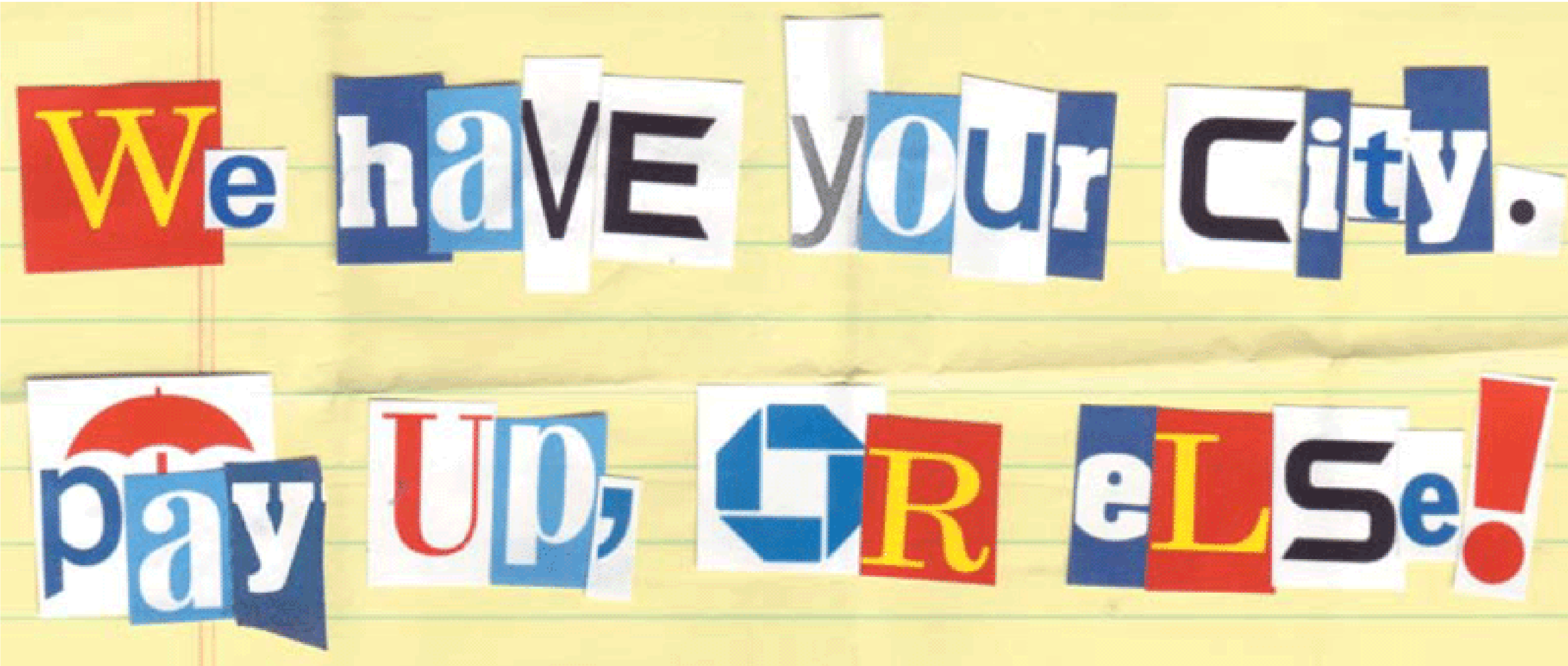
Make the Banks Pay!



May 4, 2013 Rally PUBLIC RALLY and PEOPLE'S ASSEMBLY TO SAVE DETROIT

moratorium-mi.org | moratorium@moratorium-mi.org

Detroit's Financial Crisis Began with the Foreclosure Crisis

Triggered by the collapse of ***subprime loans***:

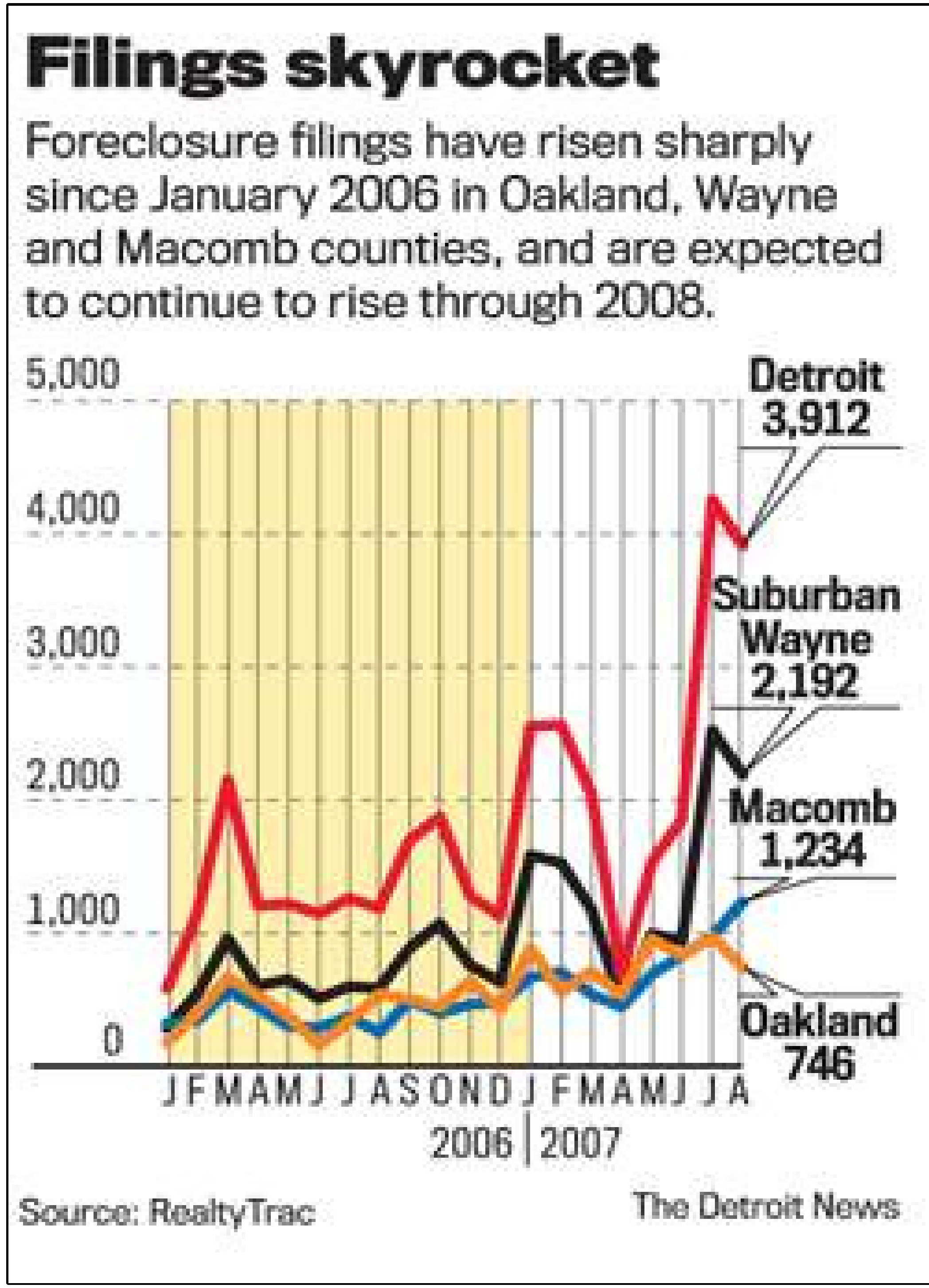
- Interest rates 3% or more than conventional loans
- Variable interest rate that rests to a higher rate after a short period
- Up to 8 times more profitable than conventional loans
- Massive fraud and deception in underwriting these loans
- Racist targeting of African American and Latino communities by the banking industry

