Americans for Financial Reform

This Week in Wall Street Reform | May 7-13, 2016

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GOOGLE'S PAYDAY ANNOUNCEMENT

Google Takes A Stand Against Payday Loans, Bans Ads | Forbes
The search giant said on Wednesday that it will no longer allow payday loan companies to advertise on the site. The ban applies to loans that are due within 60 days and loans that have an annual percentage rate of 36% or higher…

"If you're broke and search the Internet for help, you should not be hit with ads for payday lenders charging 1,000 percent interest," said Alvaro Bedoya, the executive director of the Center on Privacy & Technology at Georgetown Law, in a statement.

Google gets "considerable credit" for the decision, added **Americans for Financial Reform** in a statement, saying it "closes off an important avenue of customer recruitment for an industry that is doing more and more of its business online."

See joint statement by **Leadership Conference, AFR, and 9 other groups** and separate statements by **AFR**, **Center for Responsible Lending**, and **Rep. Maxine Waters.**

Google to Ban All Payday Loan Ads | NY Times
David Graff, the director of global product policy at Google, made the announcement in a blog post that said the global ban would apply to loans for which repayment was due in 60 days and for loans that carry an annual percentage rate of 36 percent or higher.

Lisa Donner, the executive director of **Americans for Financial Reform**, said in a statement that Google's new standards would stop abusive lenders from marketing what she described as "debt-trap products that do serious and lasting harm to consumers."

Google Removing Payday Loan Ads | International Business Times
Consumer advocacy group **Americans for Financial Reform** echoed the praise, noting that the decision "closes off an important avenue of customer recruitment for an industry that is doing more and more of its business online."

Google Bans Payday Loan Ads In Search Results | Consumerist
As a leading search engine and innovator, Google's announced updated policy on financial services advertising is a major consumer coup," Keith Corbett, executive vice president of the Center for Responsible Lending, said in a statement. "By removing ads that lure financially

challenged consumers into long-term and costly debt traps, Google is displaying what corporate citizenship looks like. Our hope is that others will soon follow suit…"

Americans for Financial Reform says Google's ban closes off an important avenue of customer recruitment for the payday loan industry.

"We urge Microsoft, Yahoo, and other companies to follow Google's example, adding their weight to efforts by communities, consumer advocates, and regulators including the Consumer Financial Protection Bureau to end the abuses of a quarter-century-long wave of triple-digit-interest, predatory consumer lending," the group said in a statement.

Google banning ads for payday loans **|** **ConsumerAffairs**
"This new policy addresses many of the longstanding concerns shared by the entire civil rights community about predatory payday lending," said Wade Henderson, president and CEO of The Leadership Conference on Civil and Human Rights. "These companies have long used slick advertising and aggressive marketing to trap consumers into outrageously high interest loans - often those least able to afford it."

Americans for Financial Reform said the action "closes off an important avenue of customer recruitment for an industry that is doing more and more of its business online."

Google classifies payday loan ads with guns, drugs and explosives **|** **Newsweek**
Google's important new standards will stop abusive lenders from using their far-reaching platform to market dangerous debt-trap products that do serious and lasting harm to consumers," said Lisa Donner, executive director of **Americans for Financial Reform**.

We hope and trust that other online companies will follow Google's excellent example."

Google to ban ads for payday loans **|** **USA Today**
One third of the borrowers who racked up a bank penalty ultimately faced involuntary account closures, the report also found. Online lenders made repeated debit attempts on borrowers' accounts, running up additional bank fees for the consumers, even though the efforts typically failed to collect payments, according to the analysis.

"Google's important new standards will stop abusive lenders from using their far reaching platform to market dangerous debt-trap products that do serious and lasting harm to consumers," Lisa Donner, executive director of **Americans for Financial Reform**, said in a statement.

Microsoft and Yahoo, which run ads from payday lenders, did not respond to requests for comment.

Payday Lenders Seek Gov't Intervention after Google Ad Ban **|** **American Banker**
"This unprecedented abuse of power by a monopoly player should concern lawmakers at both the state and federal levels and should invite scrutiny of state and federal regulators," said Lisa McGreevy, president and CEO of the Online Lenders Alliance. "The policy discriminates against those among us who rely on online loans, especially the large number of Americans who cannot raise $2,000 in case of emergency."

