to $1,000. His customers pay an average of 277 percent interest, sometimes borrowing repeatedly against their next paycheck. Rixmann, 50, first became familiar to Minnesotans as the face of Pawn America, a chain of pawn stores he started in the early 1990s. He has starred in commercials that urge viewers to bring in even broken necklaces and solo earrings for cash trade. In the early 2000s, he expanded into payday lending with Payday America.

Recovering payday loan borrower gives thanks for Exodus Lending
Neal St. Anthony, Minneapolis Star-Tribune, 8/17

Minnesota legislators to try again on payday loan reforms
Ricardo Lopez, Minneapolis Star-Tribune, 8/16

Small payday lenders appeal to lawmakers for help with CFPB
Lydia Wheeler, The Hill, 8/17
Small payday lenders are asking lawmakers to force the Consumer Financial Protection Bureau (CFPB) to evaluate how the agency's plan to regulate the payday lending industry will impact small businesses. In a letter to Sen. David Vitter (R-La.) and Rep. Steve Chabot (R-Ohio), chairmen of the respective House and Senate committees on small business, the seven small payday lenders chosen to review the CFPB's regulatory framework in March said they had difficulty engaging constructively with the agency.

Army Officials to Junior Enlisted: Borrow From Us, Not Payday Lenders
Amy Bushatz, Military.com, 8/19

Oregon Sues Car Title Loan Scam
Ilene Aleshire, The Register-Guard, 8/20

Campaign to Rollback Consumer Protection in Auto Lending
Philadelphia Tribune, 8/17
Just last week, a U.S. House committee moved a bill that will stop the Consumer Financial Protection Bureau (CFPB) from taking action against discriminatory practices in auto lending. This legislative development is an example of how Washington often responds to industry and its lobbyists.

Fortunately, just as a coalition of interests pushed for and won passage of reforms that created CFPB, several consumer and civil rights groups are now simultaneously pursuing preservation of the Bureau's pro-consumer actions. A late July letter sent to the entire 435-member House of Representatives on behalf of the NAACP, the National Council of La Raza. **Americans for Financial Reform**, the Center for Responsible Lending (CRL) and other organizations, reminded lawmakers of the history and scale of discriminatory auto lending finance.

Regulators Sue Pension Advance Companies Over Deceptive Marketing Of Loans

Ashlee Kieler, Consumerist, 8/20

Five months after the Consumer Financial Protection Bureau warned that pension advance loans could be the new payday loan – leaving consumers who are already struggling to make ends meet in dire financial situations – the agency announced it had teamed up with the state of New York to shut down two companies that allegedly deceived retirees about the risks and costs associated with the loan products.

CFPB's Data Collection Critics Are Veering 'Into Paranoia'

Adam Levitin, Payments Source, 8/20

There's good reason to be wary of government data collection. Data can allow the government to abuse citizens' privacy, and data is also vulnerable to theft by cybercriminals.

But not all government data collection is problematic. Some is actually good, and the facts about particular government data collection programs matter. Unfortunately, the critics of the Consumer Financial Protection Bureau's data collection haven't bothered to learn the basic facts about the data the agency collects before veering off into black helicopter paranoia.

Is the 'small victories' debt strategy a real win?

Kelli B. Grant, CNBC, 8/17

Will Your Facebook Friends Make You a Credit Risk?

Matt Vasilogambros, National Journal, 8/7

Facebook was just approved for a new patent this week that might be problematic for people seeking loans. Especially people of color. The social network acquired technologies that may be used by lenders to determine if potential borrowers are at risk of developing poor credit. CNN Money reports that lenders would have access to the credit scores of your Facebook friends. Judging by their credit scores, a loan could be rejected. It's guilt by association.

DERIVATIVES, COMMODITIES & THE CFTC

U.S. banks moved billions of dollars in trades beyond Washington's reach

Charles Levinson, Reuters, 8/21/15

This spring, traders and analysts working deep in the global swaps markets began picking up peculiar readings: Hundreds of billions of dollars of trades by U.S. banks had seemingly vanished… The missing transactions reflected an effort by some of the largest U.S. banks — including Goldman Sachs, JP Morgan Chase, Citigroup, Bank of America, and Morgan Stanley — to get around new regulations on derivatives enacted in the wake of the financial crisis, say current and former financial regulators.