Subprime Loans – Racist & Predatory

- In metro Detroit, in 2005-2007, 62% of African Amercans got subprime loans, compared to 28% for whites
- In Detroit, from 2004-2006, roughly 75% of loans to African Americans were subprime
- From 2005 to 2009, Detroit had more than 67,000 foreclosures (1 in 5 Detroit homes)
- Detroit, in 1996, had the lowest foreclosure rate of any major metroplolitan area in the US

Banks Destroyed Detroit's Tax Base

- From 2000-2010, Detroit lost 237,500 people (New Orleans lost 140,000 after Katrina)
- From 2008 – 2011, the State Equalized Value (SEV) on Detroit real estate declined by 29%



Banks Engaged in a Criminal Conspiracy

According to a report issued by the Senate Permanent Subcommittee on Investigations and chaired by Senator Carl Levin, the Wall Street banks engaged in essentially a criminal conspiracy.

"Our investigation found a financial snake pit rife with greed, conflicts of interest, and wrongdoing."

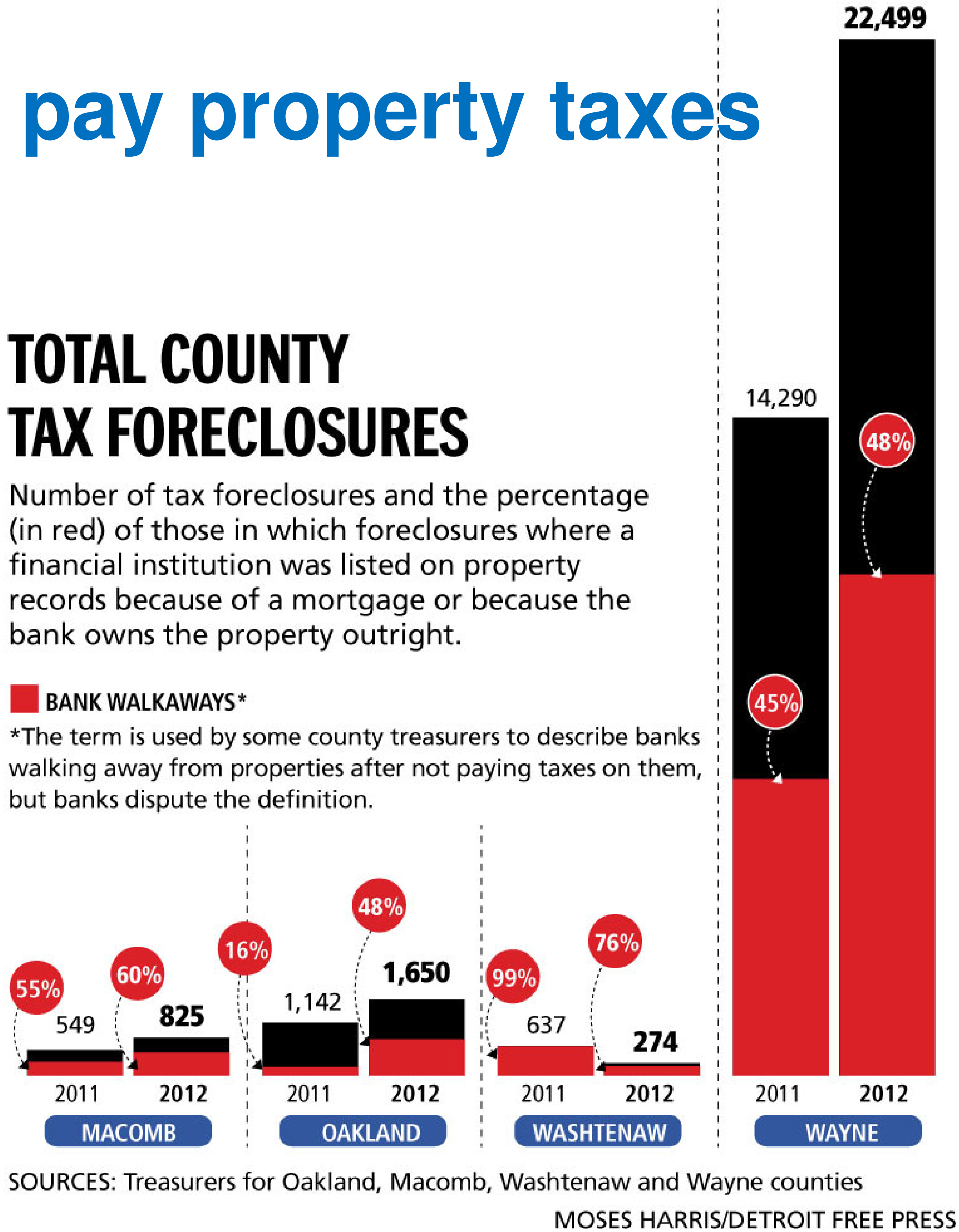
The crisis created by Wall Street destroyed communities and triggered massive loss of jobs, erosion of the property tax base, the reduction in services provided by cities and states, and many other problems.

Conspirators included:

- **Bank of America**
- **JP Morgan Chase**
- **Deutsche Bank**
- **Wells Fargo**
- **NY Mellon**
- **Citi Bank**
- **UBS**

Banks refuse to pay property taxes

- In 2012, almost half of unpaid property taxes ($57 million) was owed by the banks.
- This does not include “**zombie foreclosures**”, where the bank evicts the homeowner, but fails to take control of the title.



FOIA Request and Lawsuit

On January 2, 2013, the Moratorium NOW! Coalition filed a Freedom of Information Act (FOIA) request.