Amy Cantu, a spokeswoman for the Community Financial Services Association of America, a trade group of mostly storefront payday operators, called Google's ban "a form of censorship."

Google Bans Ads for Payday Lenders **|** **Wall St. Journal**

Google to ban payday loan advertisements, calls industry 'harmful | **Chicago tribune**

Google gives payday lenders the boot | **CBS News**

Google bans all ads for payday loans | **CNN Money**

Arbitration Everywhere Stacking the Deck of justice | **NY Times**

Is Google Just Being a Good Citizen? | **NY Times**

Google's ban recasts debate of morality in media for digital age | **The Guardian**

Is Google right to ban payday loan ads | **Bloomberg**

Google's Payday Lending Hypocrisy Problem | **Heat St.**

CONSUMER FINANCE & THE CFPB

The Next Progressive Hope? The Man Trying to Unseat DNC Chair | **NPR**
Florida's 23rd congressional district is heavily Democratic, and Wasserman Schultz has won there easily six times before. She's the favorite to win again, but she is being pushed by Canova, who served on a Wall Street reform advisory panel for Sanders in 2011 and is accusing Wasserman Schultz of being too cozy with big banks…

An outside group, Allied Progress, has paid for billboards attacking her for supporting a bill that would prevent federal regulators from setting terms for payday loans. Those are high-interest, short-term loans consumer groups criticize as predatory.

In an interview on Miami's CBS4 recently, Wasserman Schultz defended her support for the bill. "Payday lending is unfortunately a necessary component of how people get access to capital, (people) that are the working poor," Wasserman Schultz said.

Democratic Party Chairwoman Faces Attacks from Left Over Payday Lending | **Inside Sources**

Big question about payday-lending kingpin Tucker: Where did the money go? | **The Pitch**

Consumer watchdog sues Mississippi payday lender | **The Hill**

Three Banks Potentially Plan to Offer Alternatives to Payday Loans | **Think Progress**

Should We Bring Back The Postal Banking System? | **Law Street Media**
From 1910 to 1966, the U.S. Postal Savings system provided a place for Americans to deposit funds in order to save money and have a way of paying their bills other than with cash. That is one of the chief problems facing the unbanked–the inability to have easy access to their own money and the high percentage of their money spent on just using their own funds. Paying a fee to access your own money or even just check your account balance is a significant financial burden and a service that the banked get access to for free.

With the advent of community banks, which offered a more attractive interest rate to depositors, the postal banking system seemed unnecessary and was eventually abolished in 1966. But the community banks–which were also proposed as a solution to the problem of the unbanked–removed themselves from low-income neighborhoods and contracted the number of people they provided services for. Nature abhors a vacuum and payday lenders went into that space, which is why people in low-income neighborhoods are often forced to rely on these types of lenders as substitutions for the banking services that the banked take for granted.

For the unbanked, there is simply not a banking location that they can go to. And one of the beauties of using the postal system for banking is that convenient locations already exist. Fifty-nine percent of post offices are in zip codes where there is either zero or only one bank. Other industrialized nations already have postal banking. In the U.K., the postal service does not actually provide financial services but allows third-party providers (like the Bank of Ireland) to conduct business there. France has actually converted its postal service into a financial institution.

Wells Fargo to Launch Faster Loan to Fight Online Rivals | Wall St. Journal

OCC Weighs New Charter for Fintech Firms | American Banker

Treasury Aims to Boost Online Lenders' Transparency | Wall St. Journal
The U.S. Treasury Department is calling for more transparency in online lending and urging regulators to better coordinate on overseeing the rapidly expanding industry. In a **paper released Tuesday**, the Treasury made a handful of recommendations on oversight of online loans offered by so-called marketplace lenders, while still encouraging the flow of such credit. One of the biggest concerns the study raised is the relative opaqueness of the sector, partly due to less regulation of marketplace lenders compared with traditional banks and fewer disclosure requirements for small-business loans in particular.

