Testimony Statement

L.A. City Ordinance on Responsible Banking, CF 09-0234

November 8, 2010

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Thank you for allowing me to submit testimony to the committee.

My name is Dennis Santiago and I am the Chief Executive Officer of Institutional Risk Analytics, a Southern California based company that specializes in analyzing the banking industry. Since 2003, our California based company has delivered bank risk that warned of the troubles we are living with today. We supply our information under contract to assists analysts at the Securities and Exchange Commission in doing their work. Our tools are in use across the spectrum of finance spanning banks, their counterparties, and their corporate, government and individual depositors all of whom are attempting to chart their way through troubled waters. IRA is also the machine behind the "Move Your Money" campaign's effort to educate ordinary Americans that they have choices in whom they do their banking with.

Every one of us is aware that we are living through the consequences of risk taking gone wrong. In recent weeks the FDIC closed seven banks. The Federal Home Loan Bank (FHLB) of Seattle had submitted to a consent order with the Federal Housing Finance Agency (FHFA) due to being "undercapitalized". And the Federal Reserve has begun to play the very risky policy card known as Quantitative Easing.

Large banks are under stress because of foreclosures and potentially even under greater threat because they may be forced to buy back billions of faulty loans from the GSE's Fannie Mae and Freddie Mac. Smaller banks are just trying to survive the storm but it's causing many of them to maintain quality standards so high that access to credit has all but evaporated. Even credit unions are not immune. The "corporate credit unions" that stand behind the consumer credit unions have experienced their own catastrophic troubles as evidenced by the regulatory actions of the National Credit Union Administration (NCUA). What it means is that no community, no business, no individual can afford to remain passive when it comes to understanding where banking and finance is headed for the remainder of the decade.

These are tough times. But they are not insurmountable times. That is why I applaud the City of Los Angeles to taking the initiative to consider an ordinance that takes the measure of the finance system affecting the region and the people it serves.   The City is asking the kinds of questions that must be asked if government is to play its proper part to create the kinds of public-private partnerships that will rebuild financial infrastructure.   It took everyone to make the mess we are in.   It will take everyone working together to regain a quality of life that has slipped away from us.

What the City of Los Angeles is doing with this ordinance is making sure that as this next cycle of consolidation plays out, it's interests will not be forgotten or dismissed even as billions in wealth inevitably shift with the tides of fortune.   I encourage the City to make sure it has the legal means and the operational agenda to protect those interests.

I do want to point something out regarding the data.   It's not that banks don't know or cannot determine the answers to the data requests being asked by the language of the ordinance.   They can. Most of what the City is asking for has been part of the Community Reinvestment Act's agenda for decades.   What's different here is a community asking the simple question of "What are you doing for us here where we live?"   This is an issue of everyone becoming comfortable with transparency.   The emotional charge surrounding the issue is because the questions the City is asking will reveal who really has their act together and who doesn't.   But I submit that the worst thing for us all would be if we remained ignorant of the answers.

Collecting this information is doable. I refer you to an article I wrote last week on the Huffington Post where I stated,

"On October 26th, there was a public hearing by the L.A. City Jobs Committee chaired by Councilman Richard Alarcon on item CF 09-0234, Responsible Banking. The measure was approved with a number of questions to be investigated and reported to a hearing of the L.A. City Budget and Finance Committee to take place on Monday, November 8th. The questions aired by Councilman Bernard Parks focused on two areas. He asked for more information to determine if the cost and design of the process for implementation by the City was indeed workable. He also asked for clarification about how the differences between community banks, large complex banks and the city's debt underwriters would be recognized within the final ordinance.

Mr. Park's questions tell me that the L.A. process is indeed making progress because these are no longer questions about whether this a good thing for the economic interests of the City but rather how well is the plan risk managed. The interests behind the initiative become more positive as banks, large and small, begin to recognize that there is opportunity to be had here. The carrot being offered by the City of L.A is preference to win lucrative contracts that the City will be issuing anyway if evidence can be presented by the bidders that they are placing the interests of the region higher up the business priority list than their competition. It's subtle and far reaching in its potential to encourage money to circulate locally longer.

So now to ponder details,

As I reviewed the current version of the ordinance draft, it was clear the that City of Los Angeles had specified a data collection and reporting request that seeks to get banks to translate the nature of their business activities into measurement language that city governments can understand. The policy question is actually spot on but I'm also pretty sure that asking a bank to deliver the answer on a silver platter to the city first time out is a bit of a stretch. I think there's a better way to make it work for everyone and bring the cost/risk of the process well into good comfort.