Moratorium NOW! requested all contracts and agreements between the City of Detroit … and any banks or brokerage houses relating to all forms of debt for the past 10 years….

On February 2, 2013, Moratorium NOW! filed a lawsuit to compel the release of the documents. The City then provided almost 3000 pages of documents, but has yet to provide all of the documents requested.

Documents are available for public viewing at **DetroitDebtMoratorium.org**

What have we learned so far?

- The City has been put through a series of complex and convoluted financial transactions to the detriment of its residents.

- The financial instruments include bonds of various types, interest rate swaps, pension obligation certificates, default and termination agreements, hedging derivatives, and onerous penalties.

- In addition, the banks made huge profits in upfront fees and related charges.

- **The City has been victimized by the municipal equivalent of predatory mortgage**

Breakdown of City Debt
(June 30, 2012)

- The City had total bonded debt of **$6.4 billion** outstanding:
  - **$1.0 billion are general obligation bonds** backed by the full faith and credit of the City.
  - **$6.0 billion are revenue bonds**
- **$1.5 billion** for **pension obligation certificates**
- **$1.0 billion** for miscellaneous debt: Notes payable ($89.4 million), loans payable ($34.2 million), other postemployment benefits ($620.3 million), and other debt ($238.4 million)

TOTAL City of Detroit: $9.4 billion*

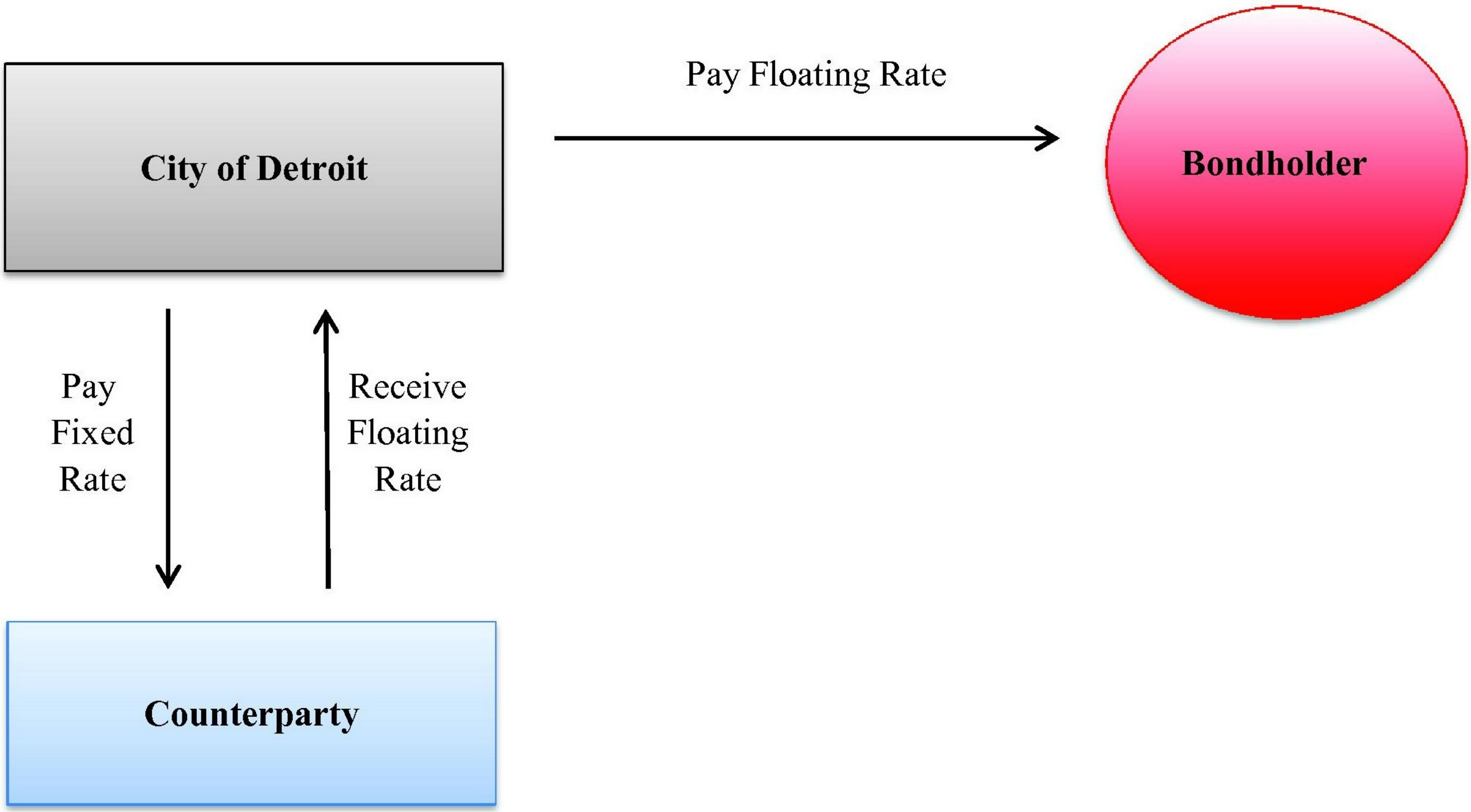
* does not add up because of rounding error

Banks & Ratings Agencies Role in Detroit

Own or Rate City of Detroit Debt	Foreclose on Detroit Homes or Rate Mortgages
Bank of America Merrill Lynch	Bank of America
JP Morgan Chase	JP Morgan Chase
Deutsche Bank	Deutsche Bank
US Bank	US Bank
Bank One	Bank One
Citigroup	CitiMortgage
SBS Financial	
UBS Financial	UBS
Goldman Sachs	Goldman Sachs
Morgan Stanley	Morgan Stanley
Standard & Poor’s	Standard & Poor’s
Moody’s	Moody’s

Typical Swap Mechanism

Figure 1. **SWAP Mechanism**



Pension Obligation Certificate Swaps

A total of $439.3 million of the negative fair value of derivatives are interest rate swaps associated with the City's POCs.

The POCs totaling $1.5 billion were issued during the year ended June 30, 2005 to provide full funding for the City's two pension plans' obligations.

