

# Wake Up Wall Street

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While Californians Must Choose Between  
Education and Public Services...

***Wall Street Banks Owe California Billions.***

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## The economic crisis has taken a toll on working families in California.

Families have lost savings, income, quality of life, and in many cases, even homes. Across the state, neighborhoods are reeling from devastating cuts to vital services like health care, education and public safety. Loss of public service affects all communities, but it especially impacts the most vulnerable—seniors, children, the disabled, low-income households and communities of color.

While Californians are making sacrifices in the wake of the Wall Street meltdown, the country's largest banks have yet to take responsibility.

### It's time for Wall Street banks to do their part. Banks must:

1. Pay property taxes owed	\$50+ million
2. Refund local governments for the cost of foreclosures	\$13.9 billion
3. Renegotiate toxic deals with California cities and the state	\$1.5 billion
4. Restore lending to small businesses in California	\$1.2 billion
5. Correct damages to Californians' retirement savings	\$464+ million

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**Total to California =** **\$17.11 billion**

## Wall Street Banks Owe Millions in Property Taxes

The nation's largest banks and Wall Street's private equity firms bought major properties in California in recent years, but they are not paying the correct property taxes.

Under Proposition 13, properties in California should be reassessed at fair market value upon a change in ownership, but loopholes has led to banks skipping out on hundreds of millions of dollars in property tax revenues. For example:

- JPMorgan Chase merged with Washington Mutual Bank (WaMu) in 2008 in a deal reportedly worth \$1.9 billion, but two years later many WaMu banks and other WaMu assets have still not been reassessed at current property values.
- Wells Fargo & Co. purchased Wachovia Corp. in 2008 for a reported \$15.1 billion in an all-stock deal, but many of Wachovia's California assets have not been reassessed to date.
- In 2002, Goldman Sachs, Bain Capital, and TPG Capital acquired Burger King, but several of the properties have not been reassessed.

### Case Study: Tip of the Iceberg

In a small sampling of properties in just 11 of California's 58 counties research shows:

- Chase Bank owes an estimated \$15.3 million in back taxes to state and county governments. Statewide, Chase is estimated to owe tens of millions of dollars in back taxes.
- Wall Street private equity firms and other corporations are estimated to owe \$34.8 million a year in back taxes.

**Summary of Estimated Amount of Money Owed by Wall Street Banks and Private Equity Firms by County:**

<b>County</b>	<b>Est. Back Taxes Chase Bank Owes</b>	<b>Estimated Back Taxes Wells Fargo Owes</b>	<b>Est. Back Taxes Owed by Specific PE/ Corp. Transfers</b>	<b>Total Est. Back Taxes Owed by PE/Corp. and Banks</b>
Alameda	\$95,538	\$436,133	\$1,039,105	<b>\$1,570,776</b>
Contra Costa	\$130,540		\$1,765,575	<b>\$1,896,115</b>
Fresno	\$9,548		\$172,809	<b>\$182,357</b>
Kern	\$36,841		\$46,133	<b>\$82,974</b>
Los Angeles	\$13,485,426		\$13,080,469	<b>\$26,565,895</b>
Marin	\$45,071		\$460,211	<b>\$505,282</b>
Monterey	\$4,799		\$346,967	<b>\$351,766</b>
Sacramento	\$108,218	\$40,861	\$4,984,582	<b>\$5,133,661</b>
Santa Clara	\$366,131	\$37,054	\$1,426,423	<b>\$1,829,608</b>
Santa Cruz	\$42,170		\$692,773	<b>\$734,943</b>
San Francisco	\$990,840		\$10,806,286	<b>\$11,797,126</b>
Tulare	\$0		\$41,816	<b>\$41,816</b>
<b>Totals</b>	<b>\$15,315,122</b>	<b>\$514,048</b>	<b>\$34,863,149</b>	<b>\$50,692,319</b>

Source: County assessors' offices and Dataquick

These numbers represent just the tip of the iceberg. The California Tax Reform Association looked at properties that have changed ownership, but appear not to have been reassessed as required by state law. For each property the group calculated what the property owner is paying as well as the estimated current market rate property tax assessment (based on for sale property listings). The difference between the two is the amount of back taxes a bank owes each year.

CTRA concluded that a conservative estimate of what banks, Wall Street firms and other corporations owe California totals \$51.6 million in just 11 counties for a small sample of properties. This formula could be extended to all counties and all buildings to get an accurate assessment of what banks and private equity firms owe California.

**Statewide banks and private equity firms owe millions in back taxes.**

**Banks must:**

- Pay accurately assessed property taxes on all new buildings each firm assumes; and
- Immediately pay back taxes.

