

Report of the Los Angeles Community Review Board on Responsible Banking

September 2017

Executive Summary

One year ago, the Los Angeles City Attorney's office and federal regulators imposed a record-breaking fine on Wells Fargo for illegally opening millions of fake accounts. Local bank workers, who are part of the Committee for Better Banks, spoke out to spur the initial investigations and continue to expose irresponsible banking practices at Wells and other banks. In just the past several weeks, Wells Fargo admitted it opened a total of 3.4 million bogus accounts and was cited for charging millions of customers for auto insurance they didn't seek. At the same, Banco Santander has come under fire for fueling a crisis in subprime auto lending in California and other states across the country.

Considering major banks' ceaseless malpractice, consumer advocates, bank workers, financial experts and elected representatives, including Rep. Maxine Waters, formed a Community Review Board on Responsible Banking to solicit expert and public testimony and recommend policies that protect Los Angeles residents and the city's financial health.

"The city doesn't have to do business with banks that hurt workers and customers." - Representative Maxine Waters

In 2012, responding to efforts by LA Voice, Occupy LA, the California Reinvestment Coalition, the Alliance of Californians for Community Empowerment (ACCE) and other groups, Los Angeles city officials adopted the "Responsible Banking Ordinance" to address issues stemming from the financial crisis. Since then, some banks have found new ways to rip off consumers and taxpayers, including legal but ethically questionable tactics like aggressive sales quotas and risky lending and securitization activities and even in some instances blatantly illegal practices like discriminatory lending and redlining. These practices demand further scrutiny and updated city policies.

Opponents of reform argue that holding banks accountable to responsible practices within city banking will make it less likely that they will do business in Los Angeles. But as the board discussed, that is not the case. Cities like New York, Pittsburgh, St. Paul, and Seattle have such laws and banks continue to bid for city contracts and business.¹

On August 17, 2017, the Community Review Board convened a public hearing at Mt. Gilead Missionary Baptist Church in South Los Angeles, bringing together its expert members and inviting public testimony from across the city. Members of the review board include:

¹ Fishbein, A. J. (1992). The Community Reinvestment Act After Fifteen Years: It Works, But Strengthened Federal Enforcement is Needed. *Fordham Urban Law Journal*, 20(2). Retrieved from <http://ir.lawnet.fordham.edu/cgi/viewcontent.cgi?article=1375&context=ulj>

- Anastasia Christman, Senior policy analyst at the National Employment Law Project
- Gilda Haas, Economic and Community Development Planner
- Isabel J. Sanchez, Policy advocate for the Coalition for Humane Immigrant Rights (CHIRLA)
- James Jimenez, Political advocate for Communications Workers of America, Local 9586
- Jennifer Epps-Addison, President and co-executive director of Center for Popular Democracy
- Joan Ling, former Treasurer of the Community Redevelopment Agency of Los Angeles
- Linda Dent, Vice president of Service Employees International Union Local 721
- Paulina Gonzalez, Executive director of California Reinvestment Coalition
- Peter Dreier, Chair of the Occidental College's Urban & Environmental Policy Department
- Rev. William D. Smart Jr., President and CEO of the Southern Christian Leadership Conference of Southern California
- Saqib Bhatti, Co-executive director of Action Center on Race & the Economy and director of ReFund America Project
- Gisele Mata, Organizer with the Alliance of Californians for Community Empowerment (ACCE) and the Committee for Better Banks
- Vahid Khorsand, Financial advisor, BWS Financial

Key Findings and Recommendations

“Los Angeles has a unique opportunity to establish a banking model for cities around the country.” – Jennifer Epps-Addison, Center for Popular Democracy

Through its investigation and public testimony, the Community Review Board explored:

- The evolution of responsible banking in Los Angeles over the last few decades;
- The outsized impact of irresponsible banking on women, people of color and seniors; and
- How worker and consumer input can strengthen banking in the city.

Experts on municipal finance and city banking contracts, including the Action Center on Race and the Economy and the California Reinvestment Coalition, shared with the review board that a truly responsible approach to banking must balance the needs of local communities with an understanding that banks by nature target and profit off of their consumers. In Los Angeles and other cities consumer financial protection laws exist to do just this. However, even after the devastation of the national mortgage crisis, banks continue to find loopholes to evade commonsense regulation. Some major banks simply refuse to abide by the regulations, precipitating scandals like those at Wells Fargo.

In this environment, it is perhaps not surprising that customer complaints to the Consumer Financial Protection Bureau (CFPB) have grown every year, reaching 155,554 in California alone

as of March.² Dozens of Los Angeles residents testified before the review board on how banks' irresponsible behavior has affected their lives. A number of residents testified to discriminatory practices that target low-income and communities of color, low-wage workers and seniors by manipulating terms of mortgage loans and pushing longstanding community members out of their homes, denying loan modifications to low-income borrowers, enforcing stricter sales goals at bank branches located in communities of color or investing in fossil fuels at peril to indigenous communities and the environment.

All levels of government have legally established tools to ensure that banks serve all communities in a responsible manner. The federal government began regulating banks in the 1930s as part of the New Deal. In the 1970s, Congress passed the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA) to make sure that banks were not engaging in racial discriminatory in lending practices. Throughout the United States, state governments directly regulate state-chartered banks. On the local level, starting in the 1980s in response to redlining and neighborhood decline, cities across the country started adopting "linked banking" or "linked deposit" laws, which set a policy of linking these cities' deposit decisions to information about banks' lending practices, to hold financial institutions accountable for providing fair and adequate services to low-income communities and communities of color.

