



CITY COUNCIL

Darryl Moore
Councilmember District 2

CONSENT CALENDAR
January 31, 2012

To: Honorable Mayor and Members of the City Council

From: Councilmember Darryl Moore, District 2
Councilmember Jesse Arreguin, District 4

Subject: Referral to City Manager: Responsible Banking Policy

RECOMMENDATION:

Request that the City Manager evaluate and report back to the City Council no later than May 1, 2012 regarding:

1. The fiscal and operational impacts of not renewing Contract No. 6547 with Wells Fargo Bank and contracting with an alternative bank, including but not limited to Community Banks, membership-based Credit Unions or Community Development Financial Institutions (CDFI) for city banking services.
2. Evaluate and present to the City Council information on alternatives to banking with Wells Fargo, including but not limited to Community Banks, membership-based Credit Unions or Community Development Financial Institutions (CDFI), and ensure that any new banking contract is with an entity that is capable of fully meeting the City's banking needs.
3. Review City banking and investment practices to ensure that public funds are invested in responsible financial institutions that support our community and recommend a city banking policy that gives preference to banks that support community reinvestment goals such as stabilizing the housing market, loans to local homeowners and businesses, the establishment of local branches in low income communities, and local employment opportunities.

BACKGROUND:

The City of Berkeley has had a contract with Wells Fargo Bank for city-wide banking services since 2004. The contract was renewed in 2009 by the City Council. The contract provides a wide range of services from deposit accounts, comprehensive online banking services, credit card services and armored car services. Prior to contracting with Wells Fargo the City banked with Bank of the West for twelve years.

Short sighted and failed investment practices by some of our country's biggest private sector financial institutions have led to the collapse of our country's economic system, massive unemployment, and the foreclosure of countless mortgages among homeowners, massive decline in revenues to the State of California treasury, which has resulted in a dramatic decline in revenue for local governments, including the City of Berkeley.

Despite Berkeley's strong homeownership market, there have been a large number of foreclosures throughout the city, which have resulted in families losing their homes and affecting the stability of our neighborhoods.

Wells Fargo Bank, which the City of Berkeley has contracted with for banking services, was a key part of the subprime lending crisis which led to our overall economic collapse.

Wells Fargo Bank is the nation's largest mortgage lender. However, it has been found by the Federal Reserve to have falsified loan documents and pushed borrowers into subprime mortgages with higher interest rates which they could not afford, even though lower interest rate mortgages were available. These actions recently resulted in Wells Fargo having to pay a \$85 million dollar fine by the Federal Reserve, which is the largest fine ever imposed by the Federal Reserve in a consumer-enforcement case.

Wells Fargo also came under fire recently by the U.S. Department of Justice for allegedly targeting minorities for predatory sub-prime loans. The Department of Justice has alleged that Wells Fargo engaged in "reverse redlining" a practice whereby subprime loans are pushed in majority black communities, with the knowledge that borrowers would default. Wells Fargo has also been under scrutiny by the U.S. Department of Housing and Urban Development as part of its investigation into predatory lending practices by major banks.

Despite these unethical practices, Wells Fargo was one of the first banks to receive a federal bailout. Wells Fargo received \$25 billion in taxpayer funds. After the bailout, Wells Fargo bought Wachovia Bank for \$ 12.7 billion dollars, creating one of the nation's largest banks in terms of deposits.

In 2010, the city's Human Welfare and Community Action Commission requested that the Council direct the City Manager to review the impact of enacting a banking policy that gives preference for banking, depository and investment relationships to banks and other institutions that meet a set of community reinvestment goals such as loans to local homeowners and businesses, the establishment of local branches in low income communities, and local employment opportunities.

Safeguarding city assets is a top priority and any bank the City selects should have adequate systems to prevent fraud. However, given Wells Fargo's record in subprime lending and foreclosures, it is important for the City to consider divesting its taxpayer funds from Wells Fargo and banking with a Community Bank, membership-based credit union or Community Development Financial Institution (CDFI) to ensure that we are

responsibly investing public funds and supporting our local service area economy and banks which invest in our community. Divestment would also send a strong message to corporate financial institutions that they have lost the financial, as well as the political and moral support of our community. As we have seen with past divestment efforts, particularly the divestment of South Africa, they have been an extremely effective tool in applying economic pressure to spur change in an organization, corporation or government practices.

FINANCIAL IMPLICATIONS:

Unknown. Staff time will be involved in researching the fiscal and operational impacts of not renewing contract with Wells Fargo Bank and in researching alternative local banks for city banking operations and preparing a report for City Council discussion.

CONTACT PERSONS:

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