COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE ON FINANCE

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Room 400, City Hall
Philadelphia, Pennsylvania
Thursday, April 22, 2010
1:20 p.m.

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PRESENT:
COUNCILWOMAN MARIAN B. TASCO, CHAIR
COUNCILMAN FRANK DiCICCO
COUNCILMAN W. WILSON GOODE, JR.
COUNCILMAN WILLIAM GREENLEE
COUNCILMAN JAMES F. KENNEY
COUNCILWOMAN JANNIE BLACKWELL
COUNCILWOMAN BLONDELL REYNOLDS BROWN

BILL 100093 - An ordinance authorizing and directing the Mayor of the City of Philadelphia (the "City"), on behalf of the City, to enter into, execute, and deliver an agreement with the Philadelphia Housing Authority to broaden and make more efficient housing opportunities...

BILL 100129 - An ordinance authorizing the City Treasurer, on behalf of the City, to enter into an agreement with Wachovia Bank, N.A. for provision of payroll banking services...

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COUNCILWOMAN TASCO: Good afternoon. I'd like to call the Committee on Finance to order and note we have quorum in the presence of Councilman Greenlee, Councilman Goode, Councilman Kenney and Councilman DiCicco.

Would the Clerk please read the bills that will be heard today.

THE CLERK: Bill No. 100093, an ordinance authorizing and directing the Mayor of the City of Philadelphia (the "City"), on behalf of the City, to enter into, execute, and deliver an agreement with the Philadelphia Housing Authority to broaden and make more efficient housing opportunities and related services administered by the Philadelphia Housing Authority and existing within the City; and specifically, which will make additional units of affordable housing available to City residents, under certain terms and conditions.

Bill No. 100129, an ordinance authorizing the City Treasurer, on behalf of the City, to enter into an agreement with Wachovia Bank, N.A. for provision of payroll banking services to the City, under certain terms and conditions.

COUNCILWOMAN TASCO: Thank you.

We will now hear Bill No. 100093. Do we have someone here to testify on this bill?

(Witness approached witness table.)

COUNCILWOMAN TASCO: Proceed.

MR. ARMBRISTER: Good afternoon, Chairwoman Tasco and Committee members. I am Clarence Armbrister, Chief of Staff to Mayor Michael Nutter, and I am here today to present testimony in support of Bill 100093.

This bill authorizes the Mayor to enter into an agreement with the Philadelphia Housing Authority to broaden affordable housing opportunities. Specifically, this bill will extend a current agreement wherein the Philadelphia Housing Authority has agreed to provide 500 additional units of transitional housing available to City residents in exchange for the City's willingness to waive fees for various construction licenses and permits. This one-year agreement expires May 27, 2010.

Let me provide some background for you. In 2008, Mayor Nutter announced a comprehensive plan to reduce homelessness, which has resulted in 1,200 new units of housing being made available for homeless men, women and children in Fiscal Years 2009 and 2010. Through a partnership with the Philadelphia Housing Authority, individuals who are ready for discharge from behavioral health residential and treatment programs can transition from these programs to independent living with the City's service support. Families can move from transitional housing to permanent homes.

This partnership was executed in a prior Memorandum of Understanding between the City and PHA as of April 9, 2009, with a term of July 1, 2008 through June 30, 2009, in which the Philadelphia Housing Authority supported the City's commitment to eliminate and/or reduce homelessness in the City by providing 500 housing opportunities while the City continued to provide supportive services and to exempt the Philadelphia Housing Authority from certain licensing and permit fees.

In May of last year, the parties entered into another one-year agreement with the same terms, which expires May 27, 2010. So far, this current arrangement has provided a total of 239 housing opportunities, with 129 families being housed, while 110 vouchers have been issued to 104 individuals and to six families. In a joint effort to continue the City's goal to end homelessness, the Philadelphia Housing Authority and the City now desire for a multi-year arrangement, which will extend the current partnership until June 30, 2013 and shall provide 500 or more additional housing opportunities per year.

This arrangement will help the Philadelphia Housing Authority with the development of certain properties as the City is agreeing to waive certain licensing and permitting fees but, at the same time, will help to achieve a major goal, which is to create permanent and subsidized housing to reduce homelessness. Our partnership will also help to foster our mission to assist individuals and families move toward independent living and self-sufficiency.