The trades hadn't really disappeared. Instead, the major banks had tweaked a few key words in swaps contracts and shifted some other trades to affiliates in London, where regulations are far more lenient. Those affiliates remain largely outside the jurisdiction of U.S. regulators, thanks to a loophole in swaps rules that banks successfully won from the Commodity Futures Trading Commission in 2013.

Financial Reformers Unhappy With CFTC

Zachary Warmbrodt, Politico Morning Money, 8/21/15

Americans for Financial Reform is calling out last week's decision by CFTC Chairman Tim Massad to punt a controversial regulation for international swaps until September 2016. The group, which advocates for tougher bank rules, said the CFTC and the Securities and Exchange Commission have shown a 'disturbing willingness to permit major global banks to avoid the full scope of Dodd-Frank derivatives regulations based on paper distinctions that do not reflect true risks to major U.S. banks and ultimately the U.S. economy and the U.S. taxpayer.' The regulation at issue, first drafted without a commission vote under former CFTC Chairman Gary Gensler, said that foreign banking organizations that use United States-based personnel to arrange or negotiate swaps with non-U.S. counterparties would have to comply with new rules.

Democrat Mark Wetjen Stepping Down as CFTC Commissioner
Ryan Tracy, Wall St. Journal, 8/14

DODD-FRANK

Is Dodd-Frank Really Killing Community Banks?
Victoria Finkle, American Banker, 8/18
The Dodd-Frank Act has become the catchall for a litany of alleged harms, not the least of which is the decline of small banks. Sen. Marco Rubio, R-Fla., a presidential contender, charged earlier this month that the reform law is "eviscerating" the community banking industry — an all-too-common refrain, even if his data proved to be overstating the case.

Yet while it's clear that the banking industry continues to shrink, how big a role Dodd-Frank is playing in the decline is debatable.

ENFORCEMENT

Citi Settles SEC Compliance Charges for $15 Million
Lisa Beilfuss, Wall St. Journal, 8/19
Citigroup Inc. on Wednesday agreed to pay $15 million to settle charges of compliance and surveillance failures, according to the Securities & Exchange Commission. An investigation found the bank didn't review thousands of trades executed by several of its trading desks during a 10-year period. While personnel used electronically generated reports to review trades on a daily basis, technological errors caused the reports to omit several sources of information about thousands of relevant trades, according to the regulator. The SEC also said Citi inadvertently routed about 467,000 principal transactions on behalf of advisory clients to an affiliated market maker because its policies and procedures to avoid such occurrences weren't reasonably designed or implemented.

Target to Settle Claims Over Data Breach
Robin Sidel, Wall St. Journal, 8/17
Target Corp. agreed to reimburse thousands of financial institutions as much as $67 million for costs incurred from a massive 2013 data breach that damaged the retailer's reputation with shoppers and cut into sales.
The agreement, struck with Visa Inc. on behalf of banks and other firms that issue credit and debit cards, comes as the card industry and merchants are moving toward more secure cards that are aimed at stopping such attacks.
Target also said it is working with MasterCard Inc. on a similar deal for its card issuers.

Promontory Financial Settles With New York Regulator
Ben Protess & Jessica Silver-Greenberg, NY Times, 8/18
The deal, which caps a two-year investigation that cast a pall over the firm, coalesced over the last two days after Mr. Ludwig agreed to revisit a narrow admission of what went wrong in the firm's work for the British bankStandard Chartered, people briefed on the matter said. Mr. Ludwig, these people said, traveled from Washington to New York on Monday to negotiate the deal in person.

