OAKLAND COALITION TO STOP GOLDMAN SACHS

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May 30, 2012

COALITION MEMBERS

ACCE - Alliance of Californians for Community Empowerment

Bay Natives for Peace and Justice

Decolonize Oakland

ILWU Local 10

Interfaith Tent @ Oakland

Occupy Oakland Labor Solidarity Committee

Oakland CAN (Community Action Network)

Occupy Oakland Research Working Group

ROOTS - Reclaiming Oakland Organizing Through Solidarity (formerly Occupy the Hood)

SEIU Local 1021

Individual Concerned Oakland Residents

To the Members of the Finance Committee of the Oakland City Council:

We are church leaders, union members, community organizers, activists, and concerned Oakland residents, who have come together to confront our city's economic crisis. The Oakland Coalition to Stop Goldman Sachs (which participated in the Coalition for Economic and Social Justice presentation at the February 21, 2012 City Council meeting, as well as in the May 8, 2012, meeting of the Finance Committee) is committed to community education, mobilization and non-violent direct action around Oakland's financial dealings in general, and with Goldman Sachs in particular. We are also committed to assertively engaging with our elected officials to express community concerns, and create effective and just solutions.

Our recent appearance at Goldman Sachs' shareholders' meeting in New Jersey demonstrates the seriousness of our commitment to work on many fronts to achieve our demands.

Our Demands

*F*irst and foremost, we demand that the City Council cancel the Swap Agreement between the City of Oakland and Goldman Sachs, and do so without triggering the onerous "early termination" penalty, now valued around $16 million dollars. In other words: Oakland should not pay one more penny to Goldman Sachs on this swap deal. Contrary to some claims, Oakland has already paid off the bond that was tied to the swap, thus there is no longer any reason to remain in this deal. Moreover, our included documents show that the new bond, which the city took out in 2008 to pay off the original swap-linked bond, has a fixed interest rate. There is no reason to have a swap deal on a fixed interest rate bond.

*S*econd, that the City Council secure from Goldman Sachs the more than $30 million dollars that Oakland has been forced to pay so far as a result of this deal. Goldman Sachs has profited enormously from the federal bailout, while cities such as Oakland have received no relief whatsoever. Goldman Sachs CEO Lloyd Blankfein's admission at the shareholder meeting that profits matter more than the people of Oakland deserves a strong response from City officials.

Third, that Oakland uses this money to reverse lay-offs and restore services and agencies that were cut for financial reasons. The money

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to be saved from ending the swap should benefit the people of Oakland and not simply be stored in the general fund or used for projects that benefit only a select few.

Fourth, that Oakland pass a Responsible Banking Act designed to ensure that the city only enter into contracts with banks who are making substantial positive investments in the local economy, and stop entering into "backroom" deals that benefit Wall Street banks, to the detriment of Oakland residents." By doing so Oakland will join many cities that have passed or are considering similar ordinances.

In preparation for the upcoming June 12th meeting of the Finance Committee we submit the following documents (please see attached Table of Contents for detailed list of documents included in this packet):

1. Swap timeline, analyses, and evidence that the bond for which the swap was created has indeed been paid, contrary to the claims made at the May 12 Finance Committee meeting.
2. Examples of similar anti-swap campaigns in cities and public agencies throughout the U.S., as evidence that Oakland would join a national movement for economic justice by cancelling the swap.
3. Documented timeline of former Oakland City Treasure Manager Jan Mazyck's involvement with both the original swap and with its amendment (as a private consultant with PFM Group)—just one of several examples of an "appearance of a conflict of interest" surrounding the swap deal that deserve investigation and call for legislation to prohibit such shady deals.
4. Original language of the Responsible Banking Act approved by the Los Angeles City Council and additional documents regarding similar ordinances in a growing number of cities.
5. Articles mentioning the appearance by members of our coalition at Goldman Sachs' shareholders' meeting, including the CEO's comment that their profits matter more than our city.

We look forward to this opportunity to meet and work together with you to address this and other challenges facing Oakland.

Respectfully,
The Oakland Coalition to Stop Goldman Sachs

OAKLAND COALITION TO STOP GOLDMAN SACHS

Febrnary 12, 2012 Finance Committee Meeting - Packet Table of Contents

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OAKLAND COALITION TO STOP GOLDMAN SACHS

Oakland-Goldman Sachs SWAP Time line:

1/9/97-------Forward starting SWAP entered. Goldman Sach Mitsui to pay BMA and receive 5.6775% fixed rate from Oakland after bonds issued. Oakland received $15 million for entering the SWAP.

7/1//98------$187,500,000 Oakland Joint Powers Financing Authority Lease Revenue Bonds, 1998 Series A1/A2 (the "Original Bonds") were issued. These were variable rate bonds and were tied to the SWAP. The proceeds refunded earlier pension bonds.

3/21/03------SWAP agreement amended so Goldman pays 65% of LIBOR instead of BMA. Oakland receives another payment of $5.975 million. No refunding of bonds at this point.

6/21/05------Oakland Joint Powers Financing Authority Refunding Revenue Bonds, 2005 Series A-1, A-2 and B (the "2005 Bonds") were issued. Proceeds of A-1 and A-2 were used to pay off the Original Bonds. Proceeds of B were used to fund additional pension obligations. These bonds were Auction Rate Securities ("ARCs"), another form of variable rate bond. Oakland's 2011 CAFR (quoted below) implies that at this point the SWAP was not associated with any bonds. The City Administrator's April 25, 2012, Memo says the SWAP was associated with these 2005 Bonds.

4/16/08------Oakland Joint Powers Financing Authority Refunding Revenue Bonds, 2008 Series A-1 and A-2 (the "2008 Bonds") were issued. Proceeds used to pay off the 2005 Bonds. These were fixed rate bonds with interest rates ranging from 3.5 to 5.25% depending on maturity (i.e., the year that portion of the bonds is scheduled to be paid off). The yields on the 2008 Bonds (a better measure of the interest rate the City is actually paying) ranged from 1.450 to 3.860%. The 2005 Bonds were paid off on April 21, 2008. The 2008 Bonds are currently the only issue of bonds outstanding that trace back to the Original Bonds issued in 1998.

For informational purposes the Official Statements that describe the 2005 and 2008 Bonds can be found at the locations below:

http://www.oaklandnet.eom/government/fwawebsite/treasury/PDF/r1c2_OS_Oakland.pdf

http://www.oaklandnet.com/government/fwawebsite/treasury/PDF/fos-19405_Forprinting.pdf

Excerpt from Oakland's 2011 CAFR (Comprehensive Annual Financial Statement), pp. 74-75:
On January 9, 1997, the City entered into a forward starting synthetic fixed rate swap agreement (the "Swap") with Goldman Sachs Mitsui Marine Derivatives Products, U.S., L.P. (the "Counterparty") in connection with the $187,500,000 Oakland Joint Powers Financing Authority (the "Authority") Lease Revenue Bonds, 1998 Series A1/A2 (the "1998 Lease Revenue Bonds"). Under the swap agreement, which effectively changed the City's variable interest rate on the bonds to a synthetic fixed rate, the City would pay the Counterparty a fixed rate of 5.6775% through the end of the swap agreement in 2021 and receive a variable rate based on the Bond Market Association index. The City received an upfront payment from the Counterparty of $15 million for entering into the Swap.