Online Lenders Queried by Regulators on Referral Fees, Bank Deals | American Banker
State officials in California have asked top online lending firms a series of probing questions regarding their compliance with laws and regulations dealing with referral fees, bank partnerships, fair lending and other sensitive issues…

The firms that were sent the letters are: Lending Club, Prosper Marketplace, Social Finance, CircleBack Lending, Affirm, Avant, OnDeck Capital, CAN Capital, Kabbage, Funding Circle, BondStreet, Fundbox, PayPal and Square. Among the group, only CircleBack did not respond to California's earlier letter.

The disclosure about California regulators' new probe comes after Lending Club's chief executive abruptly resigned on Monday, and Prosper announced the dismissal of about 170 employees.

OK, Marketplace Lenders, I'll Say It: Told You So | American Banker

Lending Club CEO resigns after loan sales probe, shares plummet | USA Today

Small-business borrowers may need protection on marketplace loans | Politico

Marketplace Lending: Bruised, Not Buried | American Banker

Sue your bank! Why it's better to go to court than to arbitrate | The Guardian

The Funny Thing about Forced Arbitration and the CFPB | Huffington Post

Customers want to join together to hold financial institutions accountable | The Hill

See joint letter from 71 consumer, civil rights, labor, and community organizations.

See PIRG Video, "The CFPB Can Help"

FCC Set to Cap Cell Phone Robo Calls for Federal Loan Collection | **The Street.com**
A rule proposed by the Federal Communication Commission (FCC) last week would limit debt collectors' access to the cell phones of people who owe money to the federal government--a rule that will have a big impact on people with student loans from the Department of Education…

Alexis Goldstein, a Senior Policy Analyst with **Americans for Financial Reform**, applauded the FCC "for proposing to limit the rule to debts that are delinquent, which will prevent unwanted robocalls calls for accounts which are in good standing."

DERIVATIVES, COMMODITIES AND THE CFTC

Phantom Liquidity and Agricultural Price Shocks | **IATP Blog**
Defenders of high-frequency trading (HFT) claim that they provide necessary capital to commodity derivative markets that enable commercial users of commodities to trade in "liquid" markets, i.e., to manage price risks by buying and selling what they want, when they want. However, HFT orders provide capital to the market milliseconds before computer-automated trading systems (algorithms) cancel those orders. In other words, HFT provides phantom liquidity by emitting trade order price and volume "noise," but very rarely executed trade information that is usable by commercial traders. HFT administers nearly continuous micro-shocks to price formation.

Farmers and ranchers rely on derivatives markets to set benchmark prices and price trends for forward contracting of grains and oilseeds to local grain elevators and of livestock to stockyards. When HFT "hot money" creates price volatility and price surges with little, if any, relationship to supply, demand and other fundamental factors, derivatives prices no longer help forward contracting.

THE ELECTION AND WALL STREET

[Donald Trump's Pick for Fund-Raiser Is Rife with Contradictions] | NY Times
Wall Street has been agog since last Thursday, when Donald Trump announced that Steven Mnuchin - who made his fortune at Goldman Sachs, worked for a firm funded by George Soros, and donated to Hillary Clinton - would be responsible for helping him raise $1 billion for Republicans and his own campaign. For if Mr. Trump is an unconventional political candidate, his appointment of Mr. Mnuchin as his national finance chairman is the epitome of just how unconventional this election has become.

"Despite what Mr. Mnuchin said was a personal friendship of 15 years, Mr. Trump has attacked both Mr. Mnuchin's investment company - suing it in 2008 over a building deal - as well as Goldman Sachs, the Democratic Party and other institutions Mr. Mnuchin has supported... Mr. Mnuchin is known among Manhattan's elite as part of one of the city's most influential families. His father, Robert Mnuchin, spent 30 years at Goldman Sachs, where he supervised equity trading and served on the management committee.

"Mr. Mnuchin was the chairman of OneWest and sold it to CIT Group in 2015. Along the way, OneWest was involved in a string of lawsuits over questionable foreclosures, and settled several cases for millions of dollars."

[Financial Sector Gives Hillary Clinton a Boost] | Wall St. Journal
Hillary Clinton is consolidating her support among Wall Street donors and other businesses ahead of a general-election battle with Donald Trump, winning more campaign contributions from financial-services executives in the most recent fundraising period than all other candidates combined.