Why Iceland Is the Wrong Model for Ending 'Too Big to Jail'
John Heltman, American Banker, 8/20

HEDGE FUNDS AND PRIVATE EQUITY FUNDS

Stop universities from hoarding money

Victor Fleischer, NY Times, 8/19

WHO do you think received more cash from Yale's endowment last year: Yale students, or the private equity fund managers hired to invest the university's money?

It's not even close. Last year, Yale paid about $480 million to private equity fund managers as compensation — about $137 million in annual management fees, and another $343 million in performance fees, also known as carried interest — to manage about $8 billion, one-third of Yale's endowment. In contrast, of the $1 billion the endowment contributed to the university's operating budget, only $170 million was earmarked for tuition assistance, fellowships and prizes. Private equity fund managers also received more than students at four other endowments I researched: Harvard, the University of Texas, Stanford and Princeton.

Hedge Fund Industry Overstates Performance Claims: New Research

Owen Davis, International Business Times, 8/19

A growing body of evidence suggests hedge funds don't live up to the hype -- a finding especially important for institutional investors, including the pension funds that ensure the retirements of millions of teachers, firefighters and other public employees. Now, two studies reveal the chief marketing strategies employed by the hedge fund industry substantially overstate returns and benefits.

The first paper attempts, in part, to estimate hedge funds' actual returns after correcting for certain biases that arise from the way hedge funds report their data. These biases, the authors write, "make hedge funds look misleadingly attractive."

From 1996 to 2014, major hedge fund tracking indexes reported an annual return of 12.6 percent. But when the researchers adjusted for reporting biases, returns came in at half that total: 6.3 percent.

INVESTOR PROTECTION AND THE SEC

SEC: Citigroup affiliates misled investors, will pay $180 million

Peter Schroeder, The Hill, 8.17

A pair of Citigroup affiliates have agreed to pay $180 million to hedge fund clients who saw their supposedly low-risk investments melt down during the financial crisis. The Securities and Exchange Commission (SEC) announced the settlement on Monday, which does not require the bank or the affiliates to admit to any wrongdoing. The funds will be paid out to harmed investors.

The regulator charged that, leading up to the financial crisis, Citigroup Global Markets and Citigroup Alternative Investments made "false and misleading" statements to investors about the safety of potential investments. The affiliates attracted thousands of investors and nearly $3 billion in capital for a pair of funds that were billed to be a low-risk opportunity, similar to a bond fund. However, the reality was that the funds were much riskier and ultimately collapsed during the financial crisis. The SEC claimed that employees "misleadingly minimized" those risks in selling the funds to investors, as employees continue to sell the fund as it began to crumble.

Rise of activist investing is felt at century-old firm

Michael Kranish, Boston Globe, 8/15

MORTGAGES & HOUSING

Watt's FHFA Bumps Up Fannie-Freddie Low-Income Housing Goal

Ian Katz, Bloomberg, 8/19

Mortgage lending to low-income families would increase slightly under a plan by Federal Housing Finance Agency Director Mel Watt, though not enough to satisfy some consumer groups that want to boost homeownership.

Mortgage purchases by Fannie Mae and Freddie Mac for low-income, single-family homes will be targeted at 24 percent of the companies' business through 2017, the FHFA said Wednesday. That's one percentage point higher than last year's level. Another goal, for the poorest families, was reduced to 6 percent, from 7 percent in 2014.

See statements by Center for Responsible Lending and National Community Reinvestment Coalition.

Principal Reduction and the GSEs

Laurie Goodman, Jim Parrott, and Jun Zhu, Urban Institute Report, August 2015

The Federal Housing Finance Agency is considering whether taxpayer-backed housing giants Fannie Mae and Freddie Mac will forgive mortgage debt for those still struggling with their house payments, an issue that has stirred controversy since they were taken over in 2008. Urban Institute's housing team finds that 'far fewer borrowers would likely benefit' from a program today than when it was first considered.

