

CITY OF LOS ANGELES

CALIFORNIA



JUNE LAGMAY
City Clerk

HOLLY L. WOLCOTT
Executive Officer

Office of the
CITY CLERK

Council and Public Services
Room 395, City Hall
Los Angeles, CA 90012
General Information - (213) 978-1133
Fax: (213) 978-1040

www.cityclerk.lacity.org

ANTONIO R. VILLARAIGOSA
MAYOR

March 10, 2010

To All Interested Parties:

City Attorney (w/ blue slip)

The City Council adopted the action(s), as attached, under

Council file No. 09-0234, at its meeting held March 5, 2010.



City Clerk
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- iv. Certification that the bank or financial institution allows unemployed borrowers to qualify for loan modifications based on unemployment insurance and forbearance for at least six months, and/or allows tenants to continue to rent the property until it is sold.
2. DIRECT the City Treasurer to include in the next Request for Proposals./Request for Qualifications (RFP/RFQ) for banking services a provision that would provide additional bid preference, consistent with current law, to those respondents that provide evidence of active community investment practices beyond traditional banking services.
3. REQUEST that the Board of Commissioners of the Los Angeles City Employees' Retirement System (LACERS), the Los Angeles Department of Water and Power (LADWP), the Police and Fire Pensions Board and the City Treasurer, establish an investment floor by committing that at least 25% of the City's portfolio will be invested in financial institutions that provide evidence of active community investment practices in businesses and residences within the City of Los Angeles, or that support socially responsible activities such as green technology, low/moderate income housing, and community redevelopment, to be achieved in a manner consistent with the fiduciary responsibilities established in federal, state, and local law.
4. DIRECT the CLA and City Administrative Officer (CAO) to establish a new set of standards for the City's banking relationships utilizing a "report card" methodology similar to that utilized by the City of Philadelphia, as detailed in City of Philadelphia Code Section 19-201, and to include elements as detailed in the report card submitted in Committee on February 23, 2010 by Council District 7 staff and attached to the Council File.
5. DIRECT the City Treasurer to establish a system of annual review for financial institutions to include a community reinvestment score for each financial institution; DIRECT the City Treasurer to publish said annual reviews and scores and present them to Council on an annual basis; DIRECT the Office of the Treasurer to rank order each financial institution in order of community responsibility with contracting preference in contracting to be given to financial institutions that perform in the top two deciles and potential divestiture for financial institutions at the bottom of the list; and AFFIRM that reporting relationships will favor banks that reinvest in, and are responsive to, the City of Los Angeles.
6. INSTRUCT the CAO and City Treasurer to attempt to renegotiate current swap deals with relevant financial institutions and if they are unwilling to renegotiate, then those financial institutions should be excluded from any future business with the City of Los Angeles and further INSTRUCT the CAO and City Treasurer to review all swap deals and report back to Council in regard to the legal and financial implications prior to any exclusionary action being taken within 30 days.
7. REQUEST the pension systems for the LADWP, Los Angeles Police Department, Los Angeles Fire Department, and LACERS to develop the same sort of analytical tools, as detailed above in Recommendation Nos. 2-5, for the review of financial institutions.

Fiscal Impact Statement: Neither the CAO nor the CLA has completed a financial analysis of this report.

Community Impact Statement Submitted: None submitted.

SUMMARY

On August 12, 2009, Council referred this matter to the Jobs and Business Development Committee. Subsequently, on September 8, 2009, your Committee considered a Motion (Alarcón - Garcetti - Reyes - Hahn - Parks) relative to the potential divestiture of all deposits in banking and other financial institutions that fail to cooperate with foreclosure prevention efforts. According to the Motion, the perception that homeowners losing their homes due to foreclosures are only those with bad credit or of low income is no longer accurate. The crisis is affecting communities at all levels, but working class communities are the most severely affected, as they were often explicitly targeted and preyed upon by lenders and brokers offering unconventional loans and financing options.