I appreciate the opportunity to testify before you today and believe that this arrangement is a small price to pay given that we are attempting to provide additional housing opportunities that dovetails into the Administration's overarching goal to eliminate homelessness in Philadelphia.

Thank you for your time this

afternoon. I would be happy to answer any questions.

COUNCILWOMAN TASCO: Thank you.

Any questions from members?

Councilman Kenney.

COUNCILMAN KENNEY: Thank you very much.

Mr. Armbrister, do you know would the Housing Authority own the properties?

MR. ARMBRISTER: Excuse me?

COUNCILMAN KENNEY: Would the Housing Authority own the properties or how are they distributed? Are they rented? Are they sold?

MR. ARMBRISTER: These properties are often owned by PHA, but also there are opportunities through vouchers as well.

COUNCILMAN KENNEY: Now, these are existing properties or properties that will be developed?

MR. ARMBRISTER: These are existing properties.

COUNCILMAN KENNEY: So they're setting aside a certain portion?

MR. ARMBRISTER: Yes.

COUNCILMAN KENNEY: What kinds of fees and licensing?

MR. ARMBRISTER: Some of the fees deal with the properties that they have under development. So it could be a water fee. They're listed in the agreement. I don't think I have it in front of me here, but they're listed in the agreement and they're very specific to development fees that they would go over --

COUNCILMAN KENNEY: Now, are those fees paid now?

MR. ARMBRISTER: Well, not now because we have an agreement currently to --

COUNCILMAN KENNEY: Prior to the agreement, were they paid?

MR. ARMBRISTER: Well, interestingly enough, what we found in our research is that there had been an informal arrangement in which there was an understanding that certain fees would be waived, and we thought it more appropriate to reduce that to a formal agreement. So we sat down with the Commissioner of Licenses and Inspection, with the folks at PHA and agreed on a set of fees. So now it's been reduced to writing. So there was some informal arrangement prior to us reducing it to writing.

COUNCILMAN KENNEY: Does that include real estate taxes also?

MR. ARMBRISTER: Real estate taxes?

COUNCILMAN KENNEY: Yes.

MR. ARMBRISTER: No.

COUNCILMAN KENNEY: Real estate taxes are paid by PHA?

MR. ARMBRISTER: I don't know if they're paid, but this agreement has no effect on real estate taxes. It deals primarily with fees that they would incur when they go down to License and

Inspection to get permits, pull permits and things like that.

COUNCILMAN KENNEY: Okay. Thank you.

MR. ARMBRISTER: You're welcome.

COUNCILWOMAN TASCO: Councilman Greenlee.

COUNCILMAN GREENLEE: Thank you, Madam Chair.

I just had one question. Just so we're clear, so this agreement is exactly the same, except it will be a three-year agreement? The terms are exactly the same?

MR. ARMBRISTER: Yes, the terms are exactly the same. The only change is the amount of housing that might be available. So it extends to 500 or more, and that's subject to the ability of HUD to approve the amount of housing that the PHA can divert to the City.

COUNCILMAN GREENLEE: But the whole issue of waiver of fees is the same as existing now?

MR. ARMBRISTER: Exactly.

COUNCILMAN GREENLEE: Thank you.

Thank you, Madam Chair.

COUNCILWOMAN TASCO: Is someone here from PHA?

MR. ARMBRISTER: We have a representative from PHA here, yes, we do.

COUNCILWOMAN TASCO: I'd like to ask a couple of questions.

MR. ARMBRISTER: Of them?

COUNCILWOMAN TASCO: Yes.

(Witnesses approached witness table.)

COUNCILWOMAN TASCO: I'd like to recognize Councilwoman Blackwell and Councilwoman Blondell Reynolds Brown who have joined the Committee.

Would you state your name for the record, please.

MR. ARCHIE: My name is Robert Archie. I'm a partner at Duane Morris and we're counsel to Philadelphia Housing

Authority.

COUNCILWOMAN TASCO: You may not be able to answer this question, but I wanted --

MR. ARCHIE: But sitting with me is Diane Rosenthal, who is a Chief Financial Officer of Philadelphia Housing Authority.

COUNCILWOMAN TASCO: Okay.

MR. ARCHIE: She may be able to answer it.

COUNCILWOMAN TASCO: Okay. As you talk about the number of housing that you're to provide, it says 500 houses per year. Are these homes currently in your inventory, or how many houses do you have for transitional housing?

Identify yourself for the record.