The Democratic front-runner has raised $4.2 million in total from Wall Street, $344,000 of which was contributed in March alone. According to a Wall Street Journal analysis of fundraising data provided by the nonpartisan Center for Responsive Politics, the former secretary of state received 53% of the donations from Wall Street in March, up from 32% last year and 33% in January through February, as the nominating contests began.

The analysis of campaign-finance reports shows that some Wall Street donors have shifted their financial support from Republican candidates who dropped out of the race, such as former Florida Gov. Jeb Bush and Florida Sen. Marco Rubio, to Mrs. Clinton in recent months.

[Clinton More Conservative than Trump When It Comes to Investing] | Bloomberg
She favors an index fund. He bets on hedge funds… The low-cost Vanguard 500 Index Fund, a favorite of… Warren Buffett, has been her top holding. Trump, the presumptive Republican nominee who's upended his party with stands on immigration and trade, is the bigger risk taker. His single biggest bet has been on the Obsidian hedge fund run by BlackRock Inc.

[Warren, Trump Spar on Twitter over Dodd-Frank] | American Banker

[The Trump Treasury] | Politico

[The shifting sands of Trumponomics] | MSNBC

EXECUTIVE PAY

Pressure to Close the Pay Gap | **NY Times Editorial**

The original rationale for the rule [953b], mandated under the Dodd-Frank financial reforms of 2010, was that excessive executive pay encouraged corporate recklessness, fostered economic instability and deepened income inequality. Disclosure, which will begin in 2018, was intended to create public pressure on corporations to rein in executive pay.

Pressure is now building in other ways. The chief executive of Norway's $870 billion oil fund — the world's largest sovereign wealth fund — told The Financial Times recently that excessive executive pay had become a fundamental issue and that the fund would soon set forth principles it expects the 9,000-plus companies in which it holds stakes to follow...

There is also new research suggesting that companies with large pay gaps tend to be less profitable over time than those with narrower gaps. A study by MSCI, an investment research firm, examined nearly 600 companies in 20 countries and 10 sectors from 2009 to 2014.

Employees and labor activists will be able to use pay-gap information in pushing to trim executive pay packages as part of their efforts to raise worker pay. The disclosures may also influence consumers who prefer to do business with companies they perceive as fair.

Among investors, however, the expectation has been that only labor-related pension funds are likely to pay much attention to pay-gap disclosures; other investors are expected to dismiss them as unrelated to corporate performance. They need to think again.

Options, Risk, Air & Fire | **CitizenVox**

Some firms now eschew issuing options for their most senior executives. JPMorgan counts as a prominent example. They've shifted to stock awards, and the top five officers receive between $11 million and $27 million each, largely consisting of such awards (so needn't worry about seeing their beseeching faces in a Save the Children appeal.) And Citi has also begun to back away in recent years. If these options were a substantial still part of Corbat's annual pay, he might make extraordinary, high risk moves. But since 2011, Citi has awarded Corbat substantial stock compensation instead of options. That means there is a downside should a reckless gamble fail.

The bad news is that Washington's proposed solution in the form of the Dodd-Frank Section 956 rule fails to limit the use of options significantly.

HEDGE FUNDS AND PRIVATE EQUITY FUNDS

Close the Billionaire Loophole | **Inequality.org**

The carried interest loophole has been under political attack since 2007, but has been defended by powerful Wall Street interests and their Republican allies in Congress. All three remaining presidential candidates – Bernie Sanders, Hillary Clinton, and Donald Trump – have called for its elimination.

Victor Fleischer, a law professor at the University of San Diego, argues that executive action would make a dent on growing inequality. More than two-thirds of the revenue generated by closing the carried interest loophole would come from financial managers in the richest one-tenth of one-percent. The rest would come from oil and gas partnerships, mining and real estate companies. Activists in a number of states are not waiting for Congress in Washington, DC. They are proposing that states collect the missing revenue until Congress acts. In New

York State, the Patriotic Millionaires and the Hedgeclippers coalition are calling on the legislature to close the loophole, potentially generating $3.7 billion in revenue for the state. –

Where's my union card? **|** **Fortune**
A joint letter was sent yesterday by eight groups (including the AFL-CIO, American Federation of Teachers and **Americans for Financial Reform**) to U.S. Treasury Secretary Jack Lew and IRS officials, decrying tax "abuse" related to private equity portfolio company monitoring fees (including acceleration clauses). And more than one third of the footnotes are to items I've written in Term Sheet and/or at Fortune.com, plus an additional in-text mention.