In Los Angeles, community leaders and advocates worked with the city council to establish the existing Responsible Banking Ordinance, and the Linked Banking Ordinance, which was never actually enforced. Many other cities have adopted various local banking laws to protect consumers and employees from abusive and illegal practices. The lessons learned from these efforts – what helped and what didn't go far enough – must be incorporated into our work today to establish a fair, trustworthy and responsible banking system that invests in the long-term prosperity of our city and its residents.

Through its investigation, the review board agreed that banks must face penalties for policies that prioritize profits at the cost of customers and workers. Predatory banking practices are not exclusive to Wells Fargo or any one bank, therefore approaches to enacting banking reforms should consider regulations as an industry-wide necessity. Ending sales goals at one bank, for example, does not fundamentally move the ball toward improving banking practices overall.

The Community Review Board recommends Los Angeles City Council:

- Give preference for city contracts to banks that:
 - Base metrics on collective customer service goals, rather than sales or individual performance;
 - Do not use sales performance as a factor in discipline or termination;

² Monthly Complaint Report (Rep. No. 21). (2017, March). Retrieved http://files.consumerfinance.gov/f/documents/201703_cfbp_Monthly-Complaint-Report.pdf

- Require that employees receive adequate wages that do not rely on incentive pay as the majority factor in overall compensation;
- Establish a transparent and regular process for enforcing and updating the RBO given the evolving nature of banking practices that can harm our economic security;
- Support organizations of bank workers who are taking steps to improve the banking industry;
- Create a Responsible Investment Ordinance that promotes strong environmental, social and governance principles; and
- Develop an annual report card process to help consumers, city officials and taxpayers make informed decisions about the banks they choose to use and invest in.

In evaluating the gravity of a broken banking system, the Community Review Board also discussed the potential benefits of a public municipal bank. The review board recommends setting up a city-run bank as a way of providing quality financial services to the city and its residents in a more sustainable way than those provided by the large banks that currently receive the vast majority of city business. The review board recommends that the city should immediately conduct additional research to determine the best path toward municipal banking.

Los Angeles city officials, including Mayor Eric Garcetti and the City Council, have the responsibility of defining and protecting responsible banking for residents. More importantly, however, they have the responsibility of acting when the needs of taxpayers and constituents are not being met.

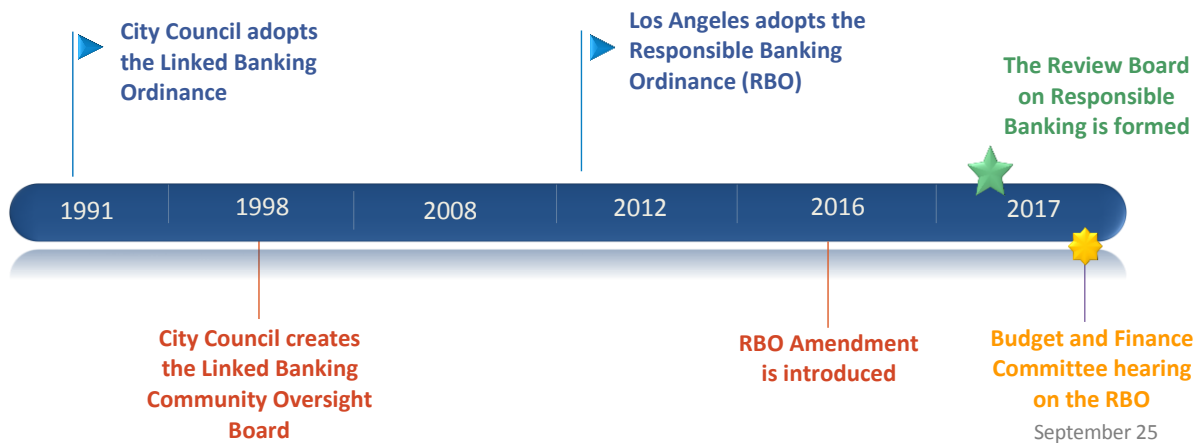
Los Angeles faces an unprecedented opportunity to formally write responsible banking into the fabric of the city's code of contracting. But unless the city's leaders move to amend the RBO and enact the principles outlined in this report, the financial health of Los Angeles will continue to suffer. To support these efforts, the Community Review Board's full recommendations and received testimony are included at the end of this report.

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Evolution of Responsible Banking in Los Angeles

Over the last few decades, Los Angeles City Council has enacted a series of legislative measures to try and curb predatory banking practices, such as the Linked Banking Ordinance and the Responsible Banking Ordinance. The review board discussed these past measures to institute banking reforms, how they succeeded or fell short, and how these prior efforts can serve as a model to meet modern banking needs.



LA Responds to Discriminatory Lending: The Linked Banking Ordinance

Longtime Los Angeles residents and banking experts spoke of the evolving landscape of consumer banking. Looking back, Los Angeles like the rest of the country first saw troubling mortgage lending trends take shape in the 1980s.

In response to revelations of disturbing and prevalent racial disparity in mortgage lending, city council adopted the Linked Banking Ordinance in 1991. The ordinance required banks to disclose lending data to qualify for city deposit contracts. Armed with this information, city officials could verify that banks were providing adequate financial services to all communities and establish a ranking system of those banks.³ The ranking system would not only be used to award city deposit contracts but to effectively penalize banks who did not provide the necessary data for evaluation.

As Review Board member Peter Dreier said, “The goal of report cards is to hold the banks accountable, to pose a potential threat that banks that got ‘bad’ grades would face a boycott and the city would stop doing business with them. Faced with the threat of public shaming, banks will step up to the table and improve their banking practices. This has been done in places like Boston and proved to work really well. The major banks came together and agreed on a \$400 million community investment plan back in 1989—a drop in the bucket compared to what banks could invest now.”