At June 30, 2012, the fair value of the POC swap liabilities was $354.7 million and for the governmental activities and totaled $439.3 million for the primary government

Losses on Interest rate swaps (from FOIA docs)

City of Detroit, Michigan
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2012

NOTE VIII. DERIVATIVES

The table below summarizes derivative instrument activity during the reporting period and balances at the end of the year (debit/(credit)):

	Changes in Fair Value		Fair Value at June 30, 2012		Notional
	Classification	**Amount**	**Classification**	**Amount**	**Amount**
Governmental Activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflows	$ (163,306,445)	Long-term liabilities	$ (354,662,873)	$ 650,336,000
Business-type Activities					
Cash flow hedges:					
Pay-fixed interest rate swaps					
Negative fair values	Deferred outflows	21,429,559	Long-term liabilities	(84,639,796)	149,664,000
Positive fair values	Deferred outflows	(170,402)			
Investment derivatives:					
Pay-fixed interest rate swaps					
Negative fair values	Interest and investment earnings	(257,927,116)			
Investment derivatives:					
Pay-floating interest rate swaps					
Negative fair values	Interest and investment earnings	20,633,861			
Positive fair values	Interest and investment earnings	97,049,399			

(354,662,873)

(84,639,79
6)

Outstanding Hedging Derivative Instruments – Interest Rate Swaps

(b) Terms

Certain key terms and fair values relating to the outstanding hedging derivative instruments are presented below:

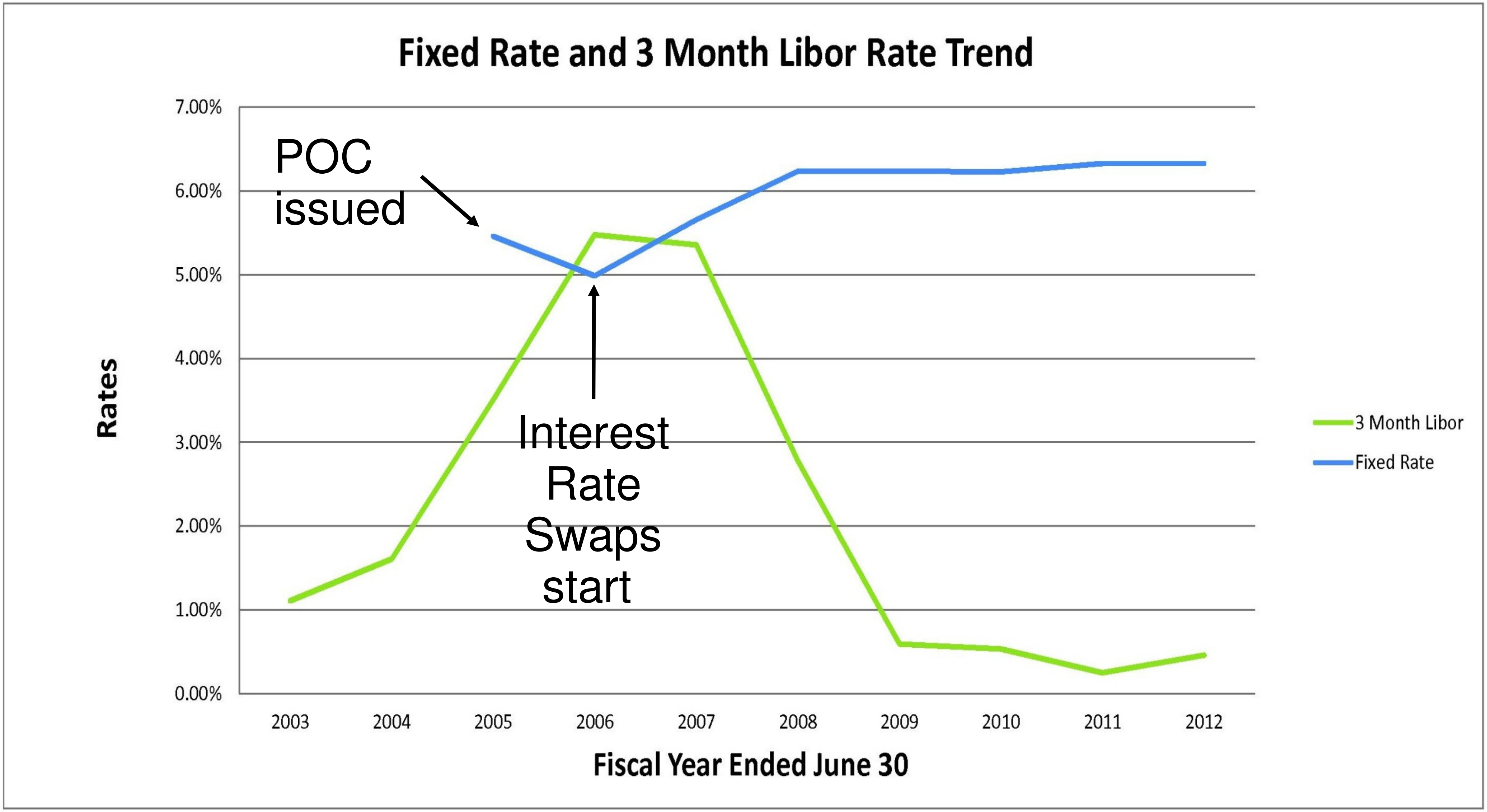
Associated Financing Issue		Notional Amount (1)	Effective Date	Fixed Rate Paid	Rate Received		Fair Value	Swap Termination Date	Final Maturity of Bonds
Hedging Derivatives									
Cash Flow Hedges, Pay-fixed interest rate swaps:									
Pension Obligation Certificates:									
Taxable Certification of Participation SBSFPC-0009	$	96,621,000	6/12/2006	6.36%	3 MONTH LIBOR + .34%	$	(57,173,124)	6/15/2034	6/15/2034
Taxable Certification of Participation SBSFPC-0012		45,252,000	6/12/2006	6.32	3 MONTH LIBOR + .30%		(23,055,836)	6/15/2029	6/15/2029
Taxable Certification of Participation 37380341		96,621,000	6/12/2006	6.36	3 MONTH LIBOR + .34%		(57,181,711)	6/15/2034	6/15/2034
Taxable Certification of Participation 37380291		45,252,000	6/12/2006	6.32	3 MONTH LIBOR + .30%		(23,056,802)	6/15/2029	6/15/2029
Taxable Certification of Participation SBSFPC-0010		153,801,500	6/12/2006	6.35	3 MONTH LIBOR + .34%		(91,309,463)	6/15/2034	6/15/2034
Taxable Certification of Participation SBSFPC-0011		104,325,500	6/12/2006	6.32	3 MONTH LIBOR + .30%		(48,098,696)	6/15/2029	6/15/2029
Taxable Certification of Participation 37380313		153,801,500	6/12/2006	6.35	3 MONTH LIBOR + .34%		(91,322,376)	6/15/2034	6/15/2034
Taxable Certification of Participation 37380351		104,325,500	6/12/2006	6.32	3 MONTH LIBOR + .30%		(48,104,661)	6/15/2029	6/15/2029
Total	$	800,000,000				$	(439,302,669)		

(1) Notional amount balance as of June 30, 2012.

