San Diego Reinvestment Task Force

Proposed Three-Year Plan

2007-2010

Reinvestment Task Force Sub-Committee

Chairman Bob Adelizzi

Lynn Hastings
Bob McNeely
Wendell French
Marco Cortez
Arturo Rivera

Reinvestment Director

Jim Bliesner

REINVESTMENT THREE-YEAR PLAN
2007-2010

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The San Diego Reinvestment Task Force (RTF) was established in 1977 for the purposes of "monitoring banking practices and developing strategies for reinvestment." It has benefited from a great number of volunteer hours from government office holders to bank officers to government staff and finally to a broad range of community organizations and their representatives. Its scope and scale of performance has been expansive and thorough. It has maintained a respectful level of diligence and discipline to the task of addressing disinvestment both through public policy as well as model building.

The RTF has previously developed a three-year plan (2001-2003) and achieved the majority of its goals. The continued success of the RTF has allowed for the opportunity to create a renewed vision of its future. The increased sophistication of its research and analysis of economic trends and needs has lead to the formation of increasingly sophisticated financial tools.

In anticipation of developing a new three-year plan (2007-2010) a sub committee and staff have reviewed research and solicited input from the City and County. Three basic areas of interest emerged from that process; 1) financial education, 2) affordable housing, 3) consumer practices and policies.

The need for **financial education** is identifiable from a broad range of statistics mostly national. The increase of predatory finance products in low-income communities along with the increase of debt among the middle class as a necessity for survival requires a comprehensive approach to financial education in the San Diego region.

Affordable housing remains a consuming issue for a population expanding at the lowest income levels due to immigration and employment constraints. The rapid rise in value in real estate markets in the region has placed housing out of reach for major segments of the population. The reduction of direct subsidy funding from government agencies to create affordability has intensified the problem. The need for first access equity capital for new development is severe.

The RTF has since its inception maintained vigilance on **consumer lending** practices and pricing. The market is a transient environment and frequent shifts of fees, interest rates, terms of lending, geographic and income level distribution are frequent points of analysis. However, in recent years a range of products outside mainstream financial institutions has emerged and is the cause of financial distress in lower income communities. This phenomenon requires analysis and policy formation that is innovative, market sensitive but fair.

A number of recommendations to address gaps in the local community reinvestment environment are made in this document. They are intended to focus on opportunities, which might be addressed over the next three years through the work of the RTF members and staff.

REINVESTMENT TASK FORCE BACKGROUND

Description

The San Diego City-County Reinvestment Task Force (RTF) was established in 1977 by joint resolution of the San Diego City Council and Board of Supervisors. It was formed as a tri-lateral, quasi-public entity to include elected representatives, lenders, and members of community organizations. By working within the context of City and County policies (900-9 and A-123), the activities of the RTF and the respective policies are in effect local applications of the federal Community Reinvestment Act (CRA) of 1977. These policies specifically address "reinvestment" as it relates to the lending industry on a local level. As a catalyst for economic progress, the RTF serves the population of San Diego County, particularly low-moderate income constituencies and local non-profit housing and economic development organizations.

The RTF has remained a tri-lateral, quasi-public committee functioning under City and County regulations and policies related to such committees. These include compliance with the Brown Act, compliance with conflict of interest codes, and compliance with relevant City and County contracting and bidding guidelines and procedures. The City Housing Commission and the County Department of Housing and Community Development have funded the RTF since 1983.

The RTF is co-chaired by a City Council person and a member of the County Board of Supervisors, designated on an annual basis by the full County Board and the Mayor of San Diego.. Appointments to the RTF are made by the Co-Chairs and include lenders, community housing and economic development agencies, and at - large public members representing other cities and unincorporated areas of the County. Seats exist for fifteen appointed members.

The RTF has retained its board members beyond the terms stated in its authorizing resolutions (three years). The authority to appoint is with the co- chairs. A formal action to reappoint current members or new members is needed, based on tenure in order to be in compliance with authorizing resolutions.

The RTF has functioned as a quasi -public entity since 1977, which has placed at once within but still without the main structure of the city and county government. It is quasi public. The RTF is accountable to both City and County policies regarding personnel practices, vendor selection, confidentiality, conflicts of interest, accessing and accepting funding, etc. The RTF maintains constant linkages with federal regulatory agencies (Federal Reserve Bank, Office of the Comptroller of the Currency, Office of Thrift

Supervision, Justice department, HUD). A major benefit of this status or linkage with government is the ability to coordinate strategies and programs between the public and private housing and economic development entities.

