



**REPORT TO LAW &  
LEGISLATION COMMITTEE  
City of Sacramento**

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**915 I Street, Sacramento, CA 95814-2604**

**STAFF REPORT  
February 16, 2010**

Honorable Members of the  
Law and Legislation Committee

**Title: INVESTMENT OF POOLED TREASURY FUNDS IN BANKS PROVIDING  
MORTGAGE MODIFICATION AND COMMUNITY BANKING**

**Location/Council District:** Citywide

**Recommendation:** 1. Provide policy direction to the City Treasurer regarding giving preference in making investments in financial institutions to those assisting distressed mortgage holders and to those expanding community banking services. 2. Direct the City Treasurer to present to the City Council amendments to the City Investment Policy expanding local concerns in investing to assisting distressed mortgage holders and expanding community banking. The report back will include standards and procedures for the implementation of the policy.

**Contact:** Russell Fehr, City Treasurer, 808-5832

**Presenters:** Bob Tokunaga, Sr. Investment Officer, 808-5340

**Department:** City Treasurer's Office

**Division:** City Treasurer

**Organization No:** 09500

**Description/Analysis**

**Issue:** Should the City Council adopt standards and policies that would facilitate the investment of treasury pool funds in banks providing mortgage modification or other relief to distressed property owners and expanding community banking services?

**Policy Considerations:** The City's Investment Policy describes the types of authorized investments for the pooled treasury funds which investments are to be made consistent with the interests of safety, liquidity and yield. The Investment Policy allows the investment of funds at a less than comparable yield in return for local economic development benefits. The credit crisis afflicting the nation over the past two 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 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.

Residents of Sacramento are harmed due to a lack of banking services at a community level; portions of the City are not well served. Some are forced to use costly alternative to traditional banking.

To this end, it is proposed that the investment of City funds be used in a manner that encourages banks operating in the local economy to work with distressed mortgage holders and expand community backing efforts. The City Treasurer will be directed to present to the City Council standards and policies for such investments.

**Environmental Considerations:** None.

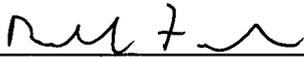
**Rationale for Recommendation:** In both State Law and City Investment policy the primary objects of the City Treasurer's investment of City cash are safety, liquidity (availability when needed), and yield. It is appropriate to include other concerns in investment policy and practice. The City's current investment policy allows for sacrificing some yield in return for local economic development benefit. Broader Local Issues may also be considered in the investing of the City's cash. Local Issues may include, but not be limited to:

- Assisting distressed mortgage holders consistent with federal mortgage relief programs;
- Community banking; and provision of alternatives to predatory lending

Whereas banks with local branches are making strides towards addressing community banking issues, providing assistance to distressed mortgage holders is still an unresolved problem. The City, through its investment practices, should encourage financial institutions to help distressed mortgage holders.

**Financial Considerations:** In making investments in qualifying financial institutions, the City Treasurer will be authorized to accept a lower comparable yield on investments in return for the commitment of the institutions to work and provide assistance to distressed mortgage holders.

**Emerging Small Business Development (ESBD):** None

Respectfully Submitted by:   
Russell Fehr, City Treasurer

Recommendation Approved:

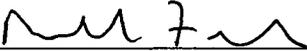
  
Russell Fehr  
City Treasurer

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**Attachment 1**

**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

As long as these fundamental requirements are met it is possible to include other concerns in selecting investments. 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 mortgage crisis has severely impacted Sacramento. Residents have lost homes, neighborhoods are affected by abandoned, neglected, and vandalized homes, the property tax roll is declining 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.

The loan modification programs have not been successful. 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 lack of current success, however, is no reason to discontinue the mortgage modification effort.

The goal here is to support those assisting the distressed mortgage holders in Sacramento.

Another area of critical local concern is the provision of banking services to all residents of the City. 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 efforts should be encouraged.

In the interests of disclosure, used of local concerns in selecting investment would apply only to a fraction of the City's cash holdings. State law and City policy limited 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. The remainder is invested in federal, state, and local government issued securities.