(439,302,669)

When the **blue line** is higher than the **green line**, Detroit loses money and banks make money (Pension swaps)

Figure 2. **Fixed Rate and 3 Month Libor Rate Trend as of June 30**



Interest Rate Swaps and Other Derivatives are a Taxpayer-subsidized Windfall for the Banks

Federal Reserve pushed interest rates for Wall Street to near 0% to prop up the banks. Yet the Banks continue to charge Detroit 6% or more.

In addition to the TARP bailout, the Federal Reserve has an emergency program of at least $8 TRILLION.

The Federal Reserve has purchased around $1 TRILLION in mortgage-backed securities, and continues today to buy $40 billion per month. This amounts to a $40 billion per month transfer to Wall Street!

Another Example: Water and Sewerage Swaps (non-POC)

- In June 2012, the Detroit Water and Sewerage Department sold $659.8 million in bonds to cover $321.6 million to terminate interest-rate swap agreements.
    - JP Morgan Chase made $7.8 million in fees on the above transaction!
- In December 2011, DWSD raised funds through another bond sale of $500.7 million to terminate other swap agreements, spending $225.6 million.

Interest Rate Swaps are crushing public entities everywhere

Sampling of Interest Rate Swap Deals Across the Country

Deals Below to Cost Taxpayers More Than $1.25 Billion in 2010

State	Public Entity	Annual Swap Payments ($ million)	Termination Fee[†] ($ million)	Bank Counterparties	Local Budget Situation
CA	See California table below	364.7	1,004.1	BofA, Citi, Goldman, JPMChase, Others	See California table below
CO	City & County of Denver	33.9[**]	289.5	Goldman, BofA, JPMChase, RBC, Others	Cut $200M from its budget in FY 2010
CO	Denver Public Schools	34.7	81.3	JPMorgan Chase, Bank of America, RBC	Dealing with $120M deficit in FY 2010
CO	City of Aurora	2.6	9.6	JPMorgan Chase, Morgan Stanley	N/A
CT	State of Connecticut[*]	9.8	16.7	Unknown	Dealt with a $515 M deficit in FY 2010
IL	State of Illinois	57.7[**]	88.8	Unknown	Dealt with a $13.2B deficit in FY 2010
IL	City of Chicago	66.9[**]	442.2	Unknown	Dealt with a $520M deficit in FY 2010
IL	Chicago Public Schools	35.7	164.2	RBC, Loop Financial, BofA, Goldman, Other	Facing up to $1B deficit in FY 2011
LA	City of New Orleans	9.0	52.8	UBS	Dealt with a $68 M deficit in FY 2010
MA	State of Massachusetts[*]	18.5	325.7	Barclays, Morgan Stanley, Citigroup, BofA, BofNY, DeutscheBank, JPMorganChase, Goldman Sachs, Ambac	Dealt with a $3B deficit in FY 2010
MD	City of Baltimore	18.5[**]	63.2	Unknown	Facing a $121M deficit in FY 2011
MI	City of Detroit	107.1[**]	303.8	Unknown	Dealing with $300M deficit in FY 2010
MO	City of Kansas City	7.8	35.1	Citigroup, UBS, Barclays	Dealt with $65M deficit in FY 2010
NC	City of Charlotte	22.7	45.0	Unknown	Facing a $9M deficit in FY 2011
NC	City of Winston-Salem[*]	3.1	14.0	Unknown	Cut $25M from its budget in FY 2010
NJ	State of New Jersey	118.4	535.6	Unknown	Facing an $11B deficit in FY 2011
NY	State of New York[*]	102.0	534.0	Unknown	Dealt with a $3.2B deficit in FY 2010
NY	Metro Transportation Authority	103.7[**]	579.5	Citi, JPMChase, UBS, Morgan Stanley, Others	Dealing with $783M deficit in FY 2010
OR	State of Oregon	13.5	34.5	Bank of America, Morgan Stanley, JPMChase	Dealt with $4.2B deficit for 2010-11
PA	City of Philadelphia	94.4[**]	332.0	JPMC, Citi, RBC, Goldman, MorgStan, Others	Dealt with $2.4B deficit in FY 2010
PA	Pennsylvania Turnpike	26.4	145.5	Goldman Sachs, Deutsche Bank	N/A
	TOTAL	**$1,251.1**	**$5,097.1**		

Annual payments based on interest rates as of February 2010

ISDA Master Agreement defines Events of Default

- Events of Default
  - Failure to Pay or Deliver (3 days to remedy)
  - Breach of Agreement, except for failure to pay (30 days to remedy)
  - Credit Support Default (failure to comply with Credit Support Document)
  - **Misrepresentation**
  - Default under Specified Transaction
  - Cross default
  - Bankruptcy
  - Merger Without Assumption
  - **Governor determines a state of financial emergency**
  - **Appointment of an Emergency Manager**

ISDA Master Agreement defines Termination Events

- Termination Events for Party B (Detroit)
  - Insufficient payment in any month where payment is required; failure to pay other fees & judgments
  - Failure to include and maintain a budget line item for payments to Party A (the banks)
  - Quarterly Coverage at the end of any month is less than 1.75
  - Sufficient drop in the Moody's or S&P ratings
  - If City takes any litigation, other judicial action, legislative action against these agreements
  - Reduction in the Wagering Tax not offset by other appropriations. (*UBS now gets all of the casino taxes.*)
  - Bankruptcy

Default Rate, defined in a FOIA doc related to Pensions, Amended and Restated, June 26, 2009

The default interest rate for the Pension Obligation Certificates is LIBOR + 9% !

(j) ***Default Rate.*** Notwithstanding anything to the contrary in the Agreement, the Default Rate applicable to any amount owed by Party B to Party A during the Term Payment Period shall be LIBOR plus 9% (the "Specified Default Rate"), where "LIBOR" is determined (i) with respect to the remainder of the first Fiscal Year following a Specified Additional Termination Event, as the arithmetic average of USD-LIBOR-BBA (as defined in the 2006 ISDA Definitions, with a Designated Maturity of three months) as of the close of business on the fifteenth (15th) day of the three calendar months immediately preceding such Specified Additional Termination Event and, (ii) with respect to each subsequent Fiscal Year, as the arithmetic average of USD-LIBOR-BBA (as defined in the 2006 ISDA Definitions, with a Designated Maturity of three months) as of the close of business on the fifteenth (15th) day of March, April and May of the immediately preceding Fiscal Year.

So why an Emergency Manager?

So the Banks will get paid first!

141.1551, Sec. 11 of the LOCAL FINANCIAL STABILITY AND CHOICE ACT (Act 436 of 2012) states the duties of the Emergency Manager:

(a) Conducting all aspects of the operations of the local government ***within the resources available*** according to the emergency manager's revenue estimate.