RTF Noteworthy Accomplishments

* The RTF has developed ten agreements with the largest lenders in the San Diego region for specialized implementation of the federal Community Reinvestment Act. These lenders had a combined market share of 77% in San Diego County in 2004. Deposits for these institutions totaled $35.781 billion.
* Total dollars loaned for CRA activity of participating FDIC-insured lenders in the San Diego region approximated $3.28 billion in 2004. This is a 24% increase over 2003.
* The RTF was the lead government agency in the formation of a new community development financial institution, Neighborhood National Bank. The RTF members provided a major share of the $8M in capital to open the new San Diego-based bank.
* Published eleven consecutive research documents on home mortgage lending in the region with primary emphasis on lending in low-income communities.
* Organized congressional hearings on the impacts of savings and loan failures and mergers on the San Diego County.
* Designed and implemented groundbreaking research on "Fair Access to Homeowners Insurance" under a grant from the federal office of Housing and Urban Development.
* Assisted in the formation and involvement of five community based housing and community economic development organizations that have subsequently developed multi-million dollar portfolios of affordable housing.
* Successfully advocated for the opening of new bank branches (6) in underserved communities of the City and County. This is unprecedented in an era of bank closures and mergers.
* Achieved measurable increase in home mortgage lending in low-income and minority dominant communities for five consecutive years, reversing an historical trend.
* Developed working partnerships among local government, community organizations, and lenders for the development of community facilities and affordable housing.
* Developed and implemented small business credit needs assessments in City Heights, Spring Valley, and the Mid-City area.
* Assisted in the formation of a multi-bank lending consortium for affordable housing and small business.
* Implemented regional credit needs assessment identifying credit gaps including small business, mixed use and affordable housing equity
* Facilitated organization of non-profit San Diego Capital Collaborative (SDCC) and investment of $90 million for SD Smart Growth Fund.

* Implemented regional assessment of access to financial education including catalytic Smart Money Summit involving over 500 people in workshops and educational activities. **(Attachment 1)**

RESEARCH FINDINGS

The method that we have chosen to make a case for financial education is to collect data regarding the financial conditions of consumers based on national research. The assumption is, if the data indicates that people are burdened with debt, assaulted with bad credit products and services, and lacking the necessary income to meet their credit responsibilities that there is a need for increased consumer awareness of the pitfalls of being overloaded with bad debt. This is a simplistic analysis because there are many contributing factors to disproportionate debt including income levels, job opportunities, overall education, macro economic conditions, etc..

Americans are overburdened with debt. “Debt levels have been rising faster than income…in 1979, household debt was about 71% of disposable income but in 2005 that figure reached 126 %. (Woodstock Institute). According to a Gallup Poll “those who ranked in the income bracket of less than $20,000 has credit card debt that was 14.30% of their income, while those in the $100,000 or more bracket had 2.3% of their income in credit card debt.” According to Woodstock Institute research the average renters debt is associated with credit cards (40%), auto loans (35%) student loans, personal loans (4%) while homeowners debt was for mortgage loans and related costs (82%), credit cards (7%), car loans (7%), other (5%).”

Renter debt tends to be on non-appreciating items while homeowners have a major portion of their debt allocated to potential appreciation. In spite of this the homeowner’s debt is significantly greater than HUD standards that recommend that household debt be no more than 30% of income.

A major portion of the consumer debt is increased cost for housing. This gap of affordability is being covered by high cost mortgages from sub-prime and predatory lenders most of whom are not linked to mainstream banks. The rate of default for home loans in San Diego is rapidly increasing with an average monthly increase of 307% since the first of 2006. Foreclosures are increasing over 400% in recent months. Major segments of the foreclosures are persons holding predatory mortgage loans and living in low and moderate-income communities. According to SANDAG, in 2005, more than 70% of home loans in SD County were interest only or negative amortization. A possible cause of this increased risk in home finance is the distance between the cost of a home and area mean income levels. Only 9% of the regions households could afford a median priced home (Dec.2005) compared to 14% in Ca. and 49% nationally. The average income needed to afford a modest two-bedroom home was $46, 320 or $22.27 per hour. The average hourly wage for renters was $13.71.

> *"Home mortgage foreclosures should be carefully monitored – this study suggests that the concentration of predatory lenders among middle income borrowers may potentially cause problems not just for borrowers but also for communities where predatory lenders are thriving. These problems can include costs by neighborhoods and cities including lost property value, increased crime, and lost property tax revenues."*
>
> ***Steve Bouton & Associates HMDA&CRA Loan Summary for RTF"- 2004***

The cost of financial services in low-income communities is often higher than in higher income neighborhoods. Previous research by the RTF has shown that homeowners insurance, car insurance, financial services and food generally cost more in low-income communities. This is especially true where mainstream banking services or chain grocery stores are not present. In the absence of bank branches, payday lenders provide alternative products at very high rates of interest (400-900%). According to statements by researchers at the University of North Carolina "there are more payday lenders in California than there are McDonalds or Burgers King outlets." The size of the industry ahs doubled in the past three years from 2002 when they made 65 million payday loans and took in $2.4 billion in fees. In low income and military dominant San Diego the industry is clustered near military bases and low-income communities with a ratio of 15 payday loan outlets to one bank branch. On average payday loan customers in California roll a payday loan over eleven times resulting in interest rates APR of about 900%.