³ City of Los Angeles, Office of the City Clerk. (1992). Linked Banking Program (pp. 1-10). Retrieved from http://clkrep.lacity.org/online/docs/1991/91-2308_ORD_167683_04-26-1992.pdf

In 1998, city council passed an amendment to the ordinance, creating the Linked Banking Community Oversight Board to monitor compliance and advise the city treasurer on Los Angeles' financial needs. However, conflicts of interest within the board and political pressure from outside the committee ultimately dissolved the board before any enforcement decisions could be made or ranking data could be released.

After that, as testimony emphasized, while it is perfectly legal for cities to use a process utilizing publicly available data to ensure they are investing taxpayer money in responsible banks, Los Angeles banks have largely proceeded free from any direct oversight or accountability measures on the local level. In the interim, the practices we largely associate with the subprime mortgage crisis took root in Los Angeles and across the country.

LA Responds to the Mortgage Crisis: The Responsible Banking Ordinance

In response to record-breaking foreclosures in low-income communities in 2009, Los Angeles tried once again to keep the banks that perpetuated the crisis from bidding for city contracts. After three years of negotiations, the city adopted the Responsible Banking Ordinance (RBO). At the time, it was hailed as a major step towards commonsense financial regulation and improved transparency. The ordinance intended to make detailed data on loans and foreclosure activity available to the public and use this data to help evaluate bids for the city's millions banking contracts.⁴

In the months that followed, Cincinnati, Newark, New York, Pittsburgh, and St. Paul enacted similar legislation to ensure that banks seeking to manage public funds committed to fair lending and mortgage practices in underserved communities.⁵

Current State of Responsible Banking Legislation

As bank workers, financial experts and consumer advocates noted in their testimony, the ordinance and its authors failed to anticipate what would soon become the next era of predatory banking: high-pressure sales goals. In 2006, after the discovery of predatory sales goals at Wells Fargo, groups like the Committee for Better Banks and the Alliance of Californians for Community Empowerment (ACCE) worked with City Councilmembers Paul Koretz, Paul Krekorian, Marqueece Harris-Dawson and Nury Martinez to introduce an amendment that calls for banks contracting with the city to end sales goals and enforce whistleblower protections for workers. As noted at the time, the city has an interest in

⁴ Saillant, C. (2012, May 16). Los Angeles adopts 'responsible banking' ordinance. The Los Angeles Times. Retrieved from <http://articles.latimes.com/2012/may/16/local/la-me-0516-banking-ordinance-20120516>

⁵ Weiss, M. (2011, July 22). Linked Deposits. Retrieved from https://shelterforce.org/2011/07/22/linked_deposits/

protecting its residents from abuses by banks on consumers and employees as this has a very direct impact on neighborhood stability, foreclosures and community strength.

“Wells Fargo’s use of overly aggressive sales goals and quotas is contrary to the spirit of the City’s Responsible Banking policy because Wells Fargo forced bank workers to push products that harm the community. Recognizing that our communities depend on banks for responsible advice and aid in their financial dealings, the City of Los Angeles should revise its policies to ensure that companies that wish to do business with the City of Los Angeles adhere to responsible banking practices.” – Councilmember Koretz 2016 Motion

After hearing public testimony and discussing these previous efforts the review board noted that although the city’s legislative track record shows a commitment to responsible banking, the execution and timing of regulations and enforcement mechanisms have not nearly been nimble and effective enough to address new practices as they emerge. Both the Linked Banking Ordinance and the RBO fell short because of failed enforcement and lack of foresight, making the need for the RBO amendment even more critical.

With this in mind, the review board agrees that any updates to the ordinance are likely to fall short of their intended goals unless city council include strong enforcement measures. The Office of Finance will soon release a Request for Proposal (RFP) for the city’s banking services, a contract that stands for 5 years. By both amending the RBO and incorporating new accountability language directly into the RFP, Los Angeles can establish long-term banking accountability for the next half decade.

Impact of Irresponsible Banking on People of Color and Senior Populations

Los Angeles is one of the most racially and ethnically diverse cities in the country, with Latino populations making up the majority (47.7 percent) and a growing foreign-born population (39.7 percent).⁶ However, the city also has one of the highest levels of income inequality in the nation. Nearly a quarter of Los Angeles County's African Americans (24.5 percent) and Latinos (23.7 percent) live below the poverty level, compared with about one in 9.4 (10.6 percent) of the white population,⁷ making access to fair banking services even more critical to the local economy.

The review board found that banking services contribute millions to the local economy and provide over 339,400 jobs.⁸ Los Angeles is also the metropolitan area with the second-highest employment level of bank tellers in the country (second only to the Greater New York City area).⁹ One-third of these workers are people of color,¹⁰ more than four fifths are women (84.3 percent), and virtually all are low-income earners with a median hourly wage of just \$12.44.¹¹

Through the course of the review board's investigation, we found predatory and irresponsible banking practices overwhelmingly affect women, communities of color and seniors. The testimony of bank workers and bank customers revealed how banks have taken advantage of economic insecurity and racial inequality to grow their profits, including:

- Discriminatory Mortgage Lending and High-Interest Loans
- Redlining
- Predatory Sales Goals that Put Worker and Customer Interests at Odds
- Hidden and Excessive Fees

Discriminatory Mortgage Lending and High-Interest Loans

The review board first examined lending disparities. As recent history shows, the banks' mortgage lending practices directly contributed to the worst economic downturn of the 21st

⁶ Statistics. (n.d.). Retrieved from <https://www.lacounty.gov/government/geography-statistics/statistics>

⁷ An Equity Profile of the Los Angeles Region (Rep.). (n.d.). Retrieved https://www.scribd.com/document/340551099/Equity-Profile-of-the-Los-Angeles-Region-2017?secret_password=y2EUxT5YCB3j5LOHNsc0#from_embed

⁸ https://www.bls.gov/regions/west/summary/blsummary_losangeles.pdf

⁹ Christman, A. (2016, June). Banking on the Hard Sell: Low Wages and Aggressive Sales Metrics Put Bank Workers and Customers at Risk (Rep.). Retrieved <http://www.nelp.org/content/uploads/NELP-Report-Banking-on-the-Hard-Sell.pdf>

¹⁰ Big Banks and the Dismantling of the Middle Class (Rep.). (2015, April). Retrieved <https://betterbanks.org/wp-content/uploads/2015/04/CBBreportonMiddleClass.pdf>

¹¹ Christman, A. (2016, June).

century just over a decade ago. But testimony from community members showed that reckless and discriminatory lending remains a problem.