(b) **The payment in full of the scheduled debt service requirements on all bonds, notes, and municipal securities of the local government, contract obligations in anticipation of which bonds, notes, and municipal securities are issued, and all other uncontested legal obligations.**

(c) **The modification, rejection, termination, and renegotiation of contracts pursuant to section 12.**

Detroit Public Schools & the Banks

DPS Emergency Manager's job:
Pay the Banks,
Destroy Public Education

	2010-2011	2012 - 2013
Debt Payment	$523,805,000	$63,845,000
State Aid	587,815,000	391,652,000
Debt Payment as a % of State Aid	**89%**	**16%**

At a meeting on May 2, with the Detroit School Board and Presidents of DPS unions, DPS Emergency Manager Roy Roberts admitted that when he first arrived, his initial instructions were to **"blow up the district and dismantle it."**

Roy Roberts also announced his resignation at this meeting, because:

Mission accomplished!

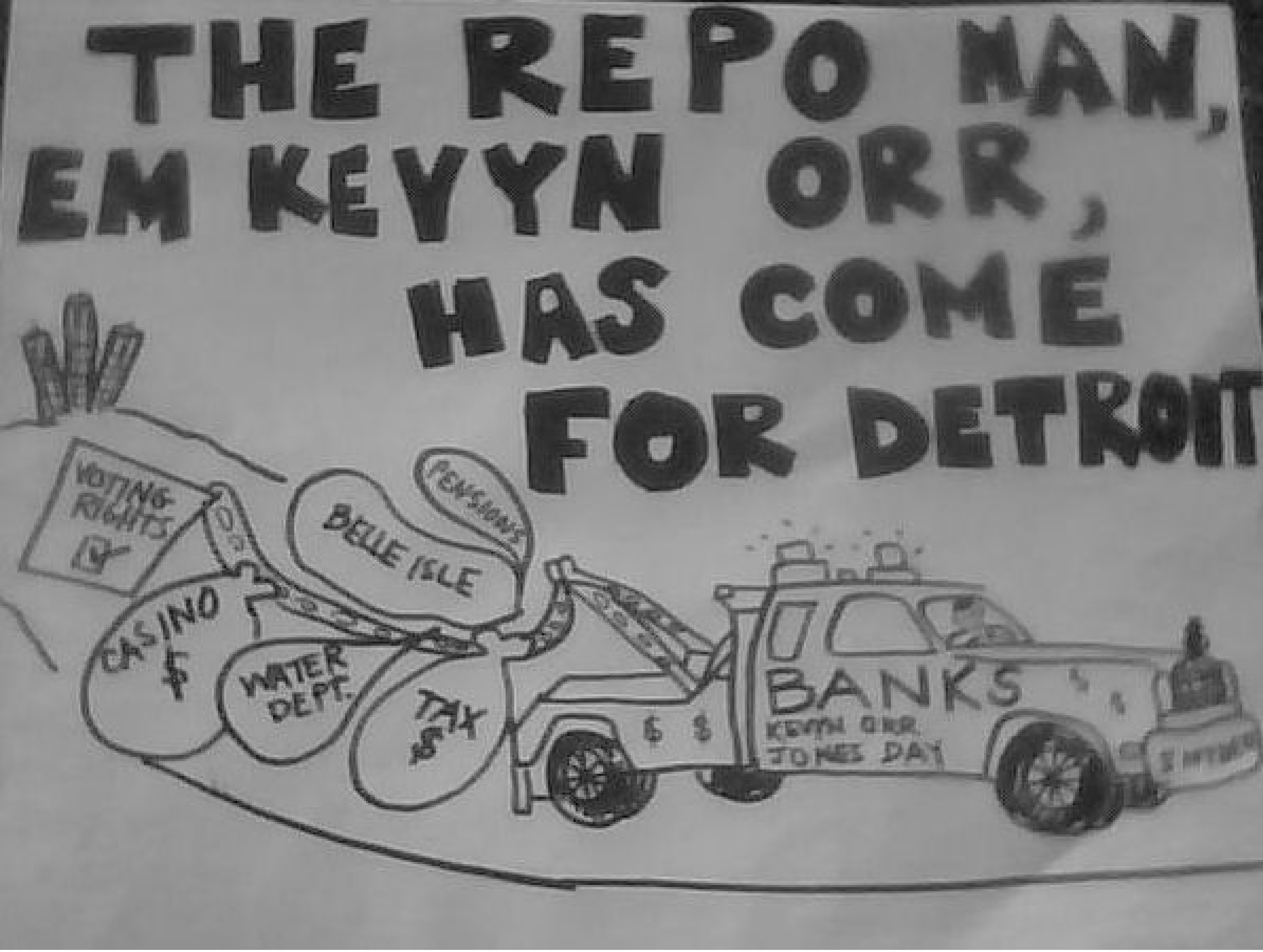
The Emergency Dictator Arrives

Governor Synder appoints Kevyn Orr as the Emergency Manager, effective March 25, 2013.

Orr’s specialty is bankruptcy. He’s the attorney who ruthlessly handled the auto dealers in the Chrysler bankruptcy, which economically disrupted many communities and caused the loss of tens of thousands of jobs.

He came from Jones Day, the third largest law firm in the world. So did the reactionary and racist Supreme Court Justice Antonin Scalia.

Jones Day counts as its clients the banks that control Detroit’s debt.



"THE REPO MAN,"
EM KEVYN ORR,
HAS COME
FOR DETROIT
VOTING RIGHTS
PENSIONS
BELLE ISLE
CASINO $
WATER DEPT.
TAX $
$ $
BANKS
KEVYN ORR
JONES DAY

Bloomberg

Only Wall Street Wins in Detroit Crisis Reaping $474 Million Fee

By Darrell Preston and Chris Christoff - Mar 13, 2013

The only winners in the financial crisis that brought Detroit (9845MF) to the brink of state takeover are Wall Street bankers who reaped more than $474 million from a city too poor to keep street lights working.

The city started borrowing to plug budget holes in 2005 under former Mayor Kwame Kilpatrick, who was convicted this week on corruption charges. That year, it issued $1.4 billion in securities to fund pension payments. Last year, it added $129.5 million in debt, 9.3 percent of its general-fund budget, in part to repay loans taken to service other bonds.

Criminal Conduct of Banks & Rating Agencies

- The Banks engaged in fraudulent and illegal activities when they made predatory loans to Detroiters, often misrepresenting and lying about the loans that they underwrote.

- The ratings agencies, which are tools of the Banks, lied about the quality of mortgage-backed securities.

- Ratings agencies manipulate bond ratings, generating huge profits for the Banks

- The Banks engaged in a criminal conspiracy by manipulating the LIBOR rate.