On March 21, 2003, the City amended the swap agreement to change the index on which the Swap is based from the Bond Market Association index to a rate equal to 65% of the 1-month London Interbank Offer Rate ("LIBOR"). This amendment resulted in an additional upfront payment from the Counterparty to the City of $5.975 million.

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On June 21, 2005, all of the outstanding 1998 Lease Revenue Bonds were defeased by the Oakland Joint Powers Financing Authority Refunding Revenue Bonds, 2005 Series A-1, A-2 and B ("Series 2005 A & B Bonds"). $143,093,669 was deposited with the trustee to defease the 1998 Lease Revenue Bonds. However, the Swap associated with the 1998 Lease Revenue Bonds still remains in effect. ***This is now a stand-alone swap with no association to any bond.*** ***[Emphasis added]***

2008 Refunding

The 2011 CAFR does not reference the 2008 refunding. The City Administrator's Memo of April 25 says that the SWAP served as a hedge to the 2005 Bonds (which actually makes sense since they were variable rate bonds). But the 2005 Bonds have been fully paid off with the proceeds of the 2008 Bonds, which are fixed rate bonds. It makes no sense to have a variable to fixed SWAP associated with a fixed rate bond, and, no doubt, the statement in the CAFR is true for the period after the 2008 bonds were issued. The City is paying a full long term interest rate on the fixed rate bonds and, additionally, it is still required to pay a second (currently) higher rate based of 5.6775% minus one month LIBOR. It is like refinancing a loan with a new bank and continuing to pay interest to the old bank even though its loan was completely paid off with the new loan.

Oakland Interest Rate Swap with Goldman Sachs

1 have reviewed the City of Oakland's interest rate swap deal with Goldman Sachs on the $131.5 million Oakland Joint Powers Financing Authority Lease Revenue Bonds, 1998 Series A1/A2. Here are my key findings:

- The city is losing $353,000 per month on this deal, or $4.2 million annually.
- The city has already lost S32 million through May 2012, and if current interest rates hold, it stands to lose another $20 million over the remaining life of the swap.
- Because the 1998 bonds were defeased in 2005, the swap is no longer serving its intended purpose.

As such, rather than reducing the cost of borrowing to the city, the interest rate swap has actually increased the cost. Goldman Sachs has obtained approximately $24 million in profits since 2005.

Deal Structure

To help you fully understand the situation, I will first explain the basic structure of Oakland's interest rate swap deal, based on information contained in publicly available documents. The city floated the 1998 bonds to help finance its pension obligations, but instead of taking out fixed-rate bonds, the city used variable-rate bonds. These are similar to adjustable-rate mortgages because interest rates can fluctuate depending on market conditions.

To protect itself from sudden spikes in interest rates, Oakland took out an interest rate swap with Goldman Sachs. An interest rate swap is a type of derivative that allows bond issuers to effectively swap out variable-rate payments for fixed-rate ones, thereby protecting them from swings in the market.

According to the city's Comprehensive Annual Financial Report (CAFR) from FY 2011, Oakland agreed to pay Goldman Sachs a fixed 5.6775% interest on the amount of the bond, and the bank agreed to pay back a variable rate that was equal to the Bond Markets Association (BMA) Index, which tracks market movements for variable-rate bonds. The BMA Index was 3.090% at the time the bonds were issued in July 1998. The bank also paid the city $15 million upfront to enter into the deal.

The premise behind swaps is that the variable rate that the bank has to pay the city should approximate the interest rate on the variable-rate bonds, so the city's only cost should be the fixed rate it pays to the bank. In effect, Oakland was able to obtain a bond with a "synthetic fixed rate" of 5.6775%, which is likely cheaper than what it would have had to pay for a conventional fixed-rate bond in 1998.

In March 2003, the city agreed to amend the deal. Under the new terms, the city continued to pay Goldman Sachs 5.6775% interest, but the bank now had to pay the city 65% of the one-month London Interbank Offered Rate (LIBOR), which at the time lowered the rate the bank had to pay the city from 1.080% to 0.857%. In exchange for the reduced payments, the city got an additional $5.975 million from the bank. In all, Oakland has received $20.975 million in upfront payments from Goldman Sachs.

The bonds were supposed to mature in 2021, so the deal was structured to last through then. If the city wants to terminate the deal early, it has to pay Goldman Sachs a $15.5 million penalty.

Oakland Is Locked into Swap Deal Even Though Bonds Were Retired in 2005

Oakland retired the 1998 bonds early in June 2005. The bonds would have otherwise matured in 2021. However, even though the underlying bonds have been defeased, the swap remained in place. The city cannot terminate the swap unless it pays Goldman Sachs the $15.5 million termination fee. The purpose of the swap was to protect the city against spikes in interest rates on the 1998 bonds in particular. Since 2005, Oakland has been paying Goldman Sachs for that protection even though the bonds do not actually exist.

Goldman Sachs Has Reaped Millions in Profits from Oakland

I conducted an analysis looking at historical LIBOR and BMA Index rates and the amortization schedule of the 1998 bonds from their official statements to determine how much the bank has paid on the swap since 1998. I also looked at the actual interest rates that Oakland had to pay to bondholders between 1998 and 2005 on the underlying 1998 bonds.

From this analysis I found that through May 2012, Oakland had paid Goldman Sachs an estimated $80 million in fixed-rate payments, and Goldman Sachs had paid the city back approximately $28 million in variable-rate payments. The bank's average variable interest rate had been 1.948%, less than half of the 5.6775% the city pays the bank. That means that, overall, the city had paid $53 milhon on the swap more than it had gotten back. If we take out the $20.975 million that Oakland received upfront, this means that through May 2012, the city had effectively lost $32 million on the deal.

If the city continues to pay the swap and current interest rates hold, then over the life of the swap, the city will pay an estimated $101 million and receive approximately $28 million. Once you take out the upfront payment, it amounts to a net loss of $52 million to the city over the life of the swap.

This swap deal has two distinct phases: Phase 1 before the bonds were defeased in 2005 and Phase 2 afterwards. The performance of the swap over these two phases is detailed below.

Phase 1: Before the 1998 Bonds Were Retired in 2005

The basic premise behind an interest rate swap is that sometimes the rate that the bank has to pay the city will be higher than what the city pays back and sometimes it will be lower. That way, over the life of the deal, the city should pay the bank an amoumt that is approximately equal to what it gets back. However, in the case of Oakland's swap with Goldman Sachs, this did not happen. Interest rates tended to favor Goldman Sachs. Before the 1998 bonds were defeased (between July 1998 and June 2005), there was only one month when the bank's payment was higher than the city's. Based on the BMA Index at the time, I estimate Goldman Sachs paid 5.710% to Oakland in May 2000, slightly higher than the 5.6775% the city owed the bank. Prior to June 2005, Oakland paid the bank $47.2 million and received back $18.4 million. This means that the city paid $28.8 million more than it got back. Goldman Sachs recovered its entire upfront payment of $20.975 million during this time.