In 2012, the Department of Justice found Wells Fargo had discriminated against Black and Hispanic borrowers during the housing boom. The ensuing investigation found that the bank had charged higher fees and rates to more than 30,000 minority borrowers and steered more than 4,000 minority borrowers into costlier subprime mortgages than white borrowers, resulting in a \$175 million settlement.¹²

This type of discrimination continues. While locally based OneWest Bank, then run by current Trump Administration Treasury Secretary Stephen Mnuchin, has come under heavy criticism for improperly foreclosing on thousands of customers, the bank has also been scrutinized by advocates for failing to make conventional loans in communities of color. According to the California Reinvestment Coalition, OneWest made just two mortgages to black borrowers in 2014 and 2015 within Southern California counties including Los Angeles, where it had 52 branches.¹³ The U.S. Department of Housing and Urban Development charged Bank of America in January 2017 with discriminating against Hispanic mortgage borrowers.¹⁴ In the same month, the United States Attorney for the Southern District of New York settled a lending discrimination suit against JPMorgan Chase for \$53 million.¹⁵

A current lawsuit in San Francisco accuses Wells Fargo of refusing loans to immigrants in the DACA program, a violation of federal law. According to the suit, the bank has a policy of granting loans only to U.S. citizens or to noncitizens who have become permanent legal residents and have a cosigner who is a U.S. citizen.¹⁶

The review board's investigation into lending also found that banks discriminate along the lines of income and socioeconomic status in the form of risky, high-interest subprime loans marketed to consumers with low credit scores. Traditionally known for its role in the mortgage crisis, subprime lending is taking new shape in concerning ways, predominantly auto lending.

¹² Savage, C. (2012, July 12). Wells Fargo Will Settle Mortgage Bias Charges. The New York Times. Retrieved from <http://www.nytimes.com/2012/07/13/business/wells-fargo-to-settle-mortgage-discrimination-charges.html?mcubz=1>

¹³ Campbell, D. (2016, November 17). Mnuchin's Bank Accused of Redlining Black, Latino Home Buyers. Bloomberg. Retrieved from <https://www.bloomberg.com/news/articles/2016-11-17/mnuchin-s-bank-accused-of-redlining-black-and-latino-home-buyers>

¹⁴ Lane, B. (2017, January 6). HUD charges Bank of America with lending discrimination. Housing Wire. Retrieved from <https://www.housingwire.com/articles/38895-hud-charges-bank-of-america-with-lending-discrimination>

¹⁵ Department of Justice, U.S. Attorney's Office, Southern District of New York. (2017, January 20). Manhattan U.S. Attorney Settles Lending Discrimination Suit Against JPMorgan Chase For \$53 Million [Press release]. Retrieved from <https://www.justice.gov/usao-sdny/pr/manhattan-us-attorney-settles-lending-discrimination-suit-against-jpmorgan-chase-53>

¹⁶ Egelko, B. (2017, August 7). Wells Fargo accused of denying loans to immigrants in DACA program. San Francisco Chronicle. Retrieved from <http://www.sfgate.com/bayarea/article/Wells-Fargo-accused-of-denying-loans-to-11740751.php>

Santander Consumer, the country's largest subprime auto lender is increasingly issuing subprime loans with sky high interest rates to consumers the bank knows can't afford them—a trend that leads to rising defaults, repossessions, and overall economic decline. According to a recent Moody's Investors Service report, Santander Consumer only checked the incomes of 8% of its loan applicants.¹⁷ Santander Consumer customers in California are affected by these types of lending practices, which prey on low-income customers desperate for transportation.

Redlining

Testimony to the review board from community advocacy groups like the Action Center on Race & the Economy further revealed banks' role in advancing racial and economic segregation through lending or lack thereof to low-income and communities of color. Los Angeles is historically one of the most segregated cities in the country—an issue that is perpetuated by redlining on the part of big banks. Despite being outlawed by the Fair Housing Act in 1968, redlining is still very much a part of modern banking.

As Wells Fargo customer Orinio Opinaldo testified: "I have watched my neighborhood change radically through banks redlining communities for foreclosures and wrongful evictions. Wells Fargo's only interest is to extract wealth from the community."

Banks have fueled another destructive process that's coincided with redlining, or the denial of affordable credit to potential homeowners and small business owners within communities of color. The decades-long industry practice of redlining has increasingly been accompanied by the construction of high-end residential developments, backed by wealthy investors and funded by Wall St. banks. These developments have helped spark a process of increased housing costs and growing displacement in the surrounding communities. In Los Angeles, this process has already resulted in mass displacement from formerly working-class communities with large percentages of residents of color, such as Hollywood.¹⁸ Currently, a burgeoning wave of new high-end development has helped spark a similar process in historically low-income communities of color such as Boyle Heights, and is threatening to do the same in South LA - particularly in hotspots such as the areas around Metro lines and USC.¹⁹

This problem persists at other large banks. In 2014, the City of Providence accused Santander Bank of redlining and was recently referred for investigation to the Justice Department for

¹⁷ Long, H. (2017, May 27). Big auto lender only checked 8% of applicants' incomes. CNN Money. Retrieved from <http://money.cnn.com/2017/05/27/news/economy/santander-auto-loans/index.html>

¹⁸ Stecker, B and Garcia, A (2008, March). "Affordability Matters: A Look at Housing Construction & Affordability in Los Angeles." For example, Steckler and Garcia note that in a 7-year period between 1998 and 2005, the addition of thousands of new market-rate housing units in Hollywood coincided with the loss - through condo conversion and other methods - of over 1000 affordable units.

