

Ethical and Responsible Banking and Investment Possibilities for the City of Los Angeles

Possibilities for the City of Los Angeles (City) for depositing and investing our funds in the amount of \$11,379,720,383 (2016-17 City Proposed Budget p.321) with ethical and responsible financial institutions are delineated below. At this point, we have not been able to confirm precisely which financial institutions provide treasury services and or hold funds for the City. We do know that the City paid fees to several banks, and those are the banks addressed. In addition, we provide a list of socially responsible and ethical financial institutions for the City to consider. We also include a section on how to categorize into three tiers of preference. Finally, there is a section on possible choices for socially responsible investing.

Please note that while we are recommending these alternative financial institutions, it is our position that the establishment of public bank with a social responsibility mandate would be the best option because it would not only save the City tens of millions of dollars in fees, interest rates, and other charges, but would also promote community redevelopment, renewable energy, affordable housing, etc.

According to the City Controller, Los Angeles paid fees to private banks in the amount of \$109,821,552 (City Controller, <http://lacity.spending.socrata.com/#!/year/2016/>). Five of these banks invest in the Dakota Access Pipeline (DAPL): U.S. Bank, Wells Fargo Bank, Comerica Bank, Citizens Business Bank (foodandwaterwatch.org). The City also sued Wells Fargo Bank for unlawful and fraudulent and practices ([Los Angeles Times](#), May 5, 2015). If the City divested from these institutions, there would be several banking options for the City to choose from, possibly including the other five banks that are not invested in DAPL to which the City paid fees in 2016. These banks are:

City National Bank, with \$35.6B in assets and is based in Los Angeles ([https://en.wikipedia.org/wiki/City_National_Bank_\(California\)](https://en.wikipedia.org/wiki/City_National_Bank_(California))). It also appears that City National Bank has no socially irresponsible investments. Its parent company is Royal Bank of Canada, also not invested in DAPL.

*California Republic Bank \$5.4B in assets, headquartered in Walnut Creek, CA
<https://crbnk.com/merger-announcement/>

*One United Bank \$621M in assets, based in Boston, MA (Note: they seem to be unstable, see FDIC link below)

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<http://www.bankrate.com/rates/safe-sound/memorandums-memos.aspx?fedid=935308>
<https://www.fdic.gov/bank/individual/enforcement/2008-10-09.pdf> (NOTE: 2008)

*Community Bank \$3.6B in assets, based in Pasadena, CA
<https://www.cbank.com/?s=assets>

*1st Enterprise Bank merger with California United Bank (2014)
<http://www.latimes.com/business/la-fi-bank-merger-20140606-story.html>

*The ethics and social responsibility of these banks are not fully researched. It appears they have not been accused of fraud or illegal practices.

If an institution is B Corp Certified, it is certified as a sustainably minded company that cares about doing good, as much as earning a profit. Here are some B Corp Certified Banks:

Amalgamated Bank \$4B in assets based in New York, NY
http://www.ibanknet.com/scripts/callreports/getbank.aspx?ibnid=usa_661308
<https://www.amalgamatedbank.com/>

Treasury services and location in Pasadena

Urban Partnership Bank \$1.4B, headquartered in Chicago
https://en.wikipedia.org/wiki/Urban_Partnership_Bank

Beneficial Bank \$653M in assets based in Oakland, CA
http://www.ibanknet.com/scripts/callreports/getbank.aspx?ibnid=usa_3608751

Sunrise Community Banks \$844M in assets based in St. Paul, MN
http://www.ibanknet.com/scripts/callreports/getbank.aspx?ibnid=usa_860053

New Resource Bank \$330M in assets based in San Francisco, CA
http://www.ibanknet.com/scripts/callreports/getbank.aspx?ibnid=usa_3471209

Here are a few other institutions for the City to consider:

First Republic Bank based in San Francisco, CA assets \$73.278B
<http://www.relbanks.com/top-us-banks/assets>

Prosperity Bank based in Houston, TX assets \$21.6B

D I V E S T L A

<https://www.prosperitybankusa.com/>

First Republic Bank based in San Francisco, CA \$73.278B

<https://www.firstrepublic.com/about-us/company-profile>

Pacific Western Bank based in Anaheim, CA assets \$16.5B

<https://www.pacificwesternbank.com/>

*Eh National Bank \$253M in assets, based in Beverly Hills, CA

http://www.ibanknet.com/scripts/callreports/getbank.aspx?ibnid=usa_3320576

<http://www.ehnbank.com>

Credit Unions in general, including:

*Los Angeles Federal Credit Union \$884M in assets, based in Los Angeles

<http://www.usacreditunions.com/los-angeles-federal-credit-union-1207>

*Further research is needed to fully understand the institutions' financial, ethical, and socially responsible soundness.