Meanwhile, during this time the actual interest payments that the city had to make on the 1998 bonds were $17.0 million. That means Oakland paid $17.0 million to the bondholders and $47.2 million to Goldman Sachs, and received $18.4 million in swap payments and $20.975 million upfront payment from the bank:

Bondholders	*$17.0M* ←	Oakland	*$47.2M* → ← *$18.4M in swaps + $21.0M upfront*	Goldman Sachs

Altogether, taking into account the bond payments, the swap, and the upfront payments, this arrangement ended up costing Oakland $24.7 million. If the city had not hedged the 1998 bonds with an interest rate swap, it would have made only $17.0 million in interest payments. The interest rate swap was supposed to decrease the cost of borrowing for Oakland, but even while the bonds were outstanding, the city ended up overpaying as a result of the deal. Goldman Sachs would likely claim that this was the cost of protecting the city from the threat of interest rate spikes.

Phase 2: After the 1998 Bonds Were Retired in 2005

Once the city defeased the 1998 bonds in June 2005, the threat of interest rate spikes was gone. Since then, the city has paid Goldman Sachs an estimated $33 million and received back $9 million—a net loss of $24 million. Goldman Sachs has already recovered its upfront payment to the city and it appears as if the swap no longer provides the city any protection from potential interest rate spikes, since the underlying bonds no longer exist. As such, this $24 million is pure profit for Goldman Sachs.

Since 2005, there has never been any point at which the bank's payment to the city has exceeded the city's payment to the bank. Furthermore, since the Federal Reserve slashed interest rates in October 2008 in response to the financial crisis, Goldman Sachs has reaped a windfall. Between November 2007 and October 2008, Oakland lost $3.0 million on the swap deal. Between November 2008 and October 2009, it lost $4.9 million. The 61% jump was due to the lower interest rates.

Conclusion

Accounting for the upfront payments from Goldman Sachs, Oakland has already lost $32 million on the interest rate swap deal with Goldman Sachs and it stands to lose another $20 million over through 2021, which will further exacerbate its budget crisis. Goldman Sachs has already recovered its upfront payment to the city, so it does not stand to lose any of its own money from ending this deal. Its only loss will be future revenue from the deal—the $353,000 per month that the city pays the bank. Based on this, it would be reasonable for your organizations to demand that Goldman Sachs terminate the interest rate swap without charging the city penalties.

The interest rate swap served a specific financial purpose: to protect the city against interest rate spikes on those bonds. Once those bonds ceased to exist, the swap no longer served that purpose, but the city could not exit the deal because of the termination fees. In 2003, the city agreed to renegotiate the swap deal to lower the bank's interest rate. In 2008, taxpayers bailed out the big banks, including Goldman Sachs, to the tune of trillions of dollars. In light of taxpayers' past kindness towards the bank, Oakland has a strong moral argument that Goldman Sachs should return the $24 million it has made on the deal since June 2005.

Jan Mazyck and Oakland: "the Appearance of a Conflict of Interest" – a Timeline

January 1991–March 1997 Treasury Manager, City of Oakland	April 1997–Sept 1998 Managing Director, Public Resources Advisory Group, Los Angeles "Leading advisory firm ...raising funds in municipal capital markets..."	Sept 1998–2010 Managing Director, The PFM Group	Nov. 2010–current Mazyck Advisors LLC Sherman Oaks, CA
January 8, 1997 Mazyck signs rate swap on behalf of The City of Oakland		Oct 2, 2001 Mazyck named by *Bond Buyer* as the Financial Adviser on Restructuring of 1997 Bond deal. March 21, 2003 Amended Swap Agreement signed. PFM Receives $87,000 from Goldman Sachs for the Reworked Swap	

sources;
http://darwinbondgraham.wordpress.com/2012/03/24/who-inked-oaklands-cosdy-swap-deal-where-are-they-now/

1997 Oakland-Goldman Sach Interest Rate Swap Agreement + 2003 Amended Agreement. City of Oakland Public Records Request no.8021
http://www.scribd.com/doc/83698941/1997-Oakland-Goldman-Sach-Interest-Rate-Swap-Agreement-2003-Amended-Agreement

Jan Mazyck Resumé: http://www.linkedin.com/pub/jan-mazyck/11/b39/954
http://www.corporationwiki.com/California/Sherman-Oaks/mazyck-advisors-llc/67188513.aspx

Williams, Rochelle. 2001. "Oakland Comes to Market in Effort To Restructure Pension Bond Deal." *Bond Buyer*, 07320469, 10/2/2001, Vol. 338, Issue 31235

ALBERT VANN
Council Member, 36th District

Richard Alarcón
Councilmember, District Seven

FOR IMMEDIATE RELEASE

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New York City and Los Angeles Pass Responsible Banking Laws on Same Day

Two largest cities in the U.S. recognize need for local community reinvestment laws

May 16, 2012 – Yesterday, both the New York City Council and the Los Angeles City Council adopted "responsible banking" laws that ensure the banking needs of local neighborhoods are a priority in the municipalities' business relationships with banks. Although banks have received tremendous government support to ensure their vitality following the financial crisis of the last decade, those benefits have not necessarily filtered down to local communities. Despite the fact that banks have stabilized, the foreclosure crisis continues to plague neighborhoods across the country, small businesses are struggling to access credit, and low-to-moderate income communities still lack banking services. The passage of laws in the nation's two largest cities symbolizes a growing recognition that local governments can take action to encourage and incentivize responsible bank reinvestment in local communities.

"In order to ensure the economic health and vitahty of our cities, we need banks committed to addressing the financial needs of our neighborhoods," said **New York City Council Member Al Vann**, sponsor of the **Responsible Banking Act**. "It is essential that locahties encourage responsible banking behavior, particularly dirough die leverage of their financial dealings with banks. We have a responsibility to diose we represent, and New York City and Los Angeles have taken affirmative steps to meet that obligation. 1 am proud that the nation's banking capital passed responsible banking legislation, and congratulate Councilmember Alarcón on the successfiil passage of his bill."

"Every elected official has an obligation to ensure that taxpayer dollars are invested wisely – in institutions that are committed to our cities and our communities," said Los Angeles Councilmember **Richard Alarcón**. "The **Responsible Banking Ordinance** will protect taxpayer money by allowing us to invest with better information. We have come a long way since we first introduced the responsible banking ordinance in 2009, and I am proud to have helped achieve this victory for taxpayers in Los Angeles, and around the country."

In New York, a 2011 report by the Association for Neighborhood and Housing Development (ANHD) showed a stark $4.4 billion decrease in reinvestment by banks despite a $38 bilhon increase in local deposits over a two year period.