The Last Big Housing Finance Reform

Helen Fessenden, Richmond Federal Reserve Bank

A new report published by the Federal Reserve Bank of Richmond takes a look at what lessons could be learned the last time Congress tried to tackle the fate of Fannie and Freddie but ended up leaving 'much of the status quo intact.': ''The fundamental problem in 1992 was that it formalized the hybrid public-private model, which is destined to fail,' says economist Scott Frame of the Atlanta Fed, who worked with the Treasury Department on the 2008 GSE rescue. 'If you privatize the gains and socialize the losses, you will create excessive risk-taking incentives.''

POLITICAL INFLUENCE OF WALL STREET AND THE REVOLVING DOOR

Former Goldman Executive Is Chosen to Lead Dallas Fed

Binyamin Applebaum, NY Times, 8/17

The Federal Reserve Bank of Dallas on Monday chose for its new president Robert Steven Kaplan, a former Goldman Sachs executive. Mr. Kaplan, 58, was head of investment banking at Goldman Sachs until leaving in 2006 for a job as a management professor at Harvard Business School. He will succeed Richard Fisher, an outspoken president who left the Fed in March…

A coalition of community activists criticized what it described as a secretive selection process. The group described the result as one Wall Street insider replacing another, noting that Mr. Kaplan came from Goldman Sachs while Mr. Fisher has taken a job at Barclays. Mr. Kaplan, the group also said, serves on the board of Heidrick & Struggles, a search firm that was hired to find the replacement for Mr. Fisher. "Neither the process nor the result serves the public interest," Ady Barkan, director of the Center for Popular Democracy's Fed Up campaign, said in a statement. "The Fed should do much better."

Mega-Banks Back Burr

Zachary Warmbrodth, Politico Morning Money, 8/21/15

Three of the four U.S. banks with more than $1 trillion in assets are hitting limits on campaign contributions to Republican Sen. Richard Burr. Under campaign finance laws, multi-candidate PACs can only give campaigns $5,000 per election. In the case of Burr, a Wells Fargo PAC has given $10,000 to split between his primary and general races. A PAC for Bank of America, which calls North Carolina home, hit the $5,000 limit for Burr's general election as of July 31. A Citigroup PAC has maxed out contributions for his primary. Burr, who sits on the Senate finance and labor committees, had $3.8 million in cash on hand for his 2016 re-election campaign at the end of June.

Wells, the country's largest mortgage lender, is giving similar treatment to House Financial Services Committee senior members Ed Royce and Frank Lucas, who have each received $10,000 from the San Francisco-based bank this year. The latest round of monthly Federal Election Commission filings were due yesterday. Here's a handy chart on how much you can contribute during this election cycle.

Rubio, Kasich, Trump Top Banker Poll for President

Victoria Finkle, American Banker, 8/20

RETIREMENT SECURITY & FIDUCIARY DUTY RULE

TV Attack Ads Stoke Debate Over DOL Proposal

Financial Advisor, 8/17

In one ad, a couple dropping off their daughter at college worry about having to resort to talking "to a robot on the phone" for their financial advice as a result of the "new regulations they're pushing in Washington." In another spot, a small-business owner warns that as a result of the rule, his employees will have a hard time getting information about the 401(k) plan offered by his company, adding, "Washington: messing up our 401(k)." Both spots end with the words, "Tell Congress: Fix this now!"

Consumer advocates aren't impressed. Marcus Stanley, policy director for **Americans for Financial Reform**, one of the supporters of a tougher standard, tells the Journal the commercials perpetrate a falsehood, misleading investors to believe that if they can't get "deceptive advice" they can't get "advice at all."

Black Chamber comes out against Obama's financial adviser regs

Kevin Cirilli, The Hill, 8/19

The National Black Chamber of Commerce (NBCC) is coming out swinging against President Obama's "harmful" regulatory proposal for financial advisers. The administration argues that the new disclosure rules are needed for financial advisers to better protect consumers, who could be unaware that their financial adviser might be earning commissions off selling them financial advice — even if that advice isn't in the consumers' best interest.