¹⁹ UCLA Comprehensive Project (2015, June) "Oriented for Whom? The Impact of Transit-Oriented Development on Six LA Communities"

alleged auto loan markups to borrowers of color.²⁰ A recent report showed the bank denied more than 26% of borrowers of color a mortgage loan and 30% of low-income borrowers in the year 2014.²¹

Predatory Sales Goals that Put Worker and Customer Interests at Odds

The advent of sales goals gave banks a new way to prey on marginalized communities.

One former Wells Fargo and Bank of America worker testified to the review board, “I worked in the financial industry for more than five years at Bank of America and Wells Fargo and have witnessed the targeting of the most vulnerable in our community by bank managers as a strategy to sell more products without fully informing their customers about those financial products.”

Other former Wells Fargo employees say that they were told to target immigrants in the U.S. illegally, as well as Native Americans and college students, as they sought to open sham accounts to meet the bank’s onerous sales goals.²²

Just this past month, Wells Fargo uncovered up to 1.4 million additional fake accounts indicating that the impact of a high-pressure sales culture is even more extensive than previously thought. The personal impact of sales goals on the frontline bank workers is extensive and testimony showed that while Wells Fargo claimed to have eliminated sales quotes that’s not actually the case. At the same time, other big banks like Bank of America continue to apply sales metrics to workers compensation.

Select testimony to the review board from bank workers:

- “I was told not to take too long with customers even if it compromised our ability to thoroughly explain the terms of a loan or credit card agreement. I was reprimanded because I took too long with a customer explaining the terms of the loan they were considering. I was also told to push credit cards every time we came in contact with a customer, even if they didn’t need it or couldn’t afford it.” – Ruth Landaverde, former Wells Fargo and Bank of America worker
- “The pressure to open new accounts by management included hourly meetings, constant monitoring of my actions, and private one on one meetings that resulted in shaming sessions by management for not meeting my goals. Employees who did not meet that metric would be terminated for other reasons, such as not completely filling

²⁰ McDermott, J. (2014, November 7). Providence drops suit vs. Santander over lending. Associated Press. Retrieved from <https://www.apnews.com/6e8ea326a08f48f6b0c324ab2161a07c>

²¹ Denied: An Assessment of Racial and Economic Disparities in Santander Bank’s Mortgage Lending (Rep.). (2017, February). Retrieved https://betterbanks.org/wp-content/uploads/2017/02/Denied-Santander-2.14.17_v3-1-1.pdf

²² Koren, J. (2017, May 5). Former Wells Fargo workers say they targeted immigrants and Native Americans. The Los Angeles Times. Retrieved from <http://www.latimes.com/business/la-fi-wells-fargo-lawsuits-20170505-story.html>

out the profile of new customers. The manager would carefully scrutinize the CNA profile looking for opportunities to terminate employees who did not meet their goals.”
– Kilian Colins, former Wells Fargo worker

Hidden and Excessive Fees

Several Los Angeles residents testified about excessive and often fraudulent fees applied for basic banking services. Overdraft and deposit fees bring in billions for the big banks at the expense of customers. For example, America's three biggest banks -- JPMorgan Chase (JPM), Bank of America (BAC) and Wells Fargo (WFC) -- earned more than \$6.4 billion last year from ATM and overdraft fees.²³

Tanya Dunlap, a victim of Wells Fargo’s most recent scandal of improperly charging customers with automobile loans for auto insurance, testified before the board about a car loan she held with Wells Fargo:

After purchasing a car from a local car dealer, Wells Fargo funded the loan at 12.25% interest. This interest rate was high but with extra payments each month would allow us to pay the loan off early. As the monthly statements arrived I began to notice an extra insurance placed on the car.

This began the nightmare of watching fee after fee being applied to the account. The past due amount on the loan each month was the extra Wells Fargo insurance, and the late fees applied each month began to outpace the monthly payment.

Wells Fargo defrauded me several thousand dollars, ruined my credit, and wasted my time. Now I represent one of up to 570,000 auto loan borrowers that Wells Fargo has said it may have enrolled and charged for car insurance without their knowledge. Wells Fargo has admitted that as many as 20,000 of those customers may have defaulted on their car loans or had their vehicles repossessed in part due to these unnecessary insurance costs.

Kilian Colins, a former Wells Fargo employee, testified to similar predatory fees and the impact on seniors:

One experience that troubled me was when a customer came into the branch to have a fee reversed. The customer explained that he was being charged \$10.00 per month on his credit card account. He described that he was on a fixed income because he had a terminal illness and was unable to pay extra fees. When I went to my manager to request authorization to refund the fees, the manager told me the only way the customer could get a fee reversal was if the customer opened a savings account, and maintained the minimum balance of \$25.00. The customer agreed in order to get the fees reversed. Months later the sister of this same customer came into the branch to

²³ Long, H. (2017, February 22). Big banks rack up \$6.4 billion in ATM and overdraft fees. CNN Money. Retrieved from <http://money.cnn.com/2017/02/22/investing/atm-overdraft-fees-rise/index.html>

collect the money from the savings account because her brother had died of his illness. She was shocked to discover several months of overdraft fees had accumulated while they were laying her brother to rest, and mourning his loss. I was shocked and angered that Wells Fargo was racking up fees on a dead man's account.