"This bill is a result of the fiustration felt by our communities about the lack of accountabihty by banks during the recent economic crisis, but we also know that our city and our neighborhoods cannot thrive without banks providing the lending to homeowners and small business, fimding for affordable housing, and services to help families build household wealth," said Benjamin Dulchin, Executive Director of ANHD. "The Responsible Banking Act will be an effective and productive tool to bring banks to the table with communities and government to make sure those needs are being met and our neighborhoods can thrive."

The legislation passed by the New York City Council will establish an advisory board that will assess the banking needs of communities at a neighborhood level and evaluate how well the city's depository banks are meeting those needs. The evaluation will focus on criteria including small business lending, mortgage modification and foreclosure prevention, provision of branches and services to low-and moderate-income communities and individuals, and investment in affordable housing, among others. The board will be comprised of representatives of the Mayor, the Comptroller, the City Council, the Commissioner of Finance, the Commissioner of Housing Preservation and Development, the banking industry, community development/housing organizations, consumer protection organizations, and small business owners.

Coimcilmember Alarcón's Los Angeles Responsible Banking Ordinance, which was approved by a unanimous vote at yesterday's City Council meeting, will create a pubhc, transparent process for gathering information about banks' history of service in communities in Los Angeles when considering which financial institutions to award future City contracts. The Ordinance would not preclude any financial institutions from doing business with the City of Los Angeles, but would rather require banks interested in doing business with the City to provide specific information about their work in Los Angeles.

After Councilmember Alarcón introduced the Responsible Banking Ordinance to the Los Angeles City Council in 2009, he helped start a coordinated national effort to achieve better banking accountability by bringing the program to the National League of Cities annual conference in 2010. Based on programs that have yielded tremendous community reinvestment in Cleveland and Philadelphia, responsible banking ordinances have recently been approved or are being considered in cities including Seattle, Berkeley, Boston, Portland, Kansas City, San Francisco, and now New York and Los Angeles.

"This is a beacon of things to come," said National Community Reinvestment Coalition President and CEO John Taylor. "Local governments are becoming empowered to hold banks accountable to investing in our communities in a responsible way. In effect they are saying if you want to do business with our city, you have to play fair. We expect this trend will grow and continue in cities and localities across the nation.

"We congratulate the Association for Neighborhood and Housing Development in New York, and City Councilmember Richard Alarcón in Los Angeles for this accomplishment. Their hard work played a key role in making these responsible banking ordinances happen."

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City of Los Angeles

CARMEN A. TRUTANICH
City Attorney

REPORT NO. R 1 2 - 0 1 3 2

MAY 0 9 2012

REPORT RE:

AN ORDINANCE ADDING SECTION 20.95.1 TO CHAPTER 5.1 OF THE LOS ANGELES ADMINISTRATIVE CODE TO PROVIDE FOR THE ESTABLISHMENT OF A RESPONSIBLE BANKING INVESTMENT MONITORING PROGRAM

The Honorable City Council
of the City of Los Angeles
Room 395, City Hall
200 North Spring Street
Los Angeles, California 90012

Council File No. 09-0234

Honorable Members:

This Office has prepared and now transmits for your consideration the enclosed draft ordinance approved as to form and legality. This draft ordinance would amend the Los Angeles Administrative Code (LAAC) by adding Section 20.95.1 to Chapter 5.1 in order to establish a Responsible Banking Investment Monitoring Program within the City of Los Angeles for both commercial and investment banks which seek City business.

The Monitoring Program would require commercial banks to provide the City Treasurer with a statement of community reinvestment goals, including the number, size and type of small business loans; home mortgages; home improvement loans; community development loans; and investments within the City of Los Angeles, provided by census tract. In addition, such statements shall also include the institution's participation in the City's foreclosure prevention and home loan principal reduction programs reported by census tract; and its federal Community Reinvestment Act (CRA) score.

Investment banks would be required to provide the City Administrative Officer with a statement of their corporate citizenship criteria which shall include but not be limited to: participation in charitable programs or scholarships within the City during the year immediately predating the filing and internal policies regarding utilization of subcontractors which are designated as "women owned," "minority owned," or "disadvantaged" business enterprises.

The statements required by this ordinance are intended to encourage community reinvestment by banks that seek City business. The information provided by the banks would be made public via the City's website within 90 days after its filing.

Council Rule 38 Referral

The draft ordinance has been sent to the Director of Finance/CityTreasurer and City Administrative Officer pursuant to Council Rule 38 for review and comment directly to Council.

If you have any questions regarding this matter, please contact Assistant City Attorney Val Dinu at (213) 978-7780. He or another member of this Office will be present when you consider this matter to answer any questions you may have.

Very truly yours,

CARMEN A. TRUTANICH, City Attorney

By [signature]
PEDRO B. ECHEVERRIA
Chief Assistant City Attorney

CC:VFD:lee
Transmittal

ORDINANCE NO. ________________

An ordinance adding Section 20.95.1 to Chapter 5.1 of the Los Angeles Administrative Code to provide for the establishment of a Responsible Banking Investment Monitoring Program.

THE PEOPLE OF THE CITY OF LOS ANGELES
DO ORDAIN AS FOLLOWS:

Section. 1. Section 20.95.1 is hereby added to Chapter 5.1 of the Los Angeles Administrative Code to read:

Sec. 20.95.1 Additional Disclosures Required From Financial Institutions.

The intent of the Responsible Banking Investment Monitoring Program is to spur community reinvestment by the City's financial institutions and underwriters.

In addition to the disclosures required elsewhere in this Chapter, banking institutions already providing City banking business or seeking City banking business must also disclose the following information through annual filings with the appropriate City official as described below:

(a) Commercial banks: An annual statement of community reinvestment goals. Specific to the City of Los Angeles, the statement shall contain information including but not limited to the number, size and type of small business loans; home mortgages; home improvement loans; community development loans; and investments within the City of Los Angeles, to be provided by census tract for the year immediately predating the filing. In addition, such statements shall also include the institution's participation in the City's foreclosure prevention and home loan principal reduction programs and any other similar programs reported by census tract; and its federal Community Reinvestment Act (CRA) score.

"Commercial bank" shall be defined for purposes of this Chapter as a banking institution that accepts cash deposits for checking and savings accounts from customers and uses those cash deposits to issue loans.

The statement required by this Section shall be filed by July 1st of each year with the City Treasurer, who shall make this information available to the public on its official website within 60 days after it is filed. The information required by this Section shall be first filed by the commercial bank when if applies to receive City deposits or other commercial banking business with the City and shall be updated annually as long as the bank continues to receive or seek City business.

(b) Investment banks: A statement of their corporate citizenship which shall include but not be limited to: participation in charitable programs or scholarships within the City during the year immediately predating the filing; internal policies regarding utilization of subcontractors which are designated as "women owned," "minority owned," or "disabled" business enterprises.