According to the Center For Responsible Lending, "borrowers who receive five or more payday loans per year account for 91% of payday lender revenues. 56% of revenues are generated from borrowers who have 13 or more payday loans per year. The number of borrowers that use the payday loans 13 or more times per year (27% of borrowers) is comparable to the number of borrowers that use it only occasionally, four or fewer times per year (33% of borrowers)

A number of banks currently invest in payday lenders receiving return of upwards of 34%. In other cases some banks are the banks for payday lenders and as such have come under significant auditing by federal regulators under terms of the national Security Act. The Act classifies payday lenders as money service businesses (MSB's and require that banks receiving checks from MSB's or the MSB's themselves report all transactions daily.

The City and County of San Diego should adopt a policy to enforce compliance with current federal regulations governing MSB's (payday lenders). …Compliance with current federal regulations would make certain that these facilities would be registered with FINCEN, have a defined compliance program in place with a person accountable for enforcement, tracking and monitoring of each transaction

Steve Bouton and Associates
HMDA and CRA Loan Study for 2004

A number of related consumer issues are relevant to the RTF including the cost of credit default, overdraft fees as well as regulatory changes in the Community Reinvestment Act. Consumer issues regarding the application of the CRA to credit unions, the expansion of banking charters to major retail chains (WalMart,Target, etc), exemption of banks under $100M I assets from the CRA, the inflation of CRA ratings by regulators without consideration of local market performance, the increasing centralization of banking services into large national institutions resulting in less local focus and product development are additional consumer and legislative policy issues. These policy issues influence the ability of the RTF to develop effective partnerships on a local level.

STRATEGIES FOR RESPONSE 2006-2009

Vision: The RTF envisions a future where all San Diegans have equitable financial access based on respect for consumer needs and increased consumer awareness of wealth creation strategies and resources.

Mission: The RTF is a catalytic and collaborative organization established by the City and County of San Diego to actively encourage financial institutions and other business enterprises operating in San Diego to provide goods and services that improve economic opportunities for low and moderate income residentsfamilies.

Goal 1: Encourage and facilitate compliance with the federal Community Reinvestment Act (CRA).

Objectives

Provide ongoing review of regulations and legislation which downgrades or changes the Community Reinvestment Act.

Work with statewide organizations to enhance local reinvestment efforts and mirror the San Diego RTF model.

Continue to provide research and comments regarding lending practices to appropriate regulatory agencies.

Continue to solicit lender CRA programming for the San Diego region to increase and coordinate CRA lending with non-profit and government agencies.

Goal 2: Develop alternative financial systems and capacity for increased housing and economic development in partnership between government and private financial entities.

Objectives

Work with the San Diego Capital Collaborative to develop a new Fund focused on property acquisition and predevelopment for affordable housing.

Work jointly with City and County agencies to develop programs for leveraging public funds and methods for accessing capital for economic development and housing.

Develop strategies for responding to excessive foreclosures related to sub prime and predatory home loans.

Goal 3: Implement research and fact finding activities related to disinvestment and financial distress of low and moderate-income communities and individuals.

Objectives: Develop local and state regulations related to excessive interest rates charged by payday lenders.

Implement annual review of HMDA data as well as related economic indicators to assess economic disinvestments

Work towards measurable assessment of need for financial education and impacts of education programs.

Goal 4: Solicit public opinion regarding economic needs and products related to the CRA.

Objectives: Provide regular opportunities for community and government agencies to make educational presentations to the RTF

Participate in key community events related to relevant RTF issues.

Goal 5: Work collaboratively with existing and emerging community organizations involved in housing and economic development.

Objectives: Participate in key collaborations and coalitions as well as grass roots efforts related to housing and economic development

Assist in facilitating Valencia Park Smart growth effort as model for urban infill development in residential communities.

Work with lenders and community organizations to establish benchmarks for effective CRA related programming.

Goal 6: Participate and initiate financial education activities region wide.

Objectives: Implement annual SmartMoney Summit for the purpose of increasing awareness of the need for concentrated information about beneficial financial resources and products and strategies for avoiding financial distress. To include website, ongoing smaller workshops, coordination with non-profit agencies, etc.

Cooperate with efforts to design and implement a financial education curriculum for SD City Schools.

Work with a coalition of non-profits for the purpose of accessing increased resources for financial education and to deliver the product in a coordinated, responsible, measured way.

Work with financial institutions to develop accessible and reasonable financial products accessible to low/moderate income persons.

Coordinate with United Way and SD Foundation efforts to expand resources for financial self-sufficiency.

Goal 7: Expand RTF linkages with other local governments and financial service entities.

Objectives: Meet with City Councils in five new cities.

Establish broad based ex-officio membership consisting of government, finance and non-profit group.

Add three new members to RTF from other cities in region.

Achieve compliance with the term limit provision of the city/county policy governing appointments to the RTF.