But there is perhaps no entity paying more to the financial industry in fees than the cities they contract banking services with, and Los Angeles is no exception. Wall Street banks collect \$290 million a year from Los Angeles in fees for financial services—not counting principal or interest payments—draining the city of money it could use to fund neighborhood services.²⁴ What's worse: often these funds are used improperly. Los Angeles City Controller Ron Galperin says the city paid more than \$500,000 to Wells Fargo Bank for “nonexistent services” -- charges for printing checks that the city was actually printing itself.²⁵

Tax dollars should be used in a way that is reflective of the community that supplies those funds. In this case, banks that engage in practices - like those described above that harm working class residents, seniors, and communities of color - should not be able to obtain contracts that are paid for with the tax money of the people impacted by these practices.

²⁴ An Equity Profile of the Los Angeles Region (Rep.). (n.d.). Retrieved https://www.scribd.com/document/340551099/Equity-Profile-of-the-Los-Angeles-Region-2017?secret_password=y2EUxT5YCB3j5LOHNsc0#from_embed

²⁵ Reyes, E. A. (2015, June 23). City controller: L.A. paid Wells Fargo for 'nonexistent' check printing. The Los Angeles Times. Retrieved from <http://www.latimes.com/local/lanow/la-me-ln-wells-fargo-city-20150622-story.html>

How Consumer and Worker Input Effects Responsible Banking

Testimony to the review board from Los Angeles banking customers, workers, and advocates made clear the need for an open and transparent process in reforming banking standards, both in the banks internal policies and in the city's legislative priorities.

A Voice for Bank Workers

Bank workers testified to facing sales goals years before they became public. Wells Fargo created a culture of fraud that was further perpetuated by fear and retaliation for speaking out even if it was in the best interest of the customers. The review board concluded that bank workers are the biggest ally in exposing predatory banking practices. Protections for frontline bank workers present a necessary step to improving the banking industry overall.

As Los Angeles resident Tanya Dunlap testified, "I know Wells Fargo is doing more damage to the community than they will ever admit to. The bank employees must have the ability to safely share with regulators violations of this nature without the threat of termination."

Similarly, further testimony from Los Angeles bank workers and labor experts show that a union gives bank workers protections to speak out for improvements to banking practices and improve consumer conditions too. Bank workers who have a voice on the job and whose fundamental rights are protected through collective agreements can be instrumental in mitigating abusive labor practices that can lead to customer harm. Through collective bargaining they can implement methods that ensure that interactions with customers focus on meeting financial service needs and uphold high standards of ethical sales practices.²⁶

As the Review Board process showed, bank workers are coming together and speaking up about how the city can most effectively address sales goals. The most prevalent themes for reforms voiced by these workers include making sales and metrics collective based on customer service rather than sales. Further, failure to meet such goals or metrics should not be grounds for discipline or termination and bank workers must be paid an adequate wage, of which incentive pay does not make up the majority of their overall compensation.

Banking Oversight for Bank Customers

The review board also discussed a similar outlet for consumers that offers a legitimate means of accountability. The creation of the Consumer Financial Protection Bureau (CFPB) in 2010 finally facilitated that need by serving as a government agency that can shield consumers from irresponsible financial institutions by regulating and ultimately punishing the big banks. CFPB investigations have led to voluntarily adopting fee disclosure forms for retail banking products, regulations updating lending disclosure practices, consumer protections for prepaid debit cards, and new rules for debt collection.

²⁶ Christman, A. (2016, June). Banking on the Hard Sell: Low Wages and Aggressive Sales Metrics Put Bank Workers and Customers at Risk (Rep.).

The CFPB's formal complaint and database system, while not necessarily a complete listing of consumer issues and problems, reveals the importance of strong banking oversight.

Even after Congressional leaders in Washington, DC, grilled bank leaders about falsified accounts and other banking products in September of 2016, California consumers filed more than 960 complaints with the CFPB concerning "account openings, closings, or management."

Recommendations

To enact sustainable, commonsense measures that protect Los Angeles residents and taxpayers, the review board recommends mechanisms to fight predatory banking like those detailed are inscribed in legislation and enforced through the city contracting process.

The review board agrees that not all banks and financial institutions employ abusive practices. The recommendations are formulated, in part, to help identify those banks that invest in the city and contribute to the well-being of its residents and neighbors. Just as city's living wage and anti-sweatshop laws have help distinguish between responsible and irresponsible businesses and create a level playing field, so too can effective banking measures.

Therefore, the review board foremost recommends that City Council and the Office of the City Attorney act swiftly to amend the RBO and incorporate responsible banking language directly into the RFP soliciting bids for the city's banking services.

With that in mind, the review board recommends Los Angeles City Council:

- Give preference for city contracts to banks that:
 - Base metrics on collective customer service goals, rather than sales or individual performance;
 - Do not use sales performance as a factor in discipline or termination;
 - Require employees receive adequate wages that do not rely on incentive pay as the majority factor in overall compensation;
- Establish a transparent and regular process for enforcing and updating the RBO given the evolving nature of banking practices that can harm our economic security;
- Support organizations of bank workers who are taking steps to improve the banking industry;
- Create a Responsible Investment Ordinance that promotes strong environmental, social and governance principles; and
- Develop an annual report card process to help consumers, city officials and taxpayers make informed decisions about the banks they choose to use and invest in.

As part of a long-term commitment to responsible banking, the Community Review Board also discussed the potential benefits of a public municipal bank. The review board recommends setting up a city-run bank as a way of providing quality financial services to the city and its residents in a more sustainable way than those provided by the large banks that currently receive the vast majority of city business. The review board recommends that the city should immediately conduct additional research to determine the best path toward municipal banking.