"Investment bank" shall be defined for purposes of this Chapter as a financial institution that provides underwriting services including the buying and selling of stocks, bonds and other securities and other debt related services.

The statement required by this Section shall be filed by July 1st of each year with the City Administrative Officer, who shall make this information available to the public on its official website within 60 days after it is filed. The information required by this Section shall be first filed by the investment bank when it applies to participate in the City's selling of municipal indebtedness or other investment business with the City and shall be updated annually as long as the financial institution continues to receive or seek City business.

The City Administrative Officer, or the relevant city department, not excluding proprietary departments, will produce a matrix of the information provided by the financial institutions, as defined by the City Administrative Officer, whenever a financial transaction is transmitted to Council for approval.

A financial institution which has both commercial and investment branches shall be subject to the type of disclosure associated with the kind of City business it pursues: cash deposits or other types of commercial banking services or the selling of securities or other debt related services.

investment banks shall not be subject to disclosure requirements identified in Section 20.95 as long as they seek only investment banking business as defined above. If the financial institution seeks City's commercial banking business then that financial institution is subject to all of this Chapter's requirements.

(c) The information requested by this Section shall be disclosed on a form to be provided by the City, and signed by an authorized representative under penalty of perjury. The disclosure statements filed by banking institutions shall be posted on the appropriate City websites for public viewing within 30 days of the beginning of each new City fiscal year; and be available for public inspection and copying.

Sec. 2. The City Clerk shall certify to the passage of this ordinance and have it published in accordance with Council policy, either in a daily newspaper circulafed in the City of Los Angeles or by posting for ten days in three public places in the City of Los Angeles: one copy on the bulletin board located at the Main Street entrance to the Los Angeles City Hall; one copy on the bulletin board located at the Main Street entrance to the Los Angeles City Hall East; and one copy on the bulletin board located at the Temple Street entrance to the Los Angeles County Hall of Records.

I hereby certify that this ordinance was passed by the Council of the City of Los Angeles, at its meeting of ______________________.

JUNE LAGMAY, City Clerk

By ______________________________
Deputy

Approved ________________________

____
Mayor

Approved as to Form and Legality

CARMEN A. TRUTANICH, City Attorney

By Valentin F. Dinu (PBC)
VALENTIN F. DINU
Assistant City Attorney

Date 5/9/12

File No. C.F. 09-0234

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13 A

MOTION #13 A

I HEREBY MOVE that the Council ADOPT the Responsible Banking Ordinance (CP 09-0234 Item No. 13) submitted by the City Attorney on May 09, 2012 with the following amendments:

1. Amend Sec. 20.95.1 (a) to replace the word "goals" with "activities"; and

2. Amend Sec. 20.95.1 (c) to replace "30 days" with "60 days".

PRESENTED BY
RICHARD ALARCÓN
Councilmember, 7th District

SECONDED BY

ORIGINAL

MAY 1 5 2012

Nation of Change

New York and Los Angeles City Councils Approve Responsible Banking Ordinances

By Travis Waldron

City councils in the nation's two largest cities have approved laws aimed at forcing banks to invest more in their local communities. The Los Angeles city council unanimously passed its "responsible banking" ordinance yesterday afternoon; the New York's city council passed its own shortly after by a vote of 44-4.

The laws were supported and pushed by activists from the 99 Percent Movement and religious groups who have led campaigns to move money from the nation's largest banks. The ordinances give preference for city contracts to banks that make the most substantial investments in the local community through small business loans, home loans, foreclosure prevention, and other programs, according to the PICO National Network, a coalition of religious organizations that pushed for the Los Angeles ordinance:

> The New York City ordinance would require banks to provide information on reinvestment activities, including foreclosure and loan modification information, that would be used to evaluate the banks that want to hold city deposits. The Los Angeles ordinance will gather data on banks' participation in foreclosure prevention and home loan principal reduction programs, as well as other community reinvestment information.

New York Mayor Michael Bloomberg is likely to veto his city's ordinance, another poke at 99 Percent Movement activists who have butted heads with him over the last eight months. Los Angeles Mayor Antonio Villaraigosa is expected to sign his city's version into law.

Cleveland became the first major city to adopt a responsible banking ordinance in 1991, and they have spread quickly since the 99 Percent Movement ignited last fall. Pittsburgh and San Diego recentiy passed similar ordinances, and city councils in Seattle, Boston, and San Francisco are all considering laws now.

OAKLAND COALITION TO STOP GOLDMAN SACHS

COALITION MEMBERS

ACCE - Alliance of Californians for Community Empowerment

Bay Natives for Peace and Justice

Decolonize Oakland

ILWU Local 10

Interfaith Tent @ Oakland

Occupy Oakland Labor Solidarity Committee

Occupy Oakland Research Working Group

ROOTS - Reclaiming Oakland Organizing Through Solidarity (formerly Occupy the Hood)

SEIU Local 1021

Individual Concerned Oakland Residents

May 24, 2012

PRESS RELEASE

Contact: Aimee Allison 510.343.4019

Oakland Residents to Goldman Sachs: Stop Ripping Us Off

Oakland Pastor, Residents Confront CEO on "Toxic" Swap Deal at Shareholder Meeting

Jersey City, NJ: A delegation of community leaders from Oakland including a Pastor and city worker, will carry a stem message to Goidman Sachs to stop ripping off Oakland taxpayers at the bank's Annual Shareholder meeting Thursday, May 24 at 9:30am. Armed with proxy votes, they will demand that the Wall Street giant release the City of Oakland from an interest swap deal that was supposed to save the City money but is now costing the City more than $4m annually

Details: Thursday, May 24, 9:30am
Goldman Sachs 2012 Shareholder Meeting 30 Hudson Street, 6th Floor, Jersey City, NJ.
Rally immediately following

As the City of Oakland faces closing libraries and reducing its police force in midst of a budget crisis, residents are calling on Goldman Sachs to cancel the swap deal to save taxpayers $21Million through 2012. States and cities across the country continue to slash critical public services to cope with massive budget holes left in the wake of the financial meltdown. By allowing states and cities to renegotiate or cancel so-called "interest rate swap" deals at no cost, Wall Street could provide needed solutions to local governments.

The protest is the latest step in an escalating campaign waged by the Coalition to Stop Goldman Sachs - which includes SEIU and community and religious groups, to demand that Goldman Sachs release the City of Oakland from the "toxic" deal without the hefty termination fees totaling more than $15.5 Million. Their message to CEO Blankfein will detail the devastating impact that Goldman's deal is having on Oakland communities. They will participate in the annual shareholder meeting and take part in a rally immediately after the meeting. "Goldman Sachs

CEO needs to hear that this bad deal has had a real impact on our community. The city has been forced to cut basic services to the point that there isn't even money to properly maintain our fire fighting and street cleaning vehicles," says City of Oakland heavy equipment mechanic Felipe Cuevas. Reverend Kurt Kuhwald, Professor at the Graduate Theological Union adds, "To profit off cash-strapped cities while enjoying bailouts on the public dime is beyond bad business practice. It's immoral. SEIU Local 1021 Vice-President Gary Jimenez will also attend the shareholder meeting. "We're not going to stop. We're pushing the Goldman CEO to see that Oakland and other cities like us are not going to sit by while this Wall Street giant crushes our budget and our community."