From the letter: "First, the improper deduction of monitoring fees deprives the U.S. government of hundreds of millions if not billions of legally owed tax revenue each and every year; this requires the government to make up the difference in the form of higher taxes on honest taxpayers. Second, the improper deduction of monitoring fees also facilitates private equity's business model of stripping large amounts of capital out of operating portfolio companies, which impedes their growth and makes them more susceptible to financial failure...

Nobody pays millions of dollar for services while allowing the service provider to decide whether it will actually do any work. Nobody allows a service provider to unilaterally terminate a service agreement and still receive the full value of the entire remaining contract. In fact, these monitoring fees are in reality disguised dividends."

Best-paid U.S. hedge fund managers take home $13 billion | **Reuters**

Hedge Fund Star: We Are 'Under Assault' | **Wall St. Journal**
The longtime hedge-fund manager Leon Cooperman summed up the mood at the annual SkyBridge Alternatives conference, commonly called SALT, in Las Vegas. "The hedge-fund model is under challenge. It's under assault," the 73-year-old Mr. Cooperman said Wednesday at the conference, one of the industry's marquee annual events.

Mr. Cooperman said he was contemplating whether it was worth it to remain running hedge funds at all following investor redemptions from his firm, Omega Advisors.

Billionaire Bonderman Family Steps into Activism Fray | **NY Times**

See new report, **Fees, Fees and More Fees: How Private Equity Abuses Its Limited Partners and U.S. Taxpayers** | **Center for Economic Policy Research**

See **Joint Letter: AFR and 7 allies call for crackdown on another private equity tax dodge**

Why Buffett's Million-Dollar Bet against Hedge Funds Was a Slam Dunk | **Fortune**

Private Equity Growth Capital Council Updates Mission; Changes Name to American Investment Council | **Private Equity Growth Capital Council**

Hedge Fund Managers Ditch Decorum in Shouting Match over China | **Bloomberg**

Hedging Education | **American Prospect**
The hedge fund industry and the charter movement are almost inextricably entangled. Executives see charter-school expansion as vital to the future of public education, relying on a model of competition. They see testing as essential to accountability. And they often look at teacher unions with unvarnished distaste. Several hedge fund managers have launched their own charter-school chains. You'd be hard-pressed to find a hedge fund guy who doesn't sit on a charter-school board.

INVESTOR PROTECTION AND THE SEC

Wall Street Firms under Investigation for Treatment of Retail Investors | **Wall St. Journal**
Federal and state authorities are investigating whether Wall Street firms that handle millions of orders annually for retail clients have lived up to their obligation to provide the best possible treatment for those investors, according to people familiar with the matter. The Justice Department's civil division has sent subpoenas to several firms including Citadel Securities, the market-making business owned by investor Kenneth Griffin, and KCG Holdings Inc. in connection with the probe, these people said.

Senate eyes change for 'angel investors' | **The Hill**
A bill designed to make it easier for startups to obtain capital from wealthy investors is awaiting Senate action after passing the House last week by a large margin…

The legislation, called the Helping Angels Lead Our Startups (HALOS) Act, would exempt events like "demo days" from certain Securities and Exchange Commission (SEC) requirement…

The advocacy group **Americans for Financial Reform** sent letters to lawmakers in opposition to the bill, saying the exemption from the investor-verification requirement "is overly broad and would likely lead to losses for investors who are not prepared to take the significant risks associated with purchases of unregistered securities."