As local, state, and federal governments work on resolving the current foreclosure crisis, one of the key factors that must be addressed is the modification of loans that are "upside-down." These loans must be modified to the current market value of the home, not the original loan amount, so that homeowners facing foreclosure receive true relief from the burden of the loans they were unjustly pushed into by aggressive lenders and brokers. Currently, there is active pressure on financial institutions to modify loans for homeowners susceptible to foreclosure by reducing the principal to the current market value. Many financial institutions are not inclined to do this, particularly with no financial incentive.

Finally, the Motion calls for the following actions:

- a. Instructing the CAO and CLA to report within 30 days on the potential divestiture of all deposits in banking and other financial institutions that fail to cooperate with foreclosure prevention efforts that include temporary moratoriums on foreclosures, renegotiation of mortgage principles to reflect current values, and good faith negotiations with mortgages.
- b. Encouraging a similar divestiture by the City's partner retirement programs - Los Angeles City Employees' Retirement System, the Water and Power Employees' Retirement Program, Los Angeles Police Protective League and the United Firefighters of Los Angeles City.

After further consideration and having provided an opportunity for public comment, the Committee moved to continue this matter pending the submission of a report in response to the above Motion.

Subsequently, this matter was considered on October 13, 2009 and December 15, 2009 and in each instance, after consideration and having provided an opportunity for public comment, the Committee moved to continue this matter.

On February 23, 2010, the Committee Chair considered a December 14, 2009 CLA report in response to the above Motion. According to the CLA, on September 8, 2009, the author of the above Motion significantly broadened the intent of the proposed investment restrictions beyond divestment. Specifically, Committee instructed the CLA to develop a modified policy that encourages the use of the City's investment portfolio to spur local economic development, and to support responsible investment' of the City's assets in companies that uphold socially responsible practices that do not harm the public good. Additionally, the CLA was instructed not to focus on the issue of compliance/non-compliance with foreclosure prevention efforts; rather the CLA and CAO

were instructed to expand the analysis to begin creating a local version of the Federal "Community Reinvestment Act" by establishing a set of standards for both City deposits and, as appropriate, for the City's investment practices. Finally, those standards should encourage community lending and discourage investments in companies that do not adhere to socially responsible practices, including, but not limited to, failure to cooperate with foreclosure prevention efforts.

The CLA then that that the Federal Community Reinvestment Act (CRA) was enacted in 1977 and was designed to encourage financial institutions to improve lending and banking services across the local communities that they serve, and eliminate any forms of alleged "redlining" that discriminates in loans made to individuals and businesses from low and moderate-income neighborhoods. Under this program, all banks that receive FDIC insurance are evaluated by various Federal banking agencies to determine performance based on a variety of assessment factors (a detailed listing of these assessment factors are detailed in Attachment 1 of the December 14, 2009 CLA report and is attached to the Council File). Banks are rated pursuant to a five-tiered CRA rating system ranging from "Outstanding" to "Substantial Noncompliance."

However, the CLA noted that the CRA does not contain penalties for non-compliance, although CRA ratings are considered in the case of mergers or acquisitions involving financial institutions. Additionally, it has been proposed that a local version of the CRA evaluation program be developed for financial institutions that provide financial or investment services to the City. However, not only would this likely be an extensive undertaking at a time of severe financial and personnel constraints, the value of such an evaluation mechanism is unclear. For example, seven of the eleven financial institutions currently used by the City have "Outstanding" CRA ratings, including the two entities with the largest share of the City's deposits (Wachovia and Bank of America). Additionally, creating a similar system to measure local efforts of banks and financial institutions based on CRA-type criteria would likely duplicate much of the work already being done by the Federal government.

After further consideration and having provided an opportunity for public comment, the Committee moved to recommend adopting the recommendations as contained in the December 14, 2010 CLA report as amended and detailed above in Recommendation Nos. 1-7. This matter is now submitted to Council for its consideration.

Respectfully submitted,

JOBS AND BUSINESS DEVELOPMENT COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
ALARCÓN:	YES
KREKORIAN:	ABSENT
PARKS:	YES

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3/1/10
#090234



- Not Official Until Council Acts -

ADOPTED
AS AMENDED
MAR 05 2010
SEE ATTACHED MOTIONS
LOS ANGELES CITY COUNCIL

VERBAL MOTION

I HEREBY MOVE that the Council INSTRUCT the Treasurer to report back, with the appropriate maps, relative to the current banks established within the City.

