



Legal Aid Foundation of Los Angeles

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To Council Members
Los Angeles City Council
200 N. Spring Street
Los Angeles, CA 90012-4801

Re: Responsible Banking Investment Monitoring Program
Proposed Ordinance (CF 09-0234)

Dear Council Members:

Introductory Statement: We understand that the Budget and Finance Committee will be considering a proposed ordinance on the Responsible Banking Investment Monitoring Program on Monday, November 8, 2010. At the invitation of Councilman Richard Alarcon, I offer the following comments in support and endorsement of the proposed ordinance. The Legal Aid Foundation of Los Angeles (LAFLA) has previously expressed its support for the establishment of the standards and measures contemplated by this program.

Local initiatives which require more creativity, responsiveness, and positive outcomes for Los Angeles' communities from the banking industry's community investment activities are critical to the healthy development and stability of our City.

Who We Represent: LAFLA's clients include homeowners, consumers experiencing problems with many different types of loan products, nonprofits, small business owners involved in community development, the "unbanked" looking for affordable services, as well as many, many bank and other financial institution customers. As the largest Legal Services program west of the Mississippi, we have a large number of disabled and senior clients who receive their public benefits, social security, and veterans' benefits as direct deposits in national banks. They represent a large bank customer base.

LAFLA is a member of the California Reinvestment Coalition and for decades has supported and promoted significant and effective community re- investment and community economic development by our local and national financial institutions.

Investment Accountability to Meet the Times: Given our present economic conditions and the banking industry's role in arriving where we are today, the investment commitments of financial institutions must be significant, at increased giving levels, and they must provide real and measurable benefit to Los Angeles' neighborhoods. The collection and disclosure of the required data can ultimately serve both the purposes of the City and of the financial institutions themselves by providing clear measures of where and how resources and loan products and services are being allocated.

Many financial institutions already invest in promoting their contributions to and partnerships with Los Angeles communities. But the intention of this ordinance is to go beyond good public

relations to have a measurable and reasoned assessment of actual community investment. Much is still to be done to match the imagery of ad campaigns to a constructive shift in the quality and quantity of banking products and the extraordinary but necessary ameliorative work that must be done in our communities in the face of this financial crisis. We are still to see the repair and restitution needed from the industry for the harm done in the marketing and investing in improvident, subprime and other terrible loan products. Banks and the financial industry created or encouraged and participated in the promotion of these bad loans and the inflation of property values to sustain the stream of improvident lending. The subsequent crash of the housing market, the damaging spillover to small businesses, the loss of employment etc, the impact on homeowners, property values, displaced tenants, and our economy require the kind of community reinvestment and accountability which this proposed ordinance promotes.

The Continuing Foreclosure Crisis: State and Federal efforts including Making Homes Affordable (HAMP), CA SB 1137, proposals to repair or compensate for the millions of bad loans, have had mixed and limited results. I applaud your inclusion of a requirement to measure the number of loan modifications made for distressed loans, and the additional provision to disclose the number of loan modifications where a principal reduction was provided.

The number of loan modifications and other affordable loan workouts actually provided by our nation's banks still pale in comparison to the number of families who will lose or already have lost their homes. The ordinance requires public disclosure of the data to be collected. Perhaps that will open the door to more candid assessment and greater awareness of what is actually happening to too many of our Los Angeles homeowners. For example, consumer advocates have yet to determine an effective means of getting banks to understand that it is counter-productive and destructive, at a personal, neighborhood, and community/city level, to use loan modification processes that permit a home to be sold at a trustee sale while a homeowner is awaiting a good faith decision on a loan modification. This happens every day.

Perhaps through greater disclosure, borrowers, communities and the banks can address what needs to be done to avoid the loss of so many homes. Perhaps this ordinance will contribute to avoiding the repetition of disaster in the future.

Other Consumer Loans: Many large lenders have made the payday loan, refund anticipation loan, and auto title loan industries viable. These are loan products that charge exorbitant interest to mostly low and moderate income LA residents. Even in the face of the mistakes made and the outcomes we have seen in the past two plus years, banks continue to promote products that are not sensible or needed by the average Los Angeles working person or family.

Local Action and Accountability: It is appropriate that the City of Los Angeles address this issue. Homeowners, tenants in foreclosed properties, and everyone living in a neighborhood touched by the foreclosure and mortgage crisis and the resulting recession are suffering the ramifications of the mistakes of the real estate loan debacle. Our City's tax base has been severely damaged. The high unemployment rate in Los Angeles, throughout California, and in the nation is a direct product of this evolving crisis.

Financial institutions have to be accountable at a local level if they expect to benefit from municipal and local contracts and if they have the actual intention of being part of the communities and neighborhoods where they do business. Thus, this opportunity for Banks to increase the level of and be held accountable for meaningful community investment is an essential tool. In fact, it is consistent with the objectives of another proposed ordinance, *the Local Preference Initiative*. Los Angeles needs policies that promote investment accountability and economic development in our City.

It is reasonable for the City of Los Angeles to do business only with those lenders and financial

institutions that understand and are willing to meet those accountability standards. We believe that Banks that consider themselves partners or members of the communities where they do business should welcome the opportunity to participate in the restoration of healthy neighborhood economies. This will require commitments that go beyond what have been given in the past.

Concluding Statement: Thank you to the Council, to the Jobs Committee and the Budget and Finance Committee, and to Councilman Alarcon for proposing and considering this initiative. We are in an economic crisis that continues and that, in many low and moderate income neighborhoods of Los Angeles, digs even deeper that is generally recognized. If we are to heal, community investment must occur at a level that matches the dramatic level of loss and economic and morale damage to Los Angeles' families, neighborhoods and families. We must have a means of distinguishing good business practices and partners from those that lack a real commitment to civic responsibility and the overall health of our neighborhoods and City.

I close with a reference and link that presents a dramatic picture of the increased unemployment rate from 2007 to the present, across the nation, in California, in Los Angeles.

<http://cohort11.americanobserver.net/latoyaegwuekwe/multimediafinal.html> .

Thank you for the opportunity to comment.

Yours truly,

Dorothy Herrera Settlage

Senior Attorney

Legal Aid Foundation of Los Angeles