Make the Banks Pay!

We have your city.

Pay up, or else!

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 Americans 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 metropolitan 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.

**TOTAL COUNTY TAX FORECLOSURES**

Number of tax foreclosures and the percentage (in red) of those in which foreclosures where a financial institution was listed on property records because of a mortgage or because the bank owns the property outright.

*The term is used by some county treasurers to describe banks walking away from properties after not paying taxes on them, but banks dispute the definition.

**SOURCES:** Treasurers for Oakland, Macomb, Washtenaw and Wayne counties

MOSES HARRIS / DETROIT FREE PRESS
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
- Bank of America Merrill Lynch
- JP Morgan Chase
- Deutsche Bank
- US Bank
- Bank One
- Citigroup
- SBS Financial
- UBS Financial
- Goldman Sachs
- Morgan Stanley
- Standard & Poor’s
- Moody’s

## Foreclose on Detroit Homes or Rate Mortgages
- Bank of America
- JP Morgan Chase
- Deutsche Bank
- US Bank
- Bank One
- CitiMortgage
- UBS
- Goldman Sachs
- Morgan Stanley
- Standard & Poor’s
- Moody’s
Figure 1. SWAP Mechanism

City of Detroit

Pay Fixed Rate

Receive Floating Rate

Counterparty

Pay Floating Rate

Bondholder
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
### NOTE VIII. DERIVATIVES

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

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

<table>
<thead>
<tr>
<th>Hedging Derivatives</th>
<th>Notional Amount (1)</th>
<th>Effective Date</th>
<th>Fixed Rate Paid</th>
<th>Rate Received</th>
<th>Fair Value</th>
<th>Swap Termination Date</th>
<th>Final Maturity of Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow Hedges, Pay-fixed interest rate swaps:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension Obligation Certificates: Taxable Certification of Participation SBSFPC-0009</td>
<td>$ 96,621,000</td>
<td>6/12/2006</td>
<td>6.36%</td>
<td>3 MONTH LIBOR + .34%</td>
<td>$(57,173,124)</td>
<td>6/15/2034</td>
<td>6/15/2034</td>
</tr>
<tr>
<td>Taxable Certification of Participation SBSFPC-0012</td>
<td>45,252,000</td>
<td>6/12/2006</td>
<td>6.32</td>
<td>3 MONTH LIBOR + .30%</td>
<td>(23,055,836)</td>
<td>6/15/2029</td>
<td>6/15/2029</td>
</tr>
<tr>
<td>Taxable Certification of Participation 37380341</td>
<td>96,621,000</td>
<td>6/12/2006</td>
<td>6.36</td>
<td>3 MONTH LIBOR + .34%</td>
<td>(57,181,711)</td>
<td>6/15/2034</td>
<td>6/15/2034</td>
</tr>
<tr>
<td>Taxable Certification of Participation 37380291</td>
<td>45,252,000</td>
<td>6/12/2006</td>
<td>6.32</td>
<td>3 MONTH LIBOR + .30%</td>
<td>(23,036,802)</td>
<td>6/15/2029</td>
<td>6/15/2029</td>
</tr>
<tr>
<td>Taxable Certification of Participation SBSFPC-0010</td>
<td>153,801,500</td>
<td>6/12/2006</td>
<td>6.35</td>
<td>3 MONTH LIBOR + .34%</td>
<td>(91,309,463)</td>
<td>6/15/2034</td>
<td>6/15/2034</td>
</tr>
<tr>
<td>Taxable Certification of Participation SBSFPC-0011</td>
<td>104,325,500</td>
<td>6/12/2006</td>
<td>6.32</td>
<td>3 MONTH LIBOR + .30%</td>
<td>(48,098,696)</td>
<td>6/15/2029</td>
<td>6/15/2029</td>
</tr>
<tr>
<td>Taxable Certification of Participation 37380313</td>
<td>153,801,500</td>
<td>6/12/2006</td>
<td>6.35</td>
<td>3 MONTH LIBOR + .34%</td>
<td>(91,322,376)</td>
<td>6/15/2034</td>
<td>6/15/2034</td>
</tr>
<tr>
<td>Taxable Certification of Participation 37380351</td>
<td>104,325,500</td>
<td>6/12/2006</td>
<td>6.32</td>
<td>3 MONTH LIBOR + .30%</td>
<td>(48,104,661)</td>
<td>6/15/2029</td>
<td>6/15/2029</td>
</tr>
<tr>
<td>Total</td>
<td>$ 800,000,000</td>
<td></td>
<td></td>
<td></td>
<td>(439,302,669)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Notional amount balance as of June 30, 2012.
When the **blue line** is higher than the **green line**, Detroit loses money and banks make money (Pension swaps)

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

- POC issued
- Interest Rate Swaps start
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

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

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
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
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

<table>
<thead>
<tr>
<th></th>
<th>2010-2011</th>
<th>2012 - 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Payment</td>
<td>$523,805,000</td>
<td>$63,845,000</td>
</tr>
<tr>
<td>State Aid</td>
<td>587,815,000</td>
<td>391,652,000</td>
</tr>
<tr>
<td>Debt Payment as a % of State Aid</td>
<td>89%</td>
<td>16%</td>
</tr>
</tbody>
</table>

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.
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.
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.

Every neighborhood looked like this 30 years ago.
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.