Appendix of Testimony

Testimony of Orinio Opinaldo, Wells Fargo customer

I, Orinio Opinaldo, am a member of ACCE and Committee for Better Banks. Wells Fargo put three insurances on my property with no response as I called for 18 months to know why.

For 65 years my family lived in our home in the historical West Adams of Los Angeles with my 6 children and 20 grandchildren. As an educator in Los Angeles for 50 years, I had a stable income to always invest and organize in my community. I was never behind on my mortgage nor those three insurances but I was set up to lose my home because Wells Fargo would never respond until I was told I did not pay my taxes, which was a lie. I was set up to have all the equity taken from my home worth \$1.5 million.

Today, my family lives no longer in West Adams where we were all born. They live in Hemet, Bakersfield, Ecuador, Arizona, and Baldwin Hills where rents are cheaper. I did not leave as they begged me to since I am a senior. I have an office here to fight for justice. I have watched my neighborhood change radically through banks redlining communities for foreclosures and wrong evictions.

Wells Fargo was fined \$175 million by the Department of Justice in 2012 for targeting Blacks, Asian, and Latino borrowers who qualified for loans and were charged higher fees or rates improperly placed in subprime loans. Wells Fargo's only interest is to extract wealth from the community. The \$175 million is nothing compared to the amount of money my family, and my community lost.

The City of Los Angeles must ban sales goals with any bank it does business with because sales goals don't help our community, they hurt us!

Testimony of Tanya Dunlap, Wells Fargo customer

Hello, my name is Tanya Dunlap and I'm a member of ACCE and the Committee for Better Banks.

After purchasing a car from a local car dealer, Wells Fargo funded the loan at 12.25% interest. This interest rate was high but extra payments each month would allow us to pay the loan off early. As the monthly statements arrived, I noticed an extra insurance charge. I had car insurance already so there was no need for Wells Fargo to place extra insurance. I called several times and was placed on hold for long periods of time. I made my car payment and faxed proof of insurance to the customer service department. This should have allowed Wells Fargo to reverse the charges. It did not!

This began the nightmare of watching fee after fee being applied to the account. The past due amount on the loan each month was the extra Wells Fargo insurance, and the late fees applied

each month began to outpace the monthly payment. Hours were spent on the phone with customer service explaining the problem and then being transferred or hung up on which was draining my time, money, and energy—knowing that every time I called the outcome would be the same.

I reported this information to the regulators at the CFPB and the Better Business Bureau but ultimately, I had to pay the car off to stop Wells Fargo from completely destroying our credit history with these fake insurance premiums.

Wells Fargo defrauded me several thousand dollars, ruined my credit, and wasted my time. Now I represent one of up to 570,000 auto loan borrowers that Wells Fargo has said it may have enrolled and charged for car insurance without our knowledge. Wells Fargo has admitted that as many as 20,000 of those customers may have defaulted on their car loans or had their vehicles repossessed in part due to these unnecessary insurance costs.

I know Wells Fargo is doing more damage to the community than they will ever admit to. Any bank that does business with the city should have whistleblower protections for workers. The bank employees must have the ability to safely share with regulators violations of this nature without the threat of termination.

Testimony of Melvina and Richard Bogan, Wells Fargo customers

My name is Melvina Bogan and this is my husband Richard. We are members of ACCE and we've lived in our home in San Pedro for almost twenty years.

My husband and I worked hard to save up and buy our home with a 20% down payment. We were thrilled to have a home at this stage of our lives and somewhere that our eight grandchildren could come to visit. This is the American Dream that we have worked our whole lives for.

But despite our best planning, we, like so many others, we were impacted by the economic crisis. Richard is retired from a career in trucking, and I was laid off from my job in the mortgage industry a few years ago at the height of the economic crisis. Between social security, retirement, and part-time work we had the income to continue making payments but when we found out that the government set up modification programs for families like ours, we reached out to Wells Fargo in hopes of getting help.

For over a year, we attempted to get a modification and were continually denied by Wells Fargo despite the fact that we meet all of the federal guideline qualifications. We were even told by the bank that we had to be behind on our payments in order to be considered for a modification!

I believe we are the type of homeowner that these programs were set up for – we’ve worked hard our whole lives to achieve the American Dream, and in our entire time owning this home we’ve only ever had to miss one payment.

We had to organize protests and report Wells Fargo to government agencies to get them to work with us because we know that the big banks have unfairly denied thousands of homeowners who qualify for modifications! Even now, after ACCE members helped pass the California Homeowners Bill of Rights, unfair denials and dual tracking still happen.

Our story has a happy ending for now - we finally won a modification and haven’t had problems with the bank recently. But I am not satisfied with the big banks’ behavior. I was troubled to find out that the city of LA has been using my taxpayer money to hire Wells Fargo to do its basic banking, especially after the recent sales goals scandal - and that the city has billions invested in other big Wall Street banks as well

It is important for city officials to evaluate information on whether these banks are providing a service to our communities or are they simply seeking to make money off of us, before deciding where to put our city dollars.

We need a public process for LA residents to know whether banks competing for city contracts are preying on our communities. And I think the city should prioritize working with banks that don’t have the track record of predatory sales quotas, unfair foreclosures, and investments in destructive industries.

[Testimony from Angelina Jimenez, Los Angeles resident](#)

Hemos sido dueños de casa por años y me gusta que mi comunidad se vea bien. Recientemente mis vecinos perdieron la casa por razón de un embargo hipotecario. Las condiciones que yo he visto. . .yo he tenido que mantener. . .

Estas condiciones me han costado a mí, y le han costado a la ciudad - es muy irresponsable que no mantienen a sus propiedades.

Además, dos de mis cuñados han tenido que pelear contra embargos injustos, y por causa de los bancos han pagado miles de dólares a estafadores para salvar sus casas.

