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Contact:
Carol Meyers: (646) 306-7379
Alisa Rivera: (213) 279-6103

Los Angeles Becomes Largest U.S. City to Take Action on Toxic Bank Deals; Unanimous Vote Requires City to Renegotiate or Terminate Multi-Million Dollar Interest Rate Rip-Off on Behalf of Taxpayers

Unanimous City Council vote sends strong message to Bank of NY Mellon, Wall Street: LA is not your ATM

The Los Angeles City Council voted 14-0 Wednesday to renegotiate or terminate without penalty a toxic swap deal the City entered into with two Wall Street banks, Bank of New York Mellon and Dexia. The measure, advanced by Fix LA, a coalition of clergy, unions and community groups aligned to restore city services and expand middle class jobs in the public sector, could save the City as much as $138 million. The International Business Times, noting the significance, reported that Los Angeles is now the largest city in the nation “to challenge ballooning Wall Street levies that accompany similar interest rate swap deals throughout the nation.”

The motion further calls on the banks to return unfair profits and fees paid since 2008, estimated at more than $65 million to date. The deal costs taxpayers $4.9 million annually.

Detroit made headlines in January after a judge stepped in to stop the City from being forced to pay several million dollars to Bank of America and UBS as termination fees for its catastrophic 2005-2006 interest rate swaps deal. Public institutions such as the San Francisco Asian Art Museum and the city of Richmond, California, also successfully renegotiated their own interest rate arrangements.

“We applaud the City Council for taking bold action to prevent the fleecing of taxpayers going forward and to recoup losses which have occurred as a result of the deceptive marketing of derivatives such as interest rate swaps by Wall Street firms,” said Lisa Cody, a research policy analyst for SEIU Local 721, which is part of the Fix LA coalition.

In 2006, Los Angeles entered into a complex financial transaction, known as an interest rate swap, with Bank of New York Mellon and Dexia, a European bank, to fund its Wastewater System Bonds. The deal locked the City into an interest rate for 22 years—an unprecedented length of time (a typical interest rate swap has a length of 3 to 5 years). As a result, when interest rates dropped to historic lows in the wake of the financial crash of 2008, the City was unable to refinance the debt—costing taxpayers tens of millions of dollars. Amid the recovery, Wall Street banks profit from these deals made with thousands of public entities in the U.S., while local governments continue to slash budgets and services just as they did in the height of the recession.
Quick action is necessary because the eligibility period is rapidly closing for pursuing an arbitration filing – an additional tool to pressure the banks-- through the Financial Industry Regulatory Authority, one of many agencies that regulate financial transactions. In its motion, the Los Angeles City Council requested that City Attorney Mike Feuer evaluate potential legal remedies that the City may have against the financial institutions involved in the Wastewater swaps deal.

The City of Los Angeles doles out nearly $300 million in fees each year to Wall Street banks, including the deal with Mellon and Dexia, as described in Fix LA’s groundbreaking study, No Small Fees. The payments are being made as the City has slashed budgets for essential services such as street cleaning, tree trimming, sidewalk repair, and assignment of crossing guards at dangerous intersections. For example, the annual fees are almost double the entire municipal budget for maintaining its miles upon miles of streets and alleyways.

“More often than not, local governments do not know they are getting a bad deal,” former Goldman Sachs vice president Wallace Turbeville said in recent testimony to the Los Angeles City Council. “This is not a question of their professional competence or honesty of municipal administrators or elected officials. Rather, mispricing and excessive risk are far more often either intentionally hidden or involve such complex financial structures that no one but large sophisticated banks could comprehend them.”

The Fix LA coalition cheered the motion’s sponsors and champions, Councilmembers Paul Koretz, Bob Blumenfield, and Gil Cedillo, for refusing to accept a status quo that sinks taxpayers, and rejecting the notion that the practices of the finance industry are unchangeable.

“It’s impressive that the City Council took this important step to stand up to big banks to fight for neighborhood services, and community priorities like our children’s safety and education,” said Rashad Rucker-Trapp, organizer with the group Community Coalition and member of the Fix LA coalition. “We will continue to fight alongside them to make sure our taxpayer dollars are invested in our streets, not Wall Street.”

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Fix LA is a coalition of community groups, faith-based organizations, working families and others who are collectively calling on Los Angeles City leaders to restore vital City programs and services that have been cut. Established in early 2014, Fix LA held its official launch in March when it released its “No Small Fees” report. The report gained national attention as it exposed how Wall Street banks are gouging the City of hundreds of millions of dollars in excessive fees—money that should instead be spent on repairing streets, fighting blight, and restoring our community services that were cut during the recession. Twitter: @FixLANow

It’s time we hold Wall Street accountable. It’s time that working families are our City’s priority. It’s time we fund our neighborhood needs, not Wall Street greed. It’s time we Fix LA!