- The Banks misrepresented (lied) the interest-rate swaps to Detroit and other public entities.

Prosecute the Banks!

The banks have engaged in criminal conduct. They must be held accountable for the destruction of our neighborhoods and the City.

Public Act 436 provides for this:

141.1556 Criminal conduct contributing to receivership status. Sec. 16:

An emergency manager shall, on his or her own or upon the advice of the local inspector if a local inspector has been retained, make a determination as to whether possible criminal conduct contributed to the financial situation resulting in the local government's receivership status. If the emergency manager determines that there is reason to believe that criminal conduct has occurred, the manager shall refer the matter to the attorney general and the local prosecuting attorney for investigation.

Demand a Moratorium on Debt Payments

While the banks and rating agencies are investigated for their criminal conduct and while the economic crisis for poor and working people continues – STOP PAYING THE BANKS

Ultimately, the municipal debt must be cancelled because the banks and ratings agencies engaged in misrepresentation or fraud in the sale of the bonds and other debt instruments.

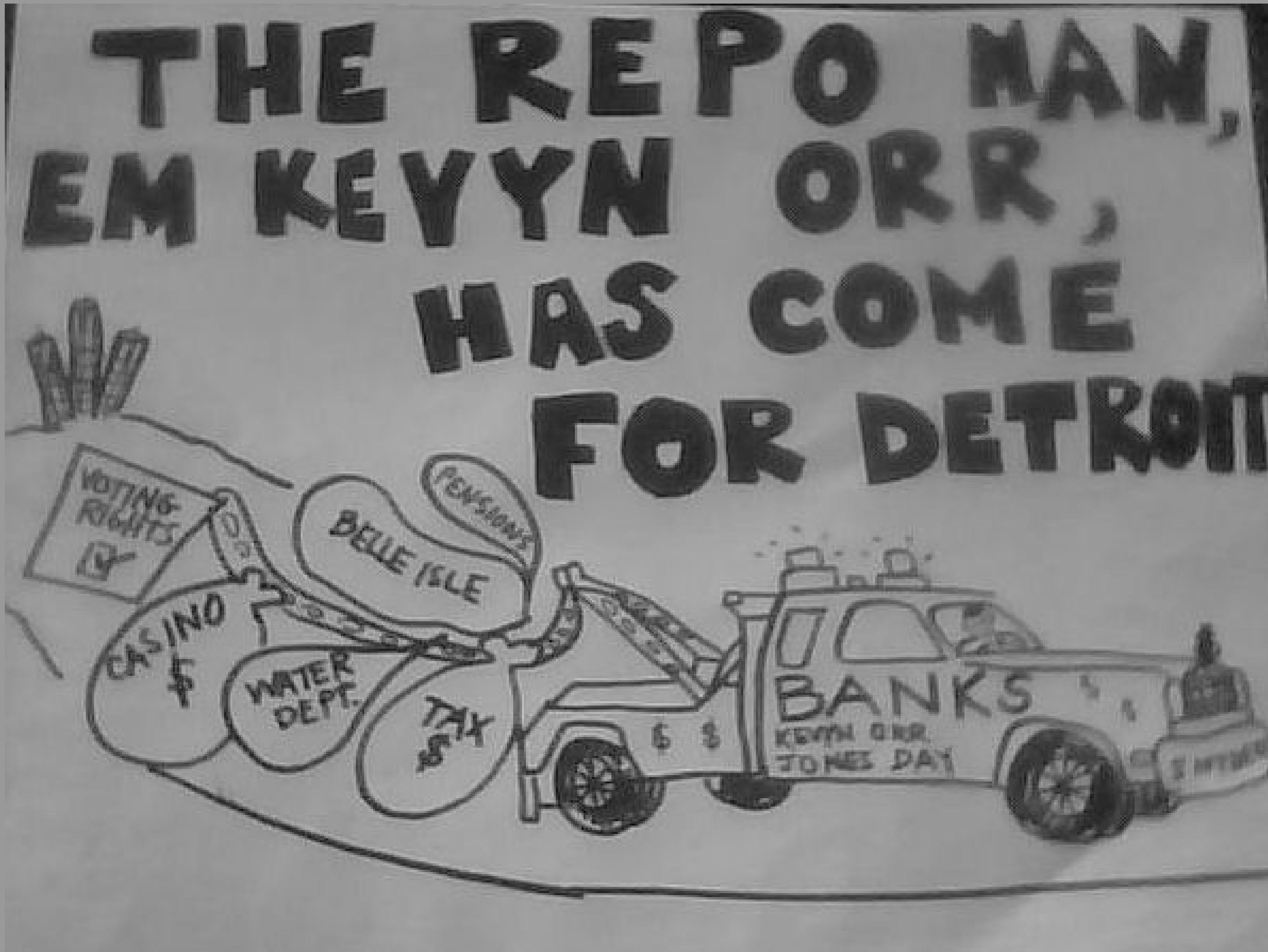
Demand Billions in Reparations or Restitution from the Banks

The Banks owe us tens of billions of dollars in damages due to their illegal activities. Look around the great City of Detroit at the devastation that the Banks have caused.

The poor and working people of Detroit have been hit by Hurricane Wall Street. We demand restitution!

Organize!

Mobilize!