The Looming Danger of All the Investment Fees You Don't See | **NY Times**

Why the S.E.C. Didn't Hit Goldman Sachs Harder | **New Yorker**

The Toxic Billion Dollar Goldman Sachs Bond Deal the SEC Let Get Away | **Fortune**

Ex-brokers in limbo as Credit Suisse withholds deferred pay | **OnWallStreet**

SEC Urges Senate to Tweak Email Privacy Bill **Wall St. Journal**

MORTGAGES & HOUSING

A housing scheme founded in racism is making a resurgence | **Washington Post**

Foreclosures and seriously delinquent mortgages at lowest level since 2007 | **Housing Wire**

See NCLC report, **Opportunity Denied: How HUD's Note Sale Program Deprives Homeowners of the Basic Benefits of Government-Insured Loans**

REGULATION IN GENERAL

Biz groups launch Rethink Red Tape campaign | The Hill
A coalition of business groups is launching a multi-million dollar regulatory reform campaign. The Rethink Red Tape campaign is backed by the National Association of Manufacturers (NAM), Small Business & Entrepreneurship Council, International Franchise Association (IFA), and Women Impacting Public Policy. The campaign will advocate for "fairer, clearer and less obstructive" regulations in Washington, D.C., and as many as a dozen states around the country.

Building more effective regulation | **RegBlog**

RETIREMENT SECURITY & FIDUCIARY DUTY RULE

This insurance group likely to be first to file DOL fiduciary lawsuit | **Investment News**
Like horses running in the upcoming Preakness, financial industry trade associations may be off to the races on lawsuits against the recently released Labor Department investment advice rule.

While the others prance around, it looks as if the American Council of Life Insurers has entered the gate. "The ACLI board of directors has approved exploring the details of a legal challenge to the Department of Labor's fiduciary regulation," ACLI spokesman Jack Dolan said in a statement responding to an *InvestmentNews* inquiry. "ACLI will make strategic decisions based on further direction given by our member companies."

California pension investment ticks off state engineers' union | **Sacramento Bee**

STUDENT LOANS & FOR-PROFIT EDUCATION

As Feds Crack Down on For-Profit College, a Founder Heads to Prison for Fraud **NPR**
Alejandro Amor, the founder of a college called FastTrain in south Florida, was sentenced last week to eight years in federal prison for fraud.

Court papers say FastTrain, which closed down in 2012, engaged in deceptive advertising and pressure tactics, such as hiring former strippers to recruit for the school. Investigators found that the company forged signatures, enrolling people who were not qualified for college and more than a thousand students who hadn't even finished high school. The school had collected some $35 million in student loans and federal financial aid. The judge's ruling concluded that millions of dollars of that money had effectively been stolen.

University of Phoenix Fact Sheet | **ForProfitU.org**
26% of Apollo Group's students will default on their loans within three years of entering repayment…. Apollo Group expects the lifetime default rates for Associate degree students entering repayment in 2006 to be 77.7%.

Ellen DeGeneres Shills for for-Profit College Facing Probes | **Huffington Post**

FCC Would Protect Student Loan Borrowers from Tidal Wave of Robocalls and Textsors of Federal Debts | **National Consumer Law Center**

Obama Policy 'To Protect Students and Taxpayers' May Not Happen | **Huffington Post**

SYSTEMIC RISK

Jamie Dimon calls community banker 'a jerk' | **CNN Money**
Camden Fine, a longtime community banker and head of a group that represents small banks, had rejected Dimon's op-ed last month in Wall St. Journal titled "Large Banks and Small Banks Are Allies, Not Enemies." Fine argued that Dimon is trying to use small banks as cover in Congress to help get his agenda passed…

Speaking on CNBC Wednesday, this was what Dimon had to say about Fine. "I think the guy who wrote that is a jerk," Dimon said in a phone interview. Dimon called for an end to "bank on bank violence."

Fine fired back at Dimon in a phone interview with CNNMoney on Wednesday. "What is this, junior high school?" said Fine, who is president of the Independent Community Bankers of America. "To be called a jerk by Jamie Dimon -- I take as a badge of honor. It means he has no good argument to our response. So he resorts to name calling, and in my view that is the last refuge of small minds."

OTHER TOPICS

See new report **"Tilting the Scales of Justice: Conservatives' Multi-Front Assault on Access to the Courts"** | **Constitutional Accountability Center,**

Wall Street groups threaten to sit out trade pact push | **The Hill**