

MEMORANDUM

To: Budget and Finance Committee
Cc: City Treasurer Claire Bartels, Budget and Finance Committee
From: Communications Workers of America (CWA), Committee for Better Banks (LA-CBB),
Alliance of Californians for Community Empowerment (ACCE)
Date: November 20, 2017
Re: Responsible Banking Monitoring Program (COUNCIL FILES (CF 09-0234-S3 and 17-0330))

The Committee for Better Banks (CBB), Communications Workers of America (CWA) and the Alliance of Californians for Community Empowerment (ACCE) are writing to you regarding the Responsible Banking Ordinance and the banking service RFP. Our coalition raised the issue of predatory banking practices in the City of Los Angeles before the Wells Fargo sales goals scandal broke. The City of Los Angeles has an opportunity to implement new standards that will address predatory banking practices by amending the Responsible Banking Ordinance and the banking service Request for Proposals and contract.

There is a clear need for financial institutions in Los Angeles. Recognizing that our communities depend on banks for responsible advice and aid in their financial dealings, city officials must stand up to Wall Street and do their part to provide strong protections against predatory banking practices that hurt consumers and our local economy. All consumers welcome sound financial products that align with their needs and their economic situation. However, the ability to provide sound financial products to consumers in Los Angeles is compromised when banks use predatory sales goals.

Banks use sales goals with their employees to sell financial products to their customers. Banks create “employee incentive programs” that establish sales goals, bonuses/commission earned by sales goals, including a set of penalties for not meeting daily, weekly and monthly goals. It is important to note that the average wage of a bank worker is less than \$15/hr. With such low wages, bonuses and commissions become an integral part of a bank worker’s total wages.

In order to maximize their sales, banks establish aggressive sales goals with penalties for bank workers that do not meet their quotas—including termination of employment. Bank workers are pressured and encouraged to do whatever it takes to make the sale. Bank management pressures bank workers to target the most vulnerable in our community just to meet their quota, with a focus on immigrants and low-income customers in our communities. As you discuss ways to strengthen and promote responsible banking in Los Angeles, we ask that you consider the following recommendations to the RBO and banking service RFP.

Responsible Banking Monitoring Program (RBO)

The RBO amendment provides an opportunity for the City of Los Angeles to enact much-needed consumer protections and establish a set of standards used to select banks in the bidding process that will promote responsible banking practices. While in the current RBO there are no mechanisms to hold banks accountable for current or past predatory banking practices, the amendment should work to close this accountability loophole that was created when banks were exempted from the LA Contractor Responsibility Ordinance (CRO). As it stands, the draft amendment falls short of incorporating protections against predatory sales goals or establishing standards that promote socially responsible banking practices when selecting prospective bidders.

We recognize that banks are vital institutions that contribute to the development of an economy, facilitate the development of saving plans and are instruments of the government's monetary strategy to support our economy. However, there must be guidelines and rules that protect consumers from greed that fuels predatory banking practices. It is well known that Wells Fargo used the most aggressive incentive program pressuring their bank workers to sell at least 10 products per day. As a result of the millions of unauthorized accounts, Wells Fargo executives made billions of dollars from 3.5 million accounts opened in the form of fees and from the increases in the value of their stock. Other banks began adopting similar incentive programs to increase their sales of financial products and stock value, at any cost. Although there has been a significant amount of media coverage of the Wells Fargo account scandal, the practice of predatory sales goals continues at Wells Fargo and at other banks. Bank workers have testified that they are being pressured by management to target seniors, immigrants, student and low-income customers to sell complicated financial products with little or no explanation.

There is a distinction between selling financially sound products and selling financial products indiscriminately with little to no information to the consumer just so that bank worker meets their daily sales goals. The practice of predatory sales goals creates a work culture that promotes fraudulent banking practices that ultimately harms our local economy. The predatory elements of sales goals must be addressed in the RBO amendment and the current banking service RFP.

We urge you to support the inclusion of Councilmember Martinez's language addressing predatory sale goals in the RBO which was submitted on Nov. 6th to the Budget and Finance Committee and reads as follows:

- Certify that banks do not set individual-level or branch-level goals or requirements for the sale of a consumer financial services, and further certify that employee and management training and protocols are in place to prevent such practices;
- Certify that the quantity of an employee's sales of consumer financial products or services is not a consideration for their termination, discipline, or advancement; and

- Certify that the majority of any employee's compensation is NOT based on the quantity of sales of consumer financial products or services.

Banking Service RFP

We support the sections regarding socially responsible banking, including stronger efforts to enforce the Responsible Banking Ordinance, prohibit illegal banking practices, protect consumers from unethical behavior, and disqualify banks with below "Satisfactory" CRA ratings.

The spirit and letter of the banking service RFP must hold all bidders to a level of corporate citizenship that benefits the public trust. In order do to so the City must provide a process that promotes transparency. We support the increase in the Social Responsibility score of 20 points. By increasing the Social Responsibility score, the City not only incentivizes social responsibility but also sends a clear message that it cares about promoting responsible banking in Los Angeles.

The RFP process needs a rating criteria that takes into account both positive contributions as well as socially and environmentally destructive investments and financing, including the continuing violation of the rights of Indigenous peoples. We ask the Committee and Finance to add important qualitative factors that may negatively impact a bank's Social Responsibility scoring including, but not limited to: practice of predatory sales goals, bank branch closures, lawsuits, settlements, violations of law including FINRA, SEC, or state financial regulation, and recent regulatory enforcement actions by federal or state agencies. These are current reporting requirements under the RFP, yet they are not officially weighed in the socially responsible section. Without being weighed, they hold no bearing for choosing a bidder. In addition, if a bidder undertakes fraudulent or illegal action, the City should have the right to terminate its relationship with that bank, with no penalty.

Finally, we urge the City to enforce a minimum Federal and State CRA rating of "Satisfactory" in the City's Responsible Banking Ordinance (RBO). This would require social and environmental accountability from bidders in both their commercial banking and investment banking services, the latter of which are not currently considered by the RFP. All of these reporting requirements should impact the weighing for social responsibility, as proposed in the RFP.