Background on City of Oakland Swap Deal with Goldman Sachs:

In 1998, the Oakland Joint Powers Financing Authority issued $187.5 million in bonds to refund the 1988 Series A Special Refunding Revenue Bonds. The 1998 bonds had a variable interest rate, which meant that the amount the city had to pay could shoot up over time. Goldman Sachs offered the City a gamble: if Oakland paid Goldman a fixed 5.68% interest rate, the bank would pay back a variable rate to the City to cover the interest payments on the bond.

After the banks crashed the economy in 2008, the Federal Reserve cut interest rates to near zero as part of the bailout to give banks access to cheap money. As a result, Goldman's variable rate has dropped down to 0.15%, but the bank is still forcing the City to pay 5.68% and pocketing the $4.2 million difference as profit. Goldman will not let Oakland taxpayers out of the deal unless they pay nearly $15.5 million in penalties.

Oakland actually refunded the 1998 bonds in June 2005, but the City could not terminate the swap agreement without paying a penalty to the bank. As a result, the City has paid Goldman Sachs $24 million over the last five years even though the underlying bonds that the swap was supposed to hedge no longer exist. The City is locked into this deal until 2021—making the total cost over the life of this deal to be paid out to Goldman Sachs $52 million.

###

Email: stopgoldmansachs@gmail.com Voice mail: 510.250.7222

The New York Times
DealB%k
Edited by Andrew Ross Sorkin

MAY 24, 2012, 8:47 AM

The Scene From Goldman's Annual Meeting

By SUSANNE CRAIG

Stephen Chernin/Bloomberg NewsLloyd C. Blankfein, chief of Goldman Sachs, at the Robin Hood Foundation's spring fund-raising event.

Goldman Sachs has plenty of issues it may have to address on Thursday at its annual meeting in Jersey City.

Although the Wall Street firm has not been at the center of some recent controversies – the Facebook public offering or the $2 billion-plus trading loss at JPMorgan Chase – Goldman's chief, Lloyd C. Blankfein, will probably face questions on some shareholder proposals.

One proposal would require the board to prepare a detailed report on the firm's lobbying efforts and how much it spends on them.

The regulatory changes aimed at Wall Street are also likely to be a hot topic. While Goldman's financial performance has been stronger than that of many of its rivals, the proposed rules could reshape the way it does business – and cut into profits.

In addition, the managers of Sequoia Fund have announced plans to vote against a longtime director, James A. Johnson, and have urged other shareholders to do the same. The fund has criticized his background, saying that while he was chief executive of Fannie Mae, he lobbied Congress to relax mortgage underwriting standards and lower the capital standards put in place to protect taxpayers in the event of a downturn.

Another Goldman director, M. Michele Burns, is expected to face scrutiny because she also sits on the board of Wal-Mart Stores. Wal-Mart has been the subject of a widening investigation into bribery accusations at the retailer's subsidiary in Mexico.

DealBook is on hand for the annual meeting, being held in a theater in a building that Goldman Sachs owns in Jersey City. The discussion begins at 9:30 A.M.

11:43 A.M. |**Meeting Adjourned**

Goldman Sachs's 2011 executive compensation plan, which awarded Mr. Blankfein $12.4 million, won approval from more than 94 percent of shareholders.

All 10 board members at Goldman Sachs, were re-elected. Shareholders voted with the board on all proposals, including the one advocating more disclosure on lobbying.

The meeting was fairly uneventful, especially compared with previous years, when Goldman has been attacked for sky-high compensation and putting its own interest ahead of clients.

11:23 A.M. |**'Issue of Morality'**
A person representing shareholders connected to the City of Oakland is at the microphone. Oakland entered into an interest-rate swap a few years ago that is now costing the city roughly $4 million a year. The person said Goldman should rewrite the contract. "It is an issue of morality," he said.

OAKLAND SWAP

Mr. Blankein disagreed, saying it was not in the interest of shareholders to tear it up a valid contract.

11:20 A.M. |**Separating Chairman and Chief Executive Roles**
Mr. Smith of Walden is at the microphone again, this time speaking about the idea of separating the role of chairman and chief executive. Mr. Blankfein currently wears both hats. Mr. Smith says both roles are big jobs and many corporate governance hawks feel it is good practice to separate the positions.

Mr. Schiro said the board recently moved to strengthen its corporate governance, tapping him as lead director. Goldman had a similar position in the past, but this new role is viewed as having more power. Mr. Schiro also said the board of directors often reviewed the wisdom of separating the roles of chairman and chief executive.

10:52 A.M. |**Effects From Europe's Woes**
A shareholder said he was concerned about the effect of the current instability in Europe on American companies. "Do you see a way the company can benefit from a possible collapse in the euro zone?" he asked.

Mr. Blankfein said while there may be "short-term opportunities" from the instability, Goldman's best interest lied in in the long-term strength of European countries.

10:42 A.M. |**Not Ready to Outbid God**
The Sisters of Charity of New York previously pushed Goldman for more disclosure on its structured products. This morning, one of the nuns from the group encouraged the firm to do even more.

Mr. Blankfein praised her work on this issue, and one of the nuns jokingly suggested that Goldman should hire her.

"I don't think we can out bid your current boss," Mr. Blankfein replied, drawing laughter from shareholders. It was a subtle rebuttal to a widely criticized remark Mr. Blankfein once made saying that he did "God's work."

10:23 A.M. |**Goldman and Lobbying**
Mr. Smith of Walden is at the microphone again, speaking on the shareholder proposal on

lobbying expenses.

He praised a Goldman policy requiring the firm's board to review all trade association or membership dues valued at more than $30,000, while noting that the firm was not required to disclose its association memberships. This, he said, "is where the curtain of secrecy comes down."

He said some firms gave to controversial groups, and Goldman shareholders should know where this money is going. He also said Goldman should provide more detail on the millions spent annually on lobbying.

Another shareholder who works at a nonprofit organization that helps people living in low-income neighborhoods also spoke in favor of more disclosure on Goldman's lobbying. He said Goldman was seen as a "primary driver of the financial meltdown" and shareholders should know more about its lobbying against financial services reform.

10:02 A.M. |**Lessons From JPMorgan Chase's Trading Debalce**
Mr. Smith of Walden also brought up the recent trading loss at JPMorgan Chase, asking whether Goldman had reviewed what might have gone wrong there.

James Schiro, the current head of Goldman's audit committee, said Goldman viewed issues like losses at rival firms "very seriously." He said Goldman used the incident to review its own risk-control environment.

9:56 A.M. |**Issue Raised Over Goldman's Auditor**
Timothy Smith of Walden Asset Management, an investment firm, raised concerns about the appointment of PricewaterhouseCoopers as auditor, saying that the firm had been the subject of regulatory actions.