## Banks Hold the Key to Solving the Foreclosure Crisis Crushing California

The foreclosure crisis has uprooted communities, destroyed neighborhoods and devastated the state economy.

- One in five U.S. foreclosures is in California.<sup>1</sup>
- Rows of vacant homes are public safety and health hazards and cost local governments between \$2 and \$14 billion.<sup>2</sup>
- Blight caused by foreclosures is a driving force behind the \$627 billion that Californians are projected to lose in home value between 2009 and 2012.<sup>3</sup>
- More than a third of California homeowners already owe more on their mortgages than their homes are worth.<sup>4</sup>
- More than half a million homes are expected to go into foreclosure in California this year.<sup>5</sup>

Unless the banks step up to fix the foreclosure crisis, the damage to our communities and state economy will be staggering and long-lasting.

### The Cost of Foreclosures to Local Governments<sup>6</sup>

County	Foreclosures	Cost to Local Governments	
		\$5,000	\$35,000
Los Angeles	86,000	\$430,000,000	\$2,997 million
Riverside	41,000	\$205,000,000	\$1,418 million
San Bernardino	35,000	\$175,000,000	\$1,233 million
San Diego	30,000	\$150,000,000	\$1,038 million
Orange	22,000	\$110,000,000	\$773 million
Sacramento	22,000	\$110,000,000	\$767 million
Contra Costa	15,000	\$75,000,000	\$530 million
Alameda	15,000	\$75,000,000	\$525 million
Kern	12,000	\$60,000,000	\$434 million
San Joaquin	12,000	\$60,000,000	\$415 million
Santa Clara	11,000	\$55,000,000	\$394 million
Fresno	10,000	\$50,000,000	\$350 million
San Mateo	4,000	\$20,000,000	\$138 million
San Francisco	2,000	\$10,000,000	\$86 million
<b>All California</b>	<b>397,000</b>	<b>\$2 billion</b>	<b>\$13.9 billion</b>

Experts estimate the cost of a foreclosure to local governments can cost from \$5,000 to \$35,000 per home.<sup>7</sup>

**Banks must:**

- Agree to real and effective loan modification that includes reducing principal; and
- Pay for the blight and safety hazards that foreclosures unleash on our neighborhoods.

**Wall Street Must Renegotiate Toxic Deals**

Big banks like Goldman Sachs, JPMorgan Chase and Bank of America continue to bilk taxpayers for millions a year on risky derivatives called “interest rate swap deals.”

Since September 2008 banks have profited \$1 billion through toxic deals that imprison local governments. Through 2011, the cost to California will be \$1.5 billion.

Before the crisis hit, big banks peddled toxic swap deals to states and cities on the promise that they would be protected against interest rate spikes. But now that interest rates are near zero, banks are refusing to renegotiate or cancel the deals. Instead banks continue to profit or threaten taxpayers with millions in early termination fees.

**Banks’ Actions Spark Investigations:**

- The U.S. Department of Justice and Attorneys General in California, Florida, and Connecticut are all investigating potentially illegal behavior by the banks in connection with these deals.<sup>8</sup>
- Cities like Los Angeles, Oakland and Fresno have filed lawsuits against the banks over interest rate swaps and other municipal derivatives.<sup>9</sup>
- The Bank of America has admitted to a criminal violation of antitrust laws.<sup>10</sup>

### Annual Losses on Interest Rate Swaps<sup>11</sup>

<b>Governmental Entity with Interest Rate Swap</b>	<b>Annual Losses on Swaps</b>
California (state)	\$278 million
Corcoran (city)	\$0.6 million
East Bay Municipal Utility District	\$34 million
Los Angeles (city)	\$19 million
Menlo Park (city)	\$3 million
Metropolitan Transportation Commission	\$63 million
Oakland (city)	\$5 million
Peralta Community College District	\$19 million
Pittsburg (city)	\$5 million
Richmond (city)	\$6 million
Riverside (city)	\$11 million
Riverside County	\$4 million
Sacramento (city)	\$3 million
Sacramento County	\$25 million
San Diego (city)	\$1 million
San Francisco (city and county)	\$19 million
Santa Clara Valley Transportation Authority	\$13 million
<b>All California</b>	<b>\$507 million</b>
<b>All California Cost 2008-2011</b>	<b>\$1.5 billion</b>

#### **Banks must:**

- Renegotiate or cancel toxic interest rate swap deals at no cost to taxpayers; and
- Provide affordable loans to state and local governments at the same low interest rates that banks receive from the federal government.

## Lending to Small Businesses Saves Jobs

Statewide unemployment in California hovers around 10 percent and distressed small businesses continue to close their doors and lay off thousands of workers. California has lost more than 1.25 million jobs since 2008.<sup>12</sup> But even after receiving trillions in bailouts, banks have cut back small business lending drastically.