Three Categories of Banks in Order of Priority:

When considering placement of City funds, the City may decide to prioritize prospective banks in this order:

Tier 1: Explicitly socially responsible institutions. B-Corps, Community Development Financial Institutions (CDFI's), and other financial institutions centered around ethics and community development. Here are some examples:

- Amalgamated Bank
- Urban Partnership Bank
- Beneficial Bank
- Sunrise Bank

If a Tier One financial institution is capable of receiving deposits for a city account, it is to get first priority for the contract. If no banks in Tier One are capable of handling the account, then Tier Two banks are considered.

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Tier 2: Financial institutions with a good record on both internal and external ethics. Not explicitly social in nature but with a benign record. *No investment in DAPL, private prisons, arms, no record of fraud, risky speculation, predatory lending, predatory sales goals or laundering.* Examples of Tier 2 financial institutions are:

- City National Bank
- First Republic Bank
- Pacific Western Bank
- Prosperity Bank
- Western Alliance Bank
- Old National Bank

If no banks in Tiers One or Two are capable of handling the account, then Tier Three banks are considered.

Tier 3: Financial institutions with few infractions that have made a contractual obligation to improve their ethics standards.

The City will not engage in business or investment with any banks that are not in Tiers One, Two or Three.

Community Development Financial Institutions

A Community Development Financial Institution (CDFI) is a mission-driven financial institution that is committed to economic (and often environmental) justice. To earn the designation of “CDFI,” an institution must submit to a rigorous certification process by the federal government, which affirms that the CDFI is investing the majority of their lending and services in a socially responsible manner.

There are four types of CDFIs—banks, credit unions, loan funds and venture capital funds are all eligible to become certified as CDFIs via the U.S. Treasury’s certification program. Once certified as a CDFI, CDFIs are eligible for investments from several financial awards, bond programs, and tax credits that are only available via the CDFI Fund within the office of the U.S. Treasury.

The CDFI industry has experienced exponential growth since its early days as an industry 30 years ago. The industry has grown over 500% in the last 20 years, from 196 CDFIs in 1996 to over 1,000 CDFIs in 2016. Total assets under management by CDFIs

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is currently \$108 billion and growing. There are currently 21 CDFIs in the United States with an asset size of \$1-5 billion, and 1 with an asset size in excess of \$5 billion, according to the U.S. Department of Treasury.

Three large CDFIs with a presence in Los Angeles and California:

Beneficial State Bank: Certified CDFI bank with \$653 million in net assets as of YE 2016 across 3 states of operation. Beneficial State Bank operates 10 branches in California, including 2 in Los Angeles.

LISC- Certified CDFI loan fund with \$531 million in net assets as of YE 2015. LISC operates three offices in California, including one in Los Angeles.

Self-Help Federal Credit Union- Certified CDFI credit union with \$717 million in assets individually, and over \$2 billion in net assets including all Self-Help entities (two Credit Unions and Self-Help Venture Capital Fund), which shares common leadership across five states of operation. Self-Help FCU operates 19 branches in California, including three in Los Angeles.

Socially Responsible Investing (SRI) Funds

Nearly every type of investment vehicle is available as an investment with a pre-screened socially and environmentally responsible lens. And the field is growing: SRI strategies totaled nearly \$7 trillion in 2014, a 76% jump in just two years, according to the Forum for Sustainable and Responsible Investment. One out of every six dollars managed professionally in the U.S. is invested using an SRI strategy (Source: [Kiplinger's](#)). Here are six examples:

Parnassus Endeavor (PARWX) note: California headquartered, great market returns.

TIAA-CREF Social Choice Bond Fund (TXBRX)

Vanguard FTSE Social Index (VFTSX)

iShares MSCI USA ESG Select ETF (KLD)

iShares MSCI KLD 400 Social ETC (DSI)

Eventide Gilead (ETGLX)