A representative of PricewaterhouseCoopers responded to the question, saying that Mr. Smith's concerns had been discussed with Goldman's audit committee.

9:53 A.M. |**Questions on Board Member Michele Burns**
Several shareholders spoke, objecting to Goldman's decision to have Michele Burns lead the board's audit committee. One shareholder pointed out that she was on Wal-Mart's audit committee in 2005 and 2006, when the retailer is said to have bribed officials in Mexico. He said having her lead Goldman's audit committee "sends the wrong message to shareholders."

Adam Berry/Bloomberg NewsM. Michele Burns, chairwoman of Mercer Holdings, in 2009.

Mr. Blankfein defended her role, saying she has "the background and experience" to be a "wonderful" audit chief. Ms. Burns spoke, saying she and Wal-Mart were "fully committed" to investigating the allegations.

9:36 A.M. |**Annual Meeting Called to Order**
Goldman's chief executive, Lloyd C. Blankfein, has called the meeting to order. More than 200

shareholders are in attendance. They were met by a handful of protesters outside, a change from recent years when throngs of demonstrators had descended on the meeting. Still, security is tight. A sign outside the meeting tells shareholders that "signs or other items that could disrupt meeting" are not welcome.

This post has been revised to reflect the following correction:

Correction: May 24, 2012

An earlier version of this live blag misstated the affiliation of Timothy Smith, a shareholder who spoke at the annual meeting. He is with Walden Asset Management, not Institutional Shareholder Services.

The Miami Herald
Posted on Thu, May. 24, 2012

Goldman's Blankfein gets a break

By CHRISTINA REXRODE
AP Business Writer

Susan Walsh / AP Photo

FILE- In this Tuesday, April 27, 2010, file photo, Goldman Sachs chairman and chief executive officer Lloyd Blankfein waits to testify before the Senate Subcommittee on Investigations hearing on Wall Street investment banks and the financial crisis on Capitol Hill in Washington, Tuesday, April 27, 2010. Goldman Sachs enjoyed a relatively calm shareholder meeting Thursday, May 24, 2012, while two of its peers, Morgan Stanley and JPMorgan Chase, grappled with public-relations nightmares. Blankfein was peppered with questions about the bank's political lobbying, but the vitriol and the shouting protesters that have haunted other banks' meetings this spring were absent.

For once, the spotlight wasn't on Goldman Sachs.

The bank that Wall Street critics love to hate enjoyed a relatively calm shareholder meeting Thursday while two of its peers, Morgan Stanley and JPMorgan Chase, grappled with public-relations nightmares.

Goldman CEO Lloyd Blankfein was peppered with questions about the bank's political lobbying, but the vitriol and the shouting protesters that have haunted other banks' meetings this spring were absent.

The tranquility was partly a product of timing. Earlier this month, JPMorgan announced a surprise $2 billion trading loss, which has bolstered the banking industry's critics but also taken pressure off Goldman.

Last week, police with guns stood guard outside JPMorgan's annual meeting in Florida while shareholders inside hounded Jamie Dimon, the usually unflappable CEO.

That same day, protesters at Morgan Stanley's meeting shouted down CEO James Gorman. And this week, Morgan has fielded questions about how it handled analyst reports ahead of the initial public offering of Facebook stock.

Protestors have also swarmed this spring outside the meetings of Bank of America and Wells Fargo, and Citigroup shareholders registered their discontent with CEO Vikram Pandit by voting against his $15 million pay package.

At the Goldman meeting, several shareholders said the bank should disclose more about what it is spending to lobby politicians and regulators crafting new banking laws. They accused Goldman of trying to water down the legislation.

Blankfein made no apologies for approaching lawmakers and regulators.

"There's requests for comments. We provided our comments," Blankfein said. "The worid would see that as lobbying, but we were really once again fulfilling our duty to provide information on areas where we have expertise."

Blankfein did say that he was in favor of the so-called Volcker rule, which might have prevented the type of trading that led to JPMorgan's loss, but he also said that many parts of it were unclear.

One shareholder told Blankfein that Goldman's reputation "is in tatters," alluding to the subprime mortgages it packaged into securities before the financial crisis.

Another asked whether Goldman would renegotiate loans to the city of Oakland, Calif. Blankfein said the bank couldn't just lower interest rates for anyone unhappy with their terms.

"That's not how the financial system works," he said.

OAKLAND SWAP

"It is an issue of morality," the shareholder said.

"No, I think it's an issue of shareholder assets," Blankfein replied.

For the most part, though, the meeting was placid. Blankfein stood behind a glass podium in an undecorated sixth-floor conference room at Goldman's Jersey City offices and appeared to grow more comfortable as the meeting wore on, occasionally smiling and gesturing.

When Sister Barbara Aires, of the Catholic organization Sisters of Charity of St. Elizabeth, asked for more information about Goldman's new business standards, Blankfein told her she sounded a lot like a Goldman Sachs executive.

"Maybe you can hire me," Aires replied.

"I don't think we can outbid your current boss," Blankfein quipped.

Blankfein, 57, the CEO for six years, isn't known for his charisma. But in recent months, Goldman has suffered regulatory fines and the resignation of an employee who publicly accused the bank of ripping off its clients.

The bank, in an attempt to burnish its public image, has sent Blankfein out for TV interviews and as a spokesman for gay rights.

Shareholders approved all the board members, including Michele Burns, who some had questioned because she was on the Wal-Mart board when the company was reportedly bribing Mexican officials.

Shareholders also approved Blankfein's pay package from last year, which could eventually be worth about $16 million and included more than $51,000 for a car and driver and neariy $259,000 for security services.

PhillyDeals: Activists push Philadelphia to recoup losses on interest-rate swaps

January 18, 2012 | By Joseph N. DiStefano, Inquirer Staff Writer

Philadelphia should demand that Wall Street banks refund half a billion dollars lost or owed by city agencies on interest-rate swap contracts that were supposed to cut city borrowing costs but instead swelled budget deficits at the worst possible time, a Harrisburg-based advocacy group and its labor-union allies say.

The **Pennsylvania Budget and Policy Center** and the labor-backed **Fight for Philly** organization collected data on swaps losses from dozens of city financial filings and presented them Tuesday at a City Hall meeting attended by laid-off school employees and public-school parent activists.

Story continues below.

Swaps and other complex financial arrangements used to be off-limits to local governments. But in the late 1990s, "the financial-services industry lobbied Washington to deregulate these instruments," center executive director **Sharon Ward** said. "Then they came to Harrisburg and lobbied in 2003 for legislation that removed the ban."

Swaps "were heavily marketed" by bankers who stood to profit from the sales, Ward said. Schools and local governments that bought swaps were effectively betting on the future direction of U.S. interest rates. The banks helped the governments that bought swaps borrow money at competitive rates. But the swaps required that, if market interest rates fell below certain low levels, the governments had to pay the banks the difference. When interest rates fell instead of rising, governments owed millions.