According to Federal Reserve Chairman Ben Bernanke, small businesses “employ roughly one-half of all Americans and account for about 60 percent of gross job creation.”<sup>13</sup> Small business lending through the SBA 7(a) program, the Small Business Administration’s main program, dropped 49 percent in California between 2007 and 2009.<sup>14</sup> In a National Small Business Association survey, 56 percent of small businesses that have problems finding available credit reported having to lay off employees as a result.<sup>15</sup>

The decline in small business lending has had a dramatic effect on unemployment, which in turn has become the driving force behind foreclosures.

### Job Losses in California, January 2008-June 2010<sup>16</sup>

Metropolitan Area	Unemployment Rate	Job Losses since 2008
Los Angeles	11.6%	471,800
San Francisco-Oakland	10.5%	184,300
Riverside-San Bernardino	14.4%	152,000
San Diego	10.5%	90,100
Sacramento	12.4%	80,000
San Jose	11.4%	70,900
Fresno	16.0%	23,300
Stockton	16.5%	16,600
Bakersfield	15.7%	11,400
<b>All California</b>	<b>12.2%</b>	<b>1,259,700</b>
<b>Cost to CA small businesses</b>		<b>\$1.2 billion</b>

#### Banks must:

- Restore small business lending to create jobs in California;
- Stop forcing small businesses to turn to overpriced credit cards for loans and provide them with affordable, quality financing options; and
- Make good, conventional credit available to small businesses.

## Pay Damages to Californians' Retirement

Wall Street's reckless behavior has devastated Californians' retirement security. Big banks gambled with and lost the retirement savings of hard-working Californians, like nurses, college professors, firefighters, and child protection workers.

After a life of hard work and playing by the rules, Americans should be able to retire with dignity and security. But that part of the American Dream has been threatened. In the aftermath of the economic meltdown pension funds suffered debilitating losses. Between October 2007 and December 2008, the top 1,000 U.S. pension funds lost \$1.75 trillion, nearly a quarter of their value.<sup>17</sup> While the funds have recovered some of their value since then, the damage has been done, as both private sector and public sector workers' savings and retirement are being targeted for cuts and elimination.

The losses were no accident. In several cases, pension funds like the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) have uncovered deceptive and dishonest practices on the part of the banks. CalPERS and CalSTRS have filed class action lawsuits against banks like Bank of America and State Street Corp. to protect retirement security for more than two million Californians.

- The California pension funds sued Bank of America for \$264 million in losses in connection with its acquisition of Merrill Lynch. They alleged that Bank of America executives misled shareholders about the financial health of Merrill Lynch prior to the merger vote and that they failed to disclose the multi-billion dollar bonuses Merrill was slated to pay its top bankers, compounding the losses.<sup>18</sup>
- California Attorney General Jerry Brown has also filed a lawsuit against State Street Corp. for defrauding CalPERS and CalSTRS by overcharging them for foreign currency trades over a period of eight years. Brown has sued for more than \$200 million in penalties and damages from the Boston-based investment bank.<sup>19</sup>
- Although it has not filed a lawsuit, CalPERS also claims that Goldman Sachs told the pension fund that it was not "the target of a formal investigation" six months after federal regulators told the bank that it was likely to be charged with fraud in connection with its ABACUS 2007-AC1 collateralized debt obligation. The Securities and Exchange Commission (SEC) charged Goldman with fraud in April 2010, which caused the bank's stock price to plummet, leading to further losses for CalPERS.<sup>20</sup> Goldman ultimately paid a \$550 million fine to settle the SEC lawsuit.<sup>21</sup>

### **Banks must:**

- Pay back Californians for the damage done to our retirement security by making CalPERS and CalSTRS whole for the \$464 million in damages and penalties that the pension funds seek without having to endure costly and drawn-out lawsuits.