PRESENTED BY _____
ED P. REYES
Councilmember, 1st District

SECONDED BY _____
RICHARD ALARCON
Councilmember, 7th District

March 5, 2010

CF 09-0234

ADOPTED
AS AMENDED
MAR 05 2010
SEE ATTACHED MOTION
LOS ANGELES CITY COUNCIL

VERBAL MOTION

I HEREBY MOVE that the Council INSTRUCT the Chief Legislative Analyst, Treasurer, and City Attorney to collectively review all new information before preparing and presenting the associated ordinance to Council.

PRESENTED BY _____
BERNARD C. PARKS
Councilmember, 8th District

SECONDED BY _____
RICHARD ALARCON
Councilmember, 7th District

March 5, 2010

CF 09-0234

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ADOPTED

MAR 05 2010

LOS ANGELES CITY COUNCIL

AMENDING MOTION

I MOVE, that the JOBS AND BUSINESS DEVELOPMENT COMMITTEE REPORT relative to the potential divestiture of all deposits in banking and other financial institutions that fail to cooperate with foreclosure prevention efforts, Item 11 on today's Council Agenda (CF 09-0234) BE AMENDED as follows:

1. Move Recommendation #5 from the Committee Report into Recommendation #1, requesting the City Attorney to include the following direction in the Ordinance:

“The City Treasurer will establish a system of annual review for financial institutions to include a community reinvestment score for each financial institution; publish said annual reviews and scores and present them to Council on an annual basis; rank order each financial institution in order of community responsibility with contracting preference to be given to financial institutions that perform in the top two deciles and potential divestiture for financial institutions at the bottom of the list.”

2. Include the following language to Recommendation #1, requesting the City Attorney to include the following direction in the Ordinance:

- a. “Information submitted by banks and financial institutions pursuant to this section shall be reported by census tract and tabulated by the income status and race/ethnicity of borrower.”

- b. “The annual statement of community reinvestment goals will parallel the federal Community Reinvestment Act (CRA) evaluation matrix but will be focused on assessment area performance specifically within the City and County of Los Angeles. Financial institutions will submit information according to their classification in one of the following two evaluation categories:

- i. A “local institution” is defined as a financial institution with 80% or greater of its depository and lending operations within the United States Postal Zip Codes of the City and County of Los Angeles, California. The primary test for qualifying as a local institution will be the institutions listing of branch locations as reported in the most recent FDIC Summary of Deposits reference file. For institutions that fall into this “local institution” category, the June 30th FDIC Call Report or NCUA 5300 filing will serve as the basis of numerical analysis.
- ii. A “non-local institution” is defined as a financial institution with over 20% of its depository and lending operations outside the United States Postal Zip Codes of the City and County of Los



Angeles, California. The primary test for qualifying as a non-local institution will be the institutions listing of branch locations as reported in the most recent FDIC Summary of Deposits reference file. For institutions that fall into this "non-local institution" category, the institution shall provide a supplemental June 30th filing detailing the lending performance elements of an FDIC Call Report or NCUA 5300 report on the branches located within the zip codes of the City and County of Los Angeles.

As part of the annual statement of community reinvestment goals focusing on assessment area performance within the City of Los Angeles, financial institutions should include data addressing:

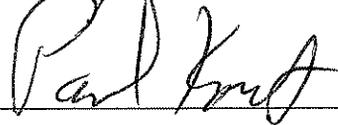
- iii. Lending
- Loan activity within the assessment area versus the institution's deposit base within the area.
 - Community development loans or investments within the assessment area, including loans to nonprofit housing developers for tenants at or below 80 percent of area median income.
 - Small business lending, with overall retail borrower penetration report indicating range of income levels and business sizes served, including number of loans to businesses with annual revenue of \$1 million or less.
 - Charitable or community investment activities within the assessment area not otherwise specified.

PRESENTED BY:



RICHARD ALARCÓN
Councilmember, 7th District

SECONDED BY:



MAR 5 2010

ORIGINAL

ADOPTED

AS AMENDED
MAR 05 2010
SEE ATTACHED MOTIONS
LOS ANGELES CITY COUNCIL