STUDENT LOANS & FOR-PROFIT EDUCATION

Obama administration plans to overhaul rules on student debt forgiveness

Danielle Douglas-Gabriel, Washington Post, 8/19

Students can apply to have their federal loans discharged if they can prove a school used illegal or deceptive tactics in violation of state law to persuade them to borrow money for college. But critics say the process, known as a "defense to repayment claim," is complicated and difficult to navigate. And the demise of Corinthian, with thousands of former students muddling their way through the claims process, has shown that the system needs fixing.

Starting next month, the Education Department will begin holding field hearings and convene an advisory panel to develop regulations to streamline the loan forgiveness process. The department also wants to strengthen provisions to hold colleges accountable for the discharged loans, limiting the cost to taxpayers.

Higher-Ed Hustle: For-profit colleges cast shadow over presidential race

Michael Vasquez and Patricia Mazze, Miami Herald, 8/15

Hillary Clinton's presidential campaign spent the past week touting her new plan to make college affordable — in part by cracking down on "predatory" colleges, and forcing schools to "spend federal dollars on things that benefit students, like teaching and research, not marketing campaigns."

What Clinton didn't mention: Her husband, Bill, has been paid more than $16 million as "honorary chancellor" of Laureate Education, the world's largest for-profit college company. The firm is being sued by several online graduate students for allegedly dishonest practices, and a 2012 U.S Senate report found that more than half of Laureate's online Walden University revenue went to marketing and profit.

Feds Search for Corinthian Funds

Michael Stratford, Inside Higher Ed, 8/20

New Debt Relief Rules Coming

Michael Stratford, Inside Higher Ed, 8/20

U.S. Clamps Down on College Fraud as Students Clamor for Relief

Janet Lorin, Bloomberg, 8/19

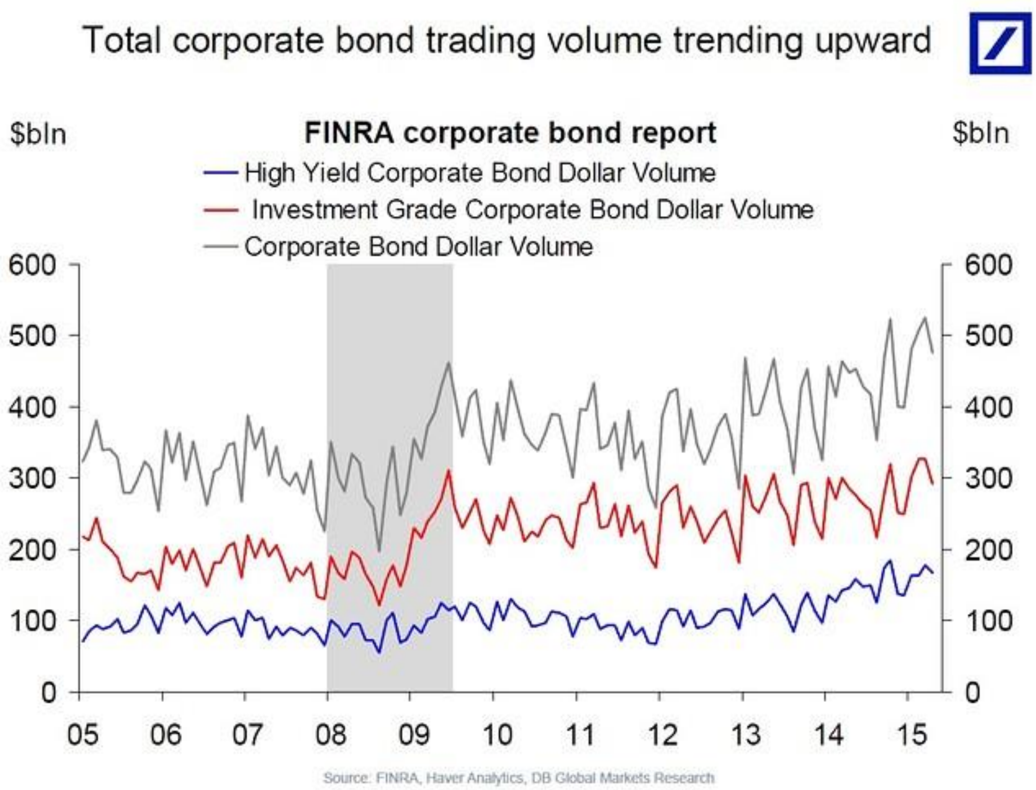
[How to fix the college debt crisis (by St. Anselm College President)](#)
Steven R. DiSalvo, Boston Globe, 8/17

