



REPORT TO COUNCIL

City of Sacramento

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Staff Report
June 1, 2010

**Honorable Mayor and
Members of the City Council**

**Title: Investments in Banks Providing Mortgage Foreclosure Relief
and Community Banking**

Location/Council District: Citywide

Recommendation: Adopt a Resolution approving revisions to current Investment Policy to encourage investment of City's pooled treasury funds in banks providing mortgage foreclosure relief and/or banking services to low income and other "unbanked" residents of the City.

Contact: Russell T. Fehr, City Treasurer (916) 808-5168

Presenters: Russell T. Fehr, City Treasurer

Departments: City Treasurer

Division: City Treasurer

Organization No: 05001011

Description/Analysis: Council Member Hammond requested the City Treasurer's Office to draft a resolution calling for the City to stop investing in financial institutions which are not assisting distressed mortgage holders. After consultation with other jurisdictions attempting to achieve the same goal, the City Treasurer's Office recommended to the Law and Legislation a City Investment Policy change favoring investment in financial institutions which are assisting distressed mortgage holders or which are engaged in community banking efforts. State law and the current City Investment Policy both state the objectives in the investment of City funds are maintenance of principal first and foremost, ensuring cash is available when needed, and only then generated yield. Other issues may be presented in an investment policy.

Policy Considerations: It is proposed that the City's Investment Policy be revised to allow investments in a manner that encourages banks operating in the local economy to

work with distressed mortgage holders and/or to expand community banking efforts.

The credit crisis afflicting the nation over the past three years has had numerous adverse employment and housing effects, including the inability of homeowners to satisfy their mortgage commitments on a timely or consistent basis. To foster the economic well-being of homeowners and to protect the integrity of neighborhoods and households, governmental agencies at all levels are looking for measures to require or encourage lending institutions to forestall the foreclosure of many mortgage holders. In addition to the adverse impacts caused by high foreclosure rates, many residents of Sacramento are harmed due to a lack of banking services, with a portion of the population going without traditional banking services. This segment of the population is forced to resort to utilize the services of check cashing services and similar operations that charge exorbitant fees for their limited services.

Environmental Considerations: California Environmental Quality Act (CEQA):

This action is not subject to the CEQA because it is not a “project” as defined in section 15378 of the CEQA Guidelines. Even if it were a project, it would be exempt under section 15061(b)(3) of the CEQA guidelines, which provides as follows: “Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.”

Sustainability Considerations: None

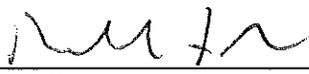
Commission/Committee Action: The Law and Legislation Committee has reviewed this matter and directed it be forwarded to the City Council for further consideration.

Rationale for Recommendation: Under both state law and the City’s Investment Policy, the primary objects of the City Treasurer’s investment of City cash are safety, liquidity (availability when needed), and yield. It is appropriate to include other objectives in investment policy and practices. The City’s current investment policy allows for flexibility in regard to the yield obtained where an investment results in local economic development benefits. Broader local issues may also be considered in the investing of the City’s cash, including, as proposed here, preference in investing in financial institutions that are active in:

- Assisting distressed mortgage holders
- Community banking by providing free or low-costs banking services to the “unbanked” or “under-banked”

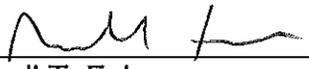
Financial Considerations: In making investments in qualifying institutions, the City Treasurer will be encouraged to invest in financial entities that demonstrate commitment in the areas of foreclosure relief and/or community banking.

Emerging Small Business Development (ESBD): Not Applicable

Respectfully Submitted by: 

Russell T. Fehr
City Treasurer

Recommendation Approved:



Russell T. Fehr
City Treasurer

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Background

Cash held by the City until it is used to meet the payroll and otherwise make payments in accordance with State Law and the City's Investment Policy most recent approved by the City Council in August 2009. The primary objectives of both law and policy are, in priority order:

1. Safety—the preservation of principal;
2. Liquidity—cash will be available to meet the City's obligations; and
3. Return on Investments—generating investment return consistent with maintaining safety and liquidity

State law and the City's Investment Policy also place limits on the proportion of corporate investments compared to investment in governmental securities.

As long as these fundamental requirements are met it is possible to include other objectives in selecting investments. For example, the current policy states that for a reduced investment yield when the City's funds are in turn devoted to local economic development projects.

The City Treasurer now proposes that the City's Investment Policy be amended to provide that as between competing comparable investments, investment in financial institutions that promote mortgage foreclosure relief and/or community banking services to the traditionally "unbanked" or "under-banked" population shall be encouraged.

