Banks get paid while Detroiters lose

USSF March on Chase Bank June 25, 2010. DAVID UBERTI VIDEO PHOTO

USSF march on Chase Bank leads the way, says attorney
By Diane Bukowski
The Michigan Citizen

DETROIT — Mayor Dave Bing and the Detroit City Council appear to have reached a compromised budget agreement for this year. But city workers and residents who still face lay-offs and cuts in service under that agreement can learn from U.S. Social Forum (USSF) participants who marched by the thousands against Chase Bank in downtown Detroit June 25.

That's the opinion of attorney Jerome Goldberg, a specialist in the country's foreclosure crisis. Goldberg helps lead the Moratorium NOW! Coalition Against Foreclosures, Evictions and Shut-offs, based in Michigan.

"Who's really responsible for Detroit's budget shortfall?" Goldberg asked. "It's the banks. The banks destroyed all value in Detroit through massive home foreclosures, 85 percent of which resulted from fraudulent, predatory sub-prime mortgage lending. But now it's the banks who want the workers and the community to pay so the banks can get paid."

United Autoworkers President Bob King, Farm Labor Organizing Committee (FLOC) President Baldemar Valesquez, Highland Park NAACP Pres. Rev. David Bullock, and pastors Charles Williams II, Edwin Rowe and Bill Wylie-Kellerman led the June 25 march on Chase. Protesters brandished red FLOC flags and beat on drums and tambourines, then occupied the steps of Chase's Detroit headquarters.

They called for a moratorium on foreclosures and improved working conditions for R.J. Reynolds Tobacco workers in South Carolina. Chase is a major investor in that company, according to Wylie-Kellerman, and also a major bank involved in Detroit foreclosures.

"What we want is a fair chance to make it," Rev. Bullock told the protesters. "We're not asking for anything more than what Wall Street has already got."

He and other pastors announced in April that they would organize a boycott of Chase if their demands were not met. Under that pressure, Chase officials met with Valesquez, King and Rowe for over an hour. Valesquez told marchers they had won an initial victory afterwards.

"Chase has agreed to designate a national official to meet with the pastors in Detroit on the foreclosure issue," Valesquez said. "If nothing is done to improve conditions in the fields of South Carolina, we announced that we would begin a boycott of Chase the day after Labor Day."

The Detroit protest was a microcosm of massive protests world-wide against banks and the governments they control, which have taken place in Greece, Italy, Lithuania, Russia and elsewhere in recent months.

As the USSF concluded, thousands of marchers surrounded the G-20 Summit in Toronto, Canada, burning three police cars after their initially peaceful protests were met with police violence, according to New York Times and CNN reports. Government leaders there had just decided to pay more to the banks in order to cut their countries' deficits, said the Wall Street Journal. To do that, they agreed to end stimulus spending on benefits for poor and working people.

Goldberg said the Detroit march on Chase was significant not only because the banks have decimated Detroit and its tax base through foreclosures. He said the banks are carving huge chunks out of the city's budget that should be used to rebuild Detroit homes, hire the unemployed, re-open city schools, and otherwise re-invigorate the city instead of down-sizing it.

Detroit owed $8.6 billion in total long-term debt obligations as of 2009, along with $1.5 billion in Pension Obligation Certificates (POCs). The POCs backed a variable-rate loan that was pushed by Wall Street bonding agencies in 2005. Those figures are contained in the city's 2009 Comprehensive Annual Financial Report (CAFR), an independent audit of the city's finances.

The 2009 CAFR projected that the city's debt payments for 2010 alone would be $100 million, with an additional $49.2 million in interest. The city is also expected to pay out $3.8 million on the POCs, along with $28.2 million in interest.

Added to that amount, however, is $40 million in POC "swap interest" for 2010 alone. Therefore the city's total debt payment for 2010 amounts to over $220 million, with $120 million of it in interest.

Yvette Shields, writing for The Bond Buyer in July, 2009, explained how the "swap interest" payments came about. Detroit could not pay the $400 million it owed on the POCs in 2009, and Standard and Poor's downgraded the city's bond ratings to below investment grade.

Just one week later, Shields wrote, the POC lenders, UBS AG and Siebert Bradford Shank and Co., got ready to call in the total $1.2 billion debt, which would have caused a budget meltdown.

To avoid that, Detroit's "finance team sought to limit its choices to available revenues that would not need the approval of external entities like the State of Michigan, and quickly focused on the roughly $180 million of casino revenue collected by the city," said Shields.

"It was within the city's power to send those revenues directly to a custodian," attorney Gavin, part of the city's finance team, told Shields.

As a result, the city's entire casino revenues are now handed over to U.S. Bank NA, which deducts the city's $4.2 million monthly swap payment and its own fee, and then hands over the rest to the general fund. Beginning in 2011, U.S. Bank NA will add another $800,000 to Detroit's annual pay-out.

But the news gets worse.

In his initial budget address to the City Council, Bing said, "The successful sale of our fiscal stabilization bonds was one of the first signs that we are beginning to repair our image and I would like to thank this Council for its support. The response by investors was overwhelming. They placed $500 million in orders for $250 million in bonds, helping us lower the interest rate to save the city $1.1 million on its annual debt service. In a city as cash strapped as we are, that vote of confidence from Wall Street is significant."

“State law allows a municipality to sell fiscal stabilization bonds as a last resort,” wrote Nancy Kaffer in Crain’s Detroit Business. The state law to which she referred was sponsored by State Rep. George Cushingberry. It amended Michigan’s Fiscal Stabilization Act to double the amount of borrowing allowed, to a maximum of $250 million, and created a “statutory lien” on the debt.

That means if Detroit cannot make its payments on those bonds to the banks, it will lose state revenue-sharing money, said Goldberg. He called for another moratorium.

“Instead of lay-offs and wage cuts for city workers and elimination of vital services to balance the budget, the mayor and City Council should stand up to the banks and place a moratorium on debt service,” Goldberg said.

Such a moratorium was in fact introduced during the Great Depression by Detroit’s Mayor Frank Murphy, to take care of the needs of impoverished Detroiters.

“When the debate over direct Federal loans began in 1933 municipalities facing default were also having trouble refinancing their debts,” said Richard Flanagan, writing in Polity in 1999. “Influenced by Mayor Frank Murphy, Congressman Clarence McLeod, a Democrat from Detroit, proposed that cities with populations over 50,000 be allowed to petition the Federal courts to declare a debt moratorium for up to ten years.”