[Servicemembers at Failing For-Profit Schools Not Protected by Veterans Affairs](#)
Ashlee Kieler, Consumerist, 8/18

[For-profit colleges are using the GI Bill to make money off veterans](#)
Chris Kirkham and Alan Zarembo, Los Angeles Times, 8/18
Many of the nation's largest for-profit college chains have seen enrollments plummet amid investigations into questionable job placement rates and deceptive marketing practices. One crucial source of revenue, however, has remained a constant: military veterans.

For-profit colleges have collected $8.2 billion from the latest GI Bill since it went into effect in 2009, according to a Los Angeles Times analysis of government data. Those colleges enroll only 8% of all U.S. students but 30% of the 1.4 million veterans who have used the most recent version of the GI Bill.

SYSTEMIC RISK



[Did the Volcker rule really harm the bond market?](#)
Elle Ismailidou, MarketWatch, 8/18
“Bonds seem to trade in smaller transaction sizes than they once did… [T]he size of large trades of investment-grade corporate bonds, the so-called block trades, declined from more than $25 million in 2006 to about $15 million in 2013, according to a [research note by the Bank for International Settlements](#) released in March 2015.

This means that moving large amounts of corporate bonds has become more difficult and more expensive, according to [a NY Fed] research note. That is perceived as a sign of illiquidity and evokes fears of what would happen in the event of heavy trading…

A better indication, according to a presentation by Marcus Stanley, policy director of **Americans for Financial Reform**, would be total trading in the corporate market, which in fact has slightly increased since the financial crisis.”

OTHER TOPICS

Regulation deadlines created by Congress are meaningless, report says

Colby Itkowitz, Washington Post, 8/17

The Clinton, Bush and Obama administrations share at least this in common: Their federal agencies largely ignored deadlines set by Congress. And Congress can't really do anything about it. A new study by R Street, a D.C.-based libertarian think tank, analyzed every regulatory deadline mandated in law by Congress in the last 20 years. Agencies blew through 1,400 required deadlines of the 2,684 that had specific dates attached, according to the research. That's a less than 50 percent success rate. Why doesn't Congress enforce its own deadlines? For one, no one is really checking. And, although it's the law, there's not much Congress can do beside sending strongly-worded letters and berating officials at public hearings.

Are Wall Street Interns the Latest Regulatory Target?

Daniel Huang and Emily Glazer, Wall St. Journal, 8/18

It's official: Certain interns may be dangerous to a bank's health. Bank of New York Mellon Corp. on Tuesday agreed to pay $14.8 million to settle civil charges that it violated foreign-bribery laws by giving internships to relatives of officials from a Middle Eastern sovereign-wealth fund. The pact, in which the firm didn't admit or deny wrongdoing, is one of the first enforcement actions brought by the Securities and Exchange Commission against a financial institution under the Foreign Corrupt Practices Act, which bans U.S. companies from giving anything of value to a foreign official to gain an unfair advantage or business favors. With the settlement, the SEC essentially establishes that "valuable student internships" are covered under the law, according to the agency—though such a view has yet to be tested in court.

This bank just hiked its minimum wage to $15

Ahiza Garcia, CNN Money, 8/6

Amalgamated Bank announced Thursday that it will raise its minimum wage to $15 an hour. The change will affect all employees, take effect immediately, and be retroactive to July 1. Amalgamated encouraged other financial institutions to "join the 'Fight for 15.'"

"We're fortunate enough to be part of the wealthiest industry in America, so I'd hope others in the financial industry will follow," Amalgamated Bank CEO Keith Mestrich told CNNMoney. "It's the right thing to do for people who work in our industry."