According to the center's report:

The **School District of Philadelphia** paid a net $161 million to **Morgan Stanley, Goldman Sachs,** and **Wells Fargo Bank** on 10 interest-rate swap contracts connected to bonds the district sold, starting in 2003.

The **City of Philadelphia** paid a net $34 million to **Royal Bank of Canada** to settle swaps connected with city general-obligation bonds, plus up to $59 million for swaps still in force. The city has paid millions more to terminate swaps contracted with **JPMorgan, Citigroup,** and **Merrill Lynch**; the center says it lacks data to estimate the net cost of those settlements.

Borrowers using the **Philadelphia Authority for Industrial Development** paid $33 million to **JPMorgan Chase Bank** and **Merrill Lynch Capital Services** on swaps sold in connection with a series of bond issues, and owe up to $111 million on swaps still in force.

The Palm Beach Post Print this page Close

Union calls on Palm Beach County school district to renegotiate debt rate to save money

By JASON SCHULTZ

Palm Beach Post Staff Writer

Updated: 4:11 p.m. Tuesday, May 22, 2012
Posted: 2:46 p.m. Tuesday, May 22, 2012

The union representing most of the Palm Beach County School District's blue collar workers could save millions of dollars by re-negotiating its interest rate on several old bonds with its lenders, leaders of the Service Employees International Union say.

The union, at a meeting today, said banks owe it to taxpayers to give the school district a break on interest rates because the banks received public money after the economic collapse of 2008.

"When the banks were hemorrhaging money, we bailed them out," said Saqib Bhatti, senior financial researcher for the union which represents laborers. "Right now we are stuck in pre-bailout deals with post bailout interest rates."

The district negotiated an "interest rate swap" deal with banks on millions of dollars in capital improvement bonds in 2001 and 2002. To avoid paying a "variable" interest rate that could fluctuate with the swinging economy, the district agreed to pay a fixed rate of 4 percent, Bhatti said.

As part of the "swap" deal, the banks agreed to make return payments to the district at a variable rate, which fluctuates based on market conditions.

The swap was a good deal until 2007 as variable interest rates rose, Bhatti said. But since the economy imploded in 2008, variable interest have been lowered to less than 0.25 percent while the district continued to pay 4 percent. Therefore the district has paid $16.4 million more per year in interest rates than it has gotten back from the banks.

Bhatti told the district's finance committee today that they should ask the banks to renegotiate a lower fixed rate. He said banks owed it to the school district to give them a rate of about 1 percent.

Several district officials, such as Treasurer Leanne Evans, criticized the union's conclusions and called their basic premise of comparing the district's fixed rate to the bank's variable rate payments "flawed" and "misleading to the public."

Evans explained that the district never would have agreed to a variable interest rate anyway because it would expose public money to too much risk if interest rates spiked in the future. The 4 percent fixed rate swap was the price they paid for avoiding that risk.

She said the district is already constantly watching for opportunities to re-negotiate lower rates. She called the union's claim that they could get a 1 percent fixed rate "completely unrealistic."

Union organizers said the district had a moral obligation to at least try to get the banks to lower the rates even if they can't get down to 1 percent .

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TUESDAY MAY 31, 2011 2:21 PM

Why Does the Chicago Teachers Union Care About Interest Rate Swaps?

BY MIKE ELK

CTU campaign displays growing knowdedge of Wall Street in labor movement

Over 500 teachers marched to Daley Plaza April 9 for the Chicago Teachers Union "We Are One" rally. (Photo via Chicago Teachers Union

Last week, the Chicago Teachers Union launched a campaign for the Chicago Public School system to renegotiate costly interest rate swaps with four major banks: Bank of America Corp., Goldman Sachs Group Inc., Royal Bank of Canada and Loop Capital LLC. The union claims the interest rate swaps cost the Chicago Public School System $35.9 million in the last year and that the deals with the banks have produced a $120.7 million net loss for the school system since 2003.

The anti-interest rate swap campaign has become a key part of the teacher's union campaign in Chicago to fight layoffs caused by budget shortfalls. But up until a few years ago, unions rarely understood interest rate swaps deals, let alone campaigned against them. The fact that unions are gaining a broader knowledge of such deals says something remarkable about what is happening in the labor movement.

So what are they? When local governments or school boards issue bonds, they do so with a variable interest rate swap. A variable interest rate can go up or down depending upon the interest rate set by the Federal Reserve, which can be tricky for governments trying to do long-term planning.

So, the four banks offered the Chicago Public School system a gamble: If the Chicago Public School system paid four big banks a fixed 3.66% interest rate, the bank would pay back the fluctuating variable rate to the city to cover the interest payments on various bonds they took. This gave the Chicago Public School security because whether interest rates went up or down, they would pay the same interest rate.

Fast-forward almost 10 years later after over leverage and over speculation by the big banks caused the economy crashed; In an effort to make it cheaper for big banks to borrow money and increase their profit, the Federal Reserve cut interest rates to zero.

So while interest rates have lowered dramatically in order to benefit the profits of big banks, the Chicago

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Public School system is still paying the equivalent of 3.66 percent interest rate directly to the banks, the banks are paying next to nothing in actual interest rates. According to the Chicago Sun-Times: "Records show that for one swaps deal with Loop Capital, CPS pays a fixed 3.66 percent while the bank pays back a floating rate close to 0.05 percent."

In other words, the banks, which lobbied for lower interest rates from the Federal Reserve, are making a pure profit off the difference between those two interest rates while the Chicago Public School system is laying off teachers in order to continue paying these interest rate swap deals to the banks.

Up until a few years ago, hardly anybody in the labor movement knew what these deals were, let alone launched major campaigns against them. Banks were able to make huge profits through complex opaque financial deals because typically the people signing them didn't understand what the deals entailed. Now all that is starting to change, as workers educate themselves about the operation of big banks and the job crisis continues. Interest rate swaps cost local governments approximately $29 billion a year, according to one study put out in 2010 by the Service Employees International Union.

Last year, several coalitions of labor unions launched campaigns against similar deals in Southern California. They even won a major victory in Los Angeles forcing the banks to renegotiate some of these deals. Unions with employees in the public sector whose members were affected by budget cuts began to take notice and educated themselves about interest rate swaps. Now we are starting to see the movement against these interest rate swaps deals starting to spread across the country.

Some in the labor movement are claiming the fight for financial reform legislation at the federal level is over and see union campaigns against the big banks as mere "political sloganeering." However as the fight in Chicago shows, unions are beginning to take action against banks at the local level. At that level, where grassroots get-out-the-vote efforts sometimes matters more than money, some unions apparently think a victory against the big banks is possible.

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Comments

Pancho Valdez 6 Jun 2011
8:57 am

Along with banking reform the teachers union should also be demanding an end to the unjustified, immoral and highly unpopular wars in Afghanistan, Iraq and now Libya! Far too much money has been wasted on war, when we need funding for human needs in the U.S.!

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