The path to success here is to recognize two things. The first is that banks know how to report data to their regulators. They actually track all the information the city wants to know. Once a year they even have to report data to the granularity of branch-by-branch information to the FDIC. The other thing that's clear from the city draft is that municipal governments analyze their quality of service based on census tracts because that's how voters are bucketed. The trick in getting one system to talk to the other is to leverage by translating between the two universes via the zip codes of the U.S. postal service.

Asking the banks to do all the work is a lot of work. But if the City of Los Angeles were to re-design the ordinance implementation process to be a two step process where the banks report data in branches with identification of which zip codes are affected by that branch and there was a post- process by the City to morph the submittals into census tract visibility I think this would actually work reasonably well. City employees and/or other specialty vendors are more knowledgeable about the second step of the transformation than any bank will ever be. And there's a reason for that. Bankers, being lenders, have been discouraged from doing the second step for a long time because the technology that does so equates to gathering the data to do "red lining". So it's actually a better plan for the City of L.A. to deliberately separate these two steps from each other in its ordinance design.

My point here is that by taking a step back and recognizing where natural divisions of skill can be used to complement each other what seems onerous as an all-in-one data request can quickly become very doable.

This gets us to Mr. Park's second inquiry about larger out of area institutions and debt underwriters seeking to do business with the City. To that my observation is that the City of Los Angeles needs to set up a fair playing field for everyone. It's my read that by combining the suggestion above for banks with local branches with the tenets of the current ordinance draft language requesting distilled data into zip codes there's plenty of wiggle room for presentation of evidence of local involvement by these larger institutions, even those that do not have physical branches in the region. Complex transforms of data to support reporting requests are well within the capabilities of the IT departments of these larger businesses. Bearing in mind that these are also the banks that will go after the largest contracts with the City there's plenty of incentive for them to get their systems to produce the reports that will give them an advantage over competing bidders.

And in the long run I'm not just talking about competing just for L.A.'s business. There's a far larger universe of municipal and state government opportunities out there and I'll remind the *readers of the Huffington post to look back at the history of my blogs for the one reporting on Bill Lockyer's inquiry earlier this year to the largest municipal bond underwriters."*

Ref: http://www.huffingtonpost.com/dennis-santiago/getting-to-yes-making-res_b_779587.html

Latino Business Chamber
of Greater Los Angeles

Written Statement Submitted to LA City Council Budget and Finance Committee
Regarding: CF 09-0234, "Responsible Banking"

Jorge Corralejo
Chairman & CEO, Latino Business Chamber of Greater Los Angeles
November 8, 2010

Members of the Committee, I am pleased to submit written testimony to you today regarding Council File 09-0234 on the topic of Responsible Banking. My name is Jorge Corralejo and I have served as Chairman and CEO of the Latino Business Chamber of Great Los Angeles. Before that I had experience as the President of Macondo Leasing Company which I started in 1984. I am active leader in policy issues that impact small and medium sized businesses, minority communities, and economic development.

I am writing in support of the proposal that Cities request information from financial institutions about their local community re-investment practices. The ordinance under your consideration today would enhance the ability of Los Angeles to better serve its taxpayers by providing incentives to financial institutions to offer increased lending and investment services to your constituents. The ordinance would add this set of criteria to consider as an additional factor when considering banking relationships.

The Community Reinvestment Act (CRA) passed in 1977 was landmark federal legislation that effectively ended the practice of redlining by mandating that institutions insured by the Federal Deposit Insurance Corporation (FDIC) lend throughout the communities served by their branches. Although extraordinarily effective at first, CRA has been weakened over time as the financial landscape has changed. Today, many of us have business with institutions that do not have a branch in our zip code, let alone State. This means that today, CRA scores no longer reflect lending activity throughout the communities served by a bank—in some cases, a bank's CRA score is judged based on reinvestment performance in just a handful of areas or States served by the institution.

The ordinance proposed by CF 09-0234 would allow the City of Los Angeles to better understand the lending and credit extended to LA communities, passing in effect a "local Community Reinvestment Act" ensuring that you have timely and accurate information specific to the City of Los Angeles. Information asked of financial institutions in the ordinance will give you a clear idea of how the institution is serving your taxpayers based on metrics such as: the amount of small business loans awarded to businesses in the City; the number of non-adjustable rate mortgages offered to homeowners in the City, and the amount of money invested in community development projects. Taken together, this information will allow the City to be informed which institutions are actively promoting re-investment in Los Angeles communities.

Los Angeles can and should award business to institutions that have a demonstrated, positive track record of investment and lending in the City. There are some institutions that compete for our City's dollars that may have little or no intention of doing business with our

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residents. We owe it to our taxpayers to figure out which institutions do, and to provide them with special consideration when awarding City business.

Sincerely,

Jorge C. Corralejo
Chairman & CEO
Latino Business Chamber of Greater Los Angeles

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