Ya es hora de que los bancos sean responsables – y que la ciudad ya no esté trabajando con bancos que se están aprovechando de nuestra comunidad

Gracias.

Testimony of Ruth Landaverde, Former Wells Fargo and Bank of America worker

Hello, my name is Ruth Landaverde.

I'm a former bank worker. I worked in the financial industry for more than five years at Bank of America and Wells Fargo and have witnessed targeting of the most vulnerable in our community by bank managers as a strategy to sell more products without fully informing their customers about those financial products.

Working at two separate branches of Bank of America in California, I noticed that there was big a difference in sales goals and how managers expected bank tellers and personal bankers to treat its customers. In the Toluca Lake branch, for example, the clientele is more affluent and educated. I was told by management not to be too aggressive selling our products, such as credit cards, and to be careful and explain everything thoroughly or else risk being sued.

However, in Van Nuys I was given different instructions. In Van Nuys, many of our customers were monolingual Spanish speakers, elderly on SSI, students and generally all were low-income. Once I started working at the that branch, all the protocols that I was trained on went out the window. I was told not to take too long with customers even if it compromised our ability to thoroughly explain the terms of a loan or credit card agreement. I was reprimanded because I took too long with a customer explaining the terms of the loan they were considering.

I was also told to push credit cards every time we came in contact with a customer, even if they didn't need it or couldn't afford it."

Food and Water watch has also revealed that Bank of America is funding the Dakota Access pipeline. Bank of America is funding the capital for the expansion of a pipeline that will destroy indigenous land and compromise the drinking water for millions of people in the state of North Dakota.

The City of Los Angeles should set an example and hold banks accountable by banning sales goals with any bank that does business with the city, provide whistleblower protections, and cut the contract of any bank that is defrauding the community.

Testimony of Jose Solares, Former Bank of America worker

My name is Jose Solares and I'm a member of ACCE and the Committee for Better Banks. I'm a former account administrator for Bank of America for fourteen years. My job was to ensure that corporate accounts and large business money management funds were handled properly.

My job was to ensure that large corporate investments were not only handled with precision and accuracy, but that money managers for corporate accounts were paid out accurately and on time. If there were any mistakes then the bank would have to cover the cost of those mistakes. Wealthy investors, corporations, and churches were some of the banks wealthiest

clients, and the bank treated each investor very carefully. There was no problem too big to solve for the wealthiest members of our community.

The bank knew if there were any problems with managing money for the wealthy then they would be facing lawsuits and large attorney fees, and the potential to lose that business to one of the many competitors. I believe banks can get away with fraud on low to moderate income clients because they don't have the resources to fight for justice.

Testimony of Erika Toriz, Former bank worker

Hello, my name is Erika Toriz and I'm a former bank worker, current member of Committee for Better banks and founder of the non-profit organization HAVEN. HAVEN Neighborhood Services offers free assistance in the area of modifications of home loans, credit counseling, and foreclosure prevention.

Many community members are struggling to keep family homes from going into foreclosure but banks are unwilling to modify the loan without advocacy. Homeowners need help from a third party like HAVEN in order to keep the process moving.

Banks and servicers of mortgages do not make the process easy for homeowners to continue making their payments. Violations of the Home Owners Bill of Rights, which include dual tracking and mismanagement of account information, have displaced many members of the community.

The process should be simplified for homeowners to find a solution so consumers can pay their mortgage and continue to live in the home. Instead, the homeowner is finding a path to home preservation during a financial hardship increasingly difficult. Banks are becoming bold and increasingly unaffected by the limited oversight and regulation around wrongful foreclosures.

My hope is the City of Los Angeles will provide an example of what a socially responsible bank looks like and stop predatory loans from devastating our neighborhoods. The City of LA should hold banks accountable to the wrongful foreclosures and predatory loans that continue to devastate our community member's lives.

Testimony of Kilian Colins, Former Wells Fargo worker

My name is Kilian Colins and I'm a member of Committee for Better Banks and former personal banker of Wells Fargo in San Diego California.

I worked at Wells Fargo as a personal banker from November 2013 to July 2015. The pressure to open new accounts by management included hourly meetings, constant monitoring of my actions, and private one on one meetings that resulted in shaming sessions by management for not meeting my goals.

Employees who did not meet that metric would be terminated for other reasons, such as not completely filling out the profile of new customers. The manager would carefully scrutinize the CNA profile looking for opportunities to terminate employees who did not meet their goals. The employees who engaged in unethical practice would be promoted.

One experience that troubled me was when a customer came into the branch to have a fee reversed. The customer explained that he was being charged \$10 per month on his credit card account. He described that he was on a fixed income because he had a terminal illness and was unable to pay extra fees. When I went to my manager to request authorization to refund the fees, the manager told me the only way the customer could get a fee reversal was if the customer opened a savings account, and maintained the minimum balance of \$25.00. The customer agreed in order to get the fees reversed. Months later the sister of this same customer came into the branch to collect the money from the savings account because her brother had died of his illness. She was shocked to discover several months of overdraft fees had accumulated while they were laying her brother to rest, and mourning his loss. I was shocked and angered that Wells Fargo was racking up fees on a dead man's account.

The constant high-pressure sales tactics to open new accounts impacted customers with extra fees on products that they didn't want or need. Students, senior citizens, immigrants, and low to moderate income families could not escape Wells Fargo's fee scam because they must pay the fees or have their credit ruined.

Many times, employees at Wells Fargo did not understand the bonus structure. So, employees who made their sales goals got to keep their job, but didn't bring home extra compensation. My first day on the job, a fellow employee opened an account in my name, and without my permission. I realized he was trying to keep his job.

Any bank that does business with the city should not have sales goals. If they want to compensate bank employees then it should be based on providing great customer service, not the threat of termination.