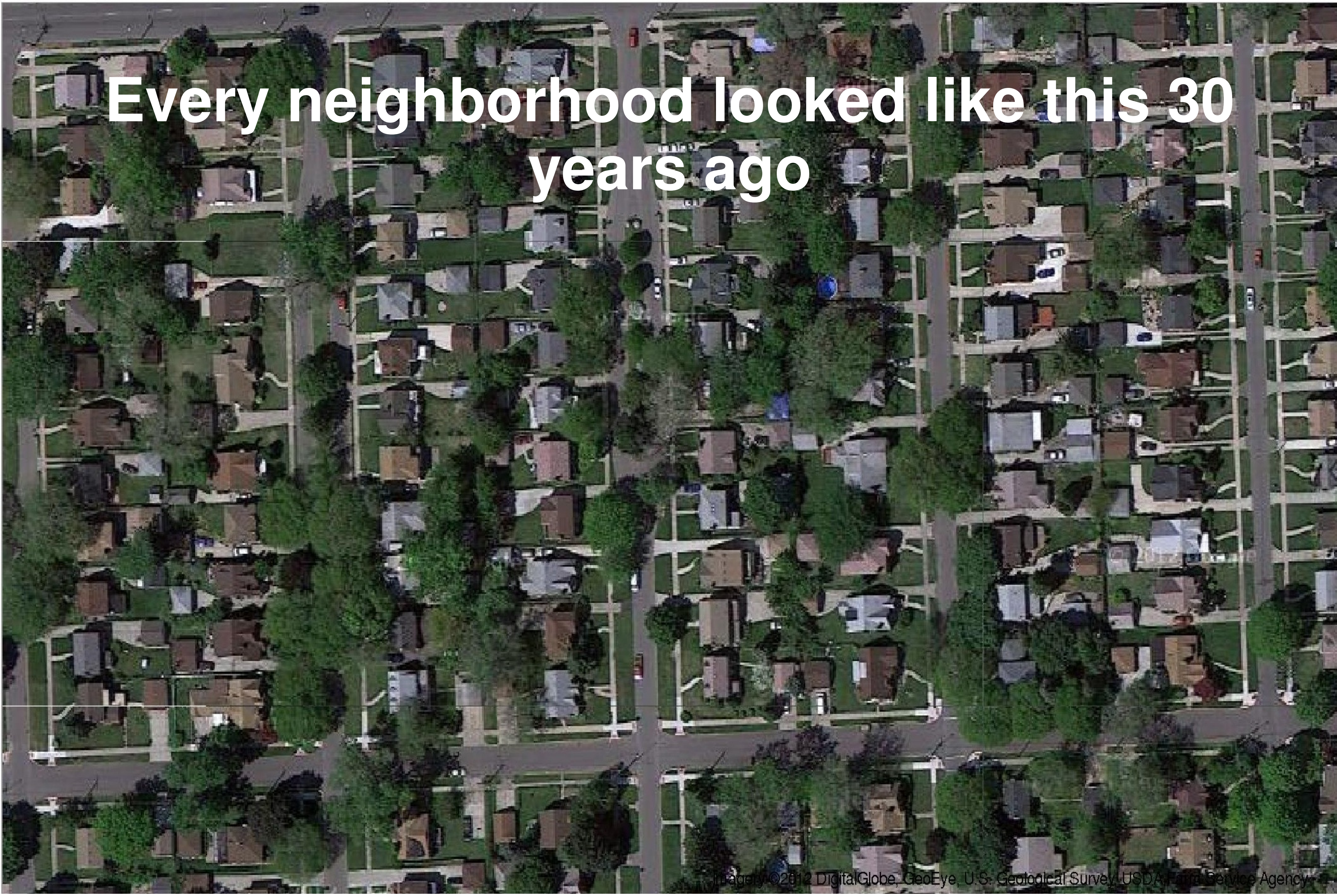
Join the struggle against the Banks and the Emergency Manager

Attend Moratorium NOW! Coalition meetings
Mondays, 7 PM, 5920 Second Ave., Detroit MI

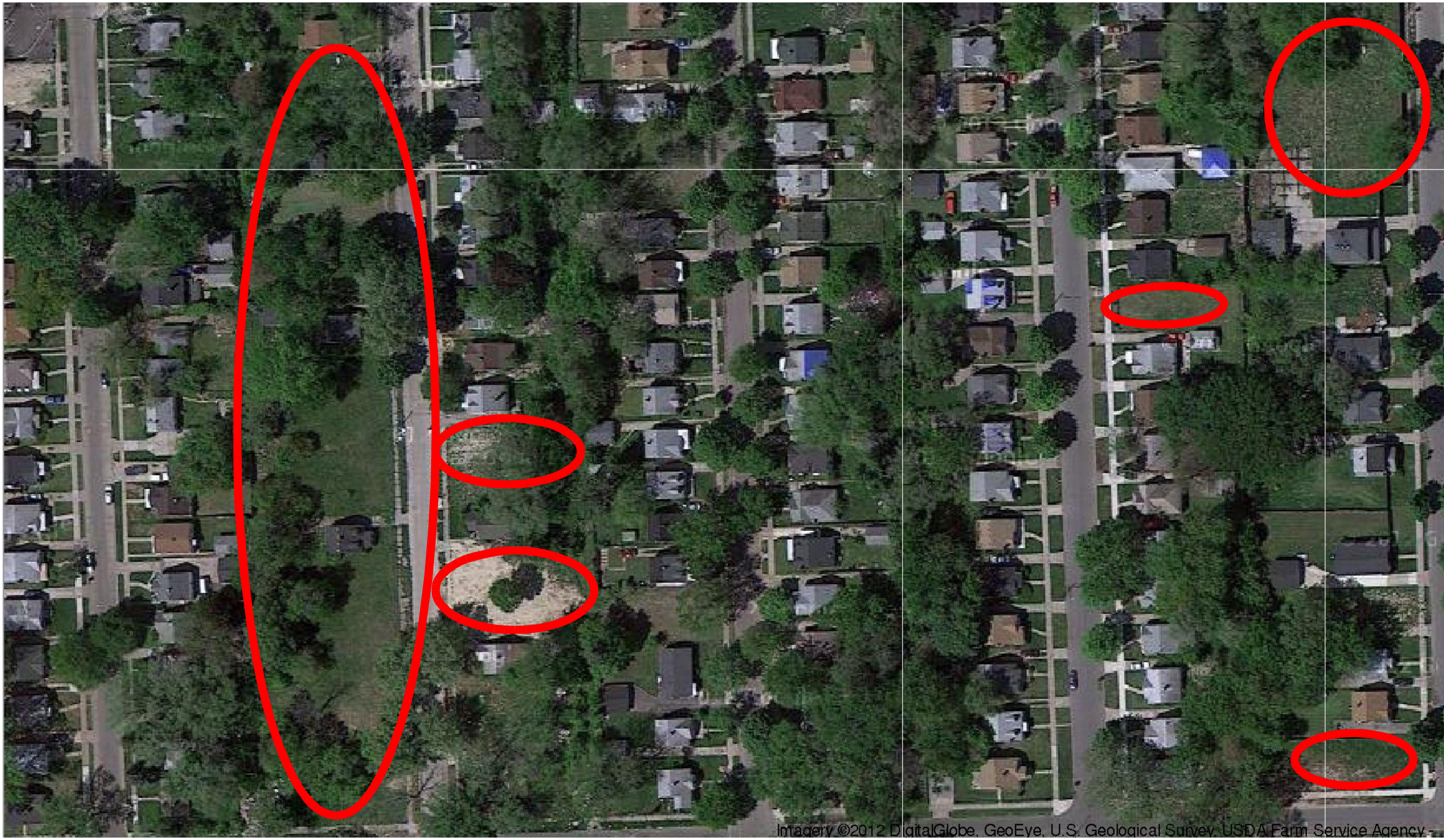
Additional Slides

May be useful for those outside of Detroit. These are satellite images of Detroit.

Intact neighborhood, fewer foreclosures.



Houses have been stripped then razed in the areas encircled in red.



Large empty areas are where homes used to be. Much of Detroit looks like this now.