## Endnotes

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- <sup>1</sup> Based on data from RealtyTrac.com.
- <sup>2</sup> A single foreclosure can cost local government agencies up to \$34,000 (Richard Alarcon, "Making L.A.'s money count," Los Angeles Times, 17 Sep 2009, <http://articles.latimes.com/2009/sep/17/opinion/oe-alarcon17>); Total number of foreclosures from RealtyTrac.com.
- <sup>3</sup> "The Cost of Bad Lending in California," Center for Responsible Lending, Aug 2010, <http://www.responsiblelending.org/mortgage-lending/tools-resources/factsheets/california.html>.
- <sup>4</sup> "In Deep: Underwater Borrowers," Wall Street Journal, 24 Nov 2009, [http://s.wsj.net/public/resources/documents/info-NEGATIVE\\_EQUITY\\_0911.html](http://s.wsj.net/public/resources/documents/info-NEGATIVE_EQUITY_0911.html).
- <sup>5</sup> "The Cost of Bad Lending in California," Center for Responsible Lending, Aug 2010, <http://www.responsiblelending.org/mortgage-lending/tools-resources/factsheets/california.html>.
- <sup>6</sup> A single foreclosure can cost local government agencies up to \$34,000 (Richard Alarcon, "Making L.A.'s money count," Los Angeles Times, 17 Sep 2009, <http://articles.latimes.com/2009/sep/17/opinion/oe-alarcon17>); Total number of foreclosures from RealtyTrac.com.
- <sup>7</sup> William C. Apgar, Mark Duda, and Rochelle Nawrocki Gorey, The Municipal Cost of Foreclosures: A Chicago Case Study, Homeownership Preservation Foundation Housing Finance Policy Research Paper Number 2005-1, 27 Feb 2005, [http://www.995hope.org/content/pdf/Apgar\\_Duda\\_Study\\_Full\\_Version.pdf](http://www.995hope.org/content/pdf/Apgar_Duda_Study_Full_Version.pdf).
- <sup>8</sup> William Selway and Martin Z. Braun, "California probes Muni Derivatives as Deficit Mounts," Bloomberg, 23 Jan 2009, [http://www.bloomberg.com/apps/news?pid=20601015&sid=a852NJ\\_Vt1U&refer=munibonds#](http://www.bloomberg.com/apps/news?pid=20601015&sid=a852NJ_Vt1U&refer=munibonds#).
- <sup>9</sup> City of Los Angeles v. Bank of America, City of Oakland v. AIG Financial Products, and City of Fresno v. AIG Financial Products.
- <sup>10</sup> Join Second Amended Class Action Complaint, City of Oakland, et al v. AIG Financial Products, page 3.
- <sup>11</sup> Based on data gathered from state and local governmental agencies' Comprehensive Annual Financial Reports.
- <sup>12</sup> Based on seasonally adjusted employment data from the Bureau of Labor Statistics.
- <sup>13</sup> Shahien Nasiripour, "As Lending to Small Businesses Plummets, Bernanke Implores Banks to Do More," Huffington Post, 12 Jul 2010, [http://www.huffingtonpost.com/2010/07/12/as-lending-to-small-busin\\_n\\_643450.html](http://www.huffingtonpost.com/2010/07/12/as-lending-to-small-busin_n_643450.html).
- <sup>14</sup> Based on SBA 7(a) loan data obtained from the Small Business Administration.
- <sup>15</sup> 2009 Small Business Credit Card Survey, National Small Business Association, <http://www.nsba.biz/docs/09CCSurvey.pdf>.
- <sup>16</sup> Based on seasonally adjusted employment data from the Bureau of Labor Statistics.
- <sup>17</sup> Christine Williamson, "Top 1,000 funds drop close to \$1 trillion," Pension & Investments, 26 Jan 2009, <http://www.pionline.com/apps/pbcs.dll/article?AID=/20090126/PRINTSUB/301269981/%E2%80%90/PENSIONFU NDDIRECTORY&template=printart&AssignSessionID=273361946539658>.
- <sup>18</sup> Karen Gullo, "CalPERS Seeks to Lead Suits Over Bank of America's Merrill Deal," Bloomberg, 24 Mar 2009, <http://www.bloomberg.com/apps/news?pid=20601103&sid=a2MUIDY2mQ5Y&refer=us>.
- <sup>19</sup> Shahien Nasiripour, "State Street Sued: Jerry Brown, California AG, Sues Bank For 'Unconscionable Fraud,'" Huffington Post, 20 Oct 2009, [http://www.huffingtonpost.com/2009/10/20/post\\_268\\_n\\_327261.html](http://www.huffingtonpost.com/2009/10/20/post_268_n_327261.html).
- <sup>20</sup> Steve Eder and Matthew Goldstein, "Exclusive: Goldman's bid didn't disclose probe to Calpers," Reuters, 01 Jun 2010, <http://www.reuters.com/article/idUSTR6504FR20100601>.
- <sup>21</sup> Fawn Johnson, "Goldman to Pay \$550 Million to Settle SEC Suit," Wall Street Journal, 15 Jul 2010, [http://online.wsj.com/article/SB10001424052748704682604575369382547871788.html?mod=WSJ\\_hpp\\_MIDDLETopStories](http://online.wsj.com/article/SB10001424052748704682604575369382547871788.html?mod=WSJ_hpp_MIDDLETopStories).