Mortgage Foreclosure Relief

The mortgage crisis has severely impacted Sacramento and the crisis is not abating. The number of mortgages that are more than 90 days delinquent has escalated and now stands at 12.33% of all outstanding mortgages. More than 3.4% of mortgages are in foreclosure. Residents have lost and continue to lose homes and neighborhoods are affected by abandoned, neglected, and vandalized homes. Moreover, the property tax roll is declining due to the impact of foreclosures on market and assessed property values. Vacant foreclosed property often causes increased burdens on the City's police and code enforcement staff, all magnifying the City's budget challenges. The federal government has established programs encouraging mortgage holders to modify the terms of mortgages in order to slow foreclosures. Scoring systems are being developed. Most successful mortgage modifications have involved fixing and lowering interest rates.

Despite the efforts of federal, state and local governments, the loan modification programs largely have not been successful in preventing or deferring foreclosures. This is due to a variety of reasons including mortgage holders not devoting sufficient effort and resources, the divided ownership of mortgages due to selling of mortgage packages as investments, limiting the mortgage modifications to interest rate reductions and not including principal balance reductions, insufficient householder income to meet

the terms of modified mortgages. The increase in unemployment is placed additional stress on the housing market and has increased the number of foreclosures. The lack of current success, however, is no reason to discontinue the mortgage modification effort.

The proposal to amend the City's investment policy is intended to encourage the investment in those financial institutions that are active and effective in stemming the wave of foreclosures still impacting the city. The goal here is to support those institutions assisting the distressed mortgage holders in Sacramento.

Measurement of achievement of this policy goal is currently somewhat problematic. Investment staff intends to use independent, federally developed measure of mortgage modification when evaluating investments in financial institutions.

Community Banking

Another area of critical local concern is the provision of banking services to all residents of the City. At present, one in five Californians does not have a checking account and nearly half of Californians do not have a savings account. These statewide percentages apply with at least equal force within the city, demonstrating the presence of a large number of "unbanked" or "under-banked" citizens. These citizens are deprived of opportunity to learn to effectively manage their money and to build financial security for themselves and their families.

The alternative to traditional banking services is the costly use of pay day lenders and check cashing centers. A significant effort is underway to expand banking services to the un-banked residents of Sacramento. This effort should be encouraged.

Measuring community banking is less problematic. The Bank on Sacramento initiative is currently underway and local financial institutions are helping the formerly "unbanked" have access to low cost financial services and education. There are Community Reinvestment Act (CRA) measures.

Investment Policy Implications

In the interests of disclosure, use of local concerns in selecting investment would apply only to a fraction of the City's cash holdings. State law and City policy limits investments in private sector bonds and other investment types to 20 percent of the overall holdings, and only a fraction of these holdings are in financial institutions. Consistent with state law and City policy, the remainder is invested in federal, state, and local government-issued securities.

RESOLUTION NO. 2010-_____

Adopted by the Sacramento City Council

APPROVING A REVISION OF CITY'S INVESTMENT POLICY TO ENCOURAGE FORECLOSURE RELIEF AND COMMUNITY BANKING EFFORTS

BACKGROUND

- A. On August 18, 2009, by Resolution No. 2009-544, the City Council approved a comprehensive Investment Policy document ("Investment Policy") pursuant to which the City Treasurer will conduct investment of the City's pooled treasury funds.
- B. The high level of foreclosures that have occurred during the past three years and continue to occur within the city has caused significant harm to various residents, their families and their neighborhoods. Relief from immediate foreclosure necessarily requires the cooperation and effort by lenders, including banks and other financial entities, with loans secured by homes located in the city.
- C. There is a portion of the Sacramento population that does not have access to traditional banking services and must rely on providers of check cashing and similar services that charge an exorbitant fee for their limited services. This segment of the population is considered to be "unbanked" or "under-banked." Obtaining traditional banking services would bring this population into the financial mainstream and facilitate savings and growth in financial well-being.
- D. The City Treasurer proposes a revision to the City's Investment Policy to encourage the investment in entities that have demonstrated significant efforts in providing mortgage relief and offering free or low-cost banking services to the "unbanked" and "under-banked" in the local community. The revision is attached as Exhibit A to this Resolution.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The revision to the City's Investment Policy as set forth in Exhibit A to this Resolution is approved.

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Exhibit A – Revision to City Investment Policy

Exhibit A

Revision to City's Investment Policy to add new subsection 3 to Article II, Section B of the Policy, relating to Objectives of the City's investment program, as follows:

B. Other Objectives

[...]

3. *Favored Investments*

Investments are encouraged in entities that have demonstrated significant commitment and cooperation (a) with foreclosure prevention efforts, including, without limitation, temporary moratoriums on foreclosures, renegotiation of the principle mortgage balances to reflect current values, and other good faith negotiations with homeowners in regard to delinquent mortgages, and/or (b) in offering free or low-cost banking services to low- and moderate-income residents who are part of the traditionally "unbanked" or "under-banked" population. The City Treasurer may take into consideration the level of effort an entity expends in either the foreclosure relief or community banking areas, or both, when considering competing investments. If the City Treasurer is satisfied with the record of an entity in regard to such efforts, then the Treasurer's investment staff may invest in the securities of the entity, provided that the investment is otherwise consistent with the requirements of this Investment Policy statement.