MS. ROSENTHAL: Diane Rosenthal, Assistant Executive Director for Administration, Philadelphia Housing Authority.

Today we have approximately

14,000 public housing units and 17,694 housing choice vouchers.

MR. ARCHIE: The people who are deemed to be homeless are basically given a voucher. So to address your question, they can take that to a private homeowner and utilize that voucher, and the federal government will pay the homeowner directly the rental. PHA itself has a housing inventory or stock, so they could use those housing vouchers for PHA existing houses as well.

COUNCILWOMAN TASCO: So let me get this straight. Back to Councilman Kenney's question about taxes, because the home is owned by an individual, that person pays the real estate taxes?

MR. ARCHIE: Yes.

COUNCILWOMAN TASCO: So their real estate tax is paid for the ones where --

MR. ARCHIE: If it's a private homeowner, that private homeowner --

COUNCILWOMAN TASCO: They get a

voucher to go to that property --

MR. ARCHIE: They pay rent. The homeowner then pays the real estate tax. There's no exemption for a private homeowner.

COUNCILWOMAN TASCO: Okay. So you said that there are 14,000?

MS. ROSENTHAL: Public housing units.

COUNCILWOMAN TASCO: And then in addition you have 17,694?

MS. ROSENTHAL: Housing choice vouchers.

COUNCILWOMAN TASCO: Okay. Thank you.

The Chair recognizes Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Thank you very much. Thank you, Madam Chair.

As all of you know, I'm on the PHA Board, one of the Commissioners, and we did meet yesterday and we talked about this issue and that it formalizes, as Clay Armbrister has said, an agreement that existed since Rendell was Mayor, and then former Mayor Street agreed to it and then this Mayor wanted to formalize it in this way. But this agreement has existed for many years.

COUNCILWOMAN TASCO: Okay.

COUNCILWOMAN BLACKWELL: Thank you.

COUNCILWOMAN TASCO: Councilman Kenney.

COUNCILMAN KENNEY: No.

COUNCILWOMAN TASCO: Your light is on.

Anyone else have questions?

(No response.)

COUNCILWOMAN TASCO: Thank you very much for your testimony.

Do you want a suspension of the rules? Mr. Armbrister, would you like a suspension of the rules?

MR. ARMBRISTER: Yes, we would, Councilwoman. Thank you very much.

COUNCILWOMAN TASCO: Okay. We will now hear testimony on Bill 100129.

Ms. Catherine Paster.

(Witnesses approached witness table.)

MS. PASTER: Good afternoon, Councilwoman --

COUNCILWOMAN TASCO: Good afternoon.

MS. PASTER: -- and members of the Committee. I am Cathy Paster. I'm the First Deputy Director of Finance for the City of Philadelphia, and I am here to testify today in support of Bill No. 100129.

Bill No. 100129 will authorize the Office of the City Treasurer, on behalf of the City, to enter into an amendment agreement with Wachovia Bank pursuant to which Wachovia will continue to provide payroll banking services to the City. Bill No. 060387, as adopted by City Council, required that the City Treasurer conduct an RFP process to select a City payroll depository and required that no contract would be executed until it had been approved by City Council.

An RFP process was conducted, and the City approved the original contract in June 2009 pursuant to Bill No. 090352. The City and Wachovia entered into a contract for payroll banking services for an initial term of July 1, 2009 to June 30, 2010. The provisions of that contract required City Council approval of any amendment to add additional terms. Bill No. 100129 will authorize the Office of the City Treasurer to amend the contract to add an additional term of July 1, 2010 through June 30, 2011.

This concludes my testimony and I'm happy to answer any questions that you may have.

COUNCILWOMAN TASCO: Thank you very much.

The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Can we bring

representatives from Wachovia to the table.

COUNCILWOMAN TASCO: We'd like representatives from Wachovia to come to the table, please.

(Witnesses approached witness table.)

COUNCILWOMAN TASCO: Would you please state your name for the record.

MS. METZ-GALLOWAY: My name is Shelley Metz-Galloway --

COUNCILWOMAN TASCO: Speak into the mike, please.

MS. METZ-GALLOWAY: Shelley Metz-Galloway, Vice-President.

COUNCILWOMAN TASCO: And?

MS. WALL: Stephanie Wall, Senior Vice-President.

COUNCILWOMAN TASCO: Councilman Goode.

COUNCILMAN GOODE: Good afternoon.

MS. WALL: Good afternoon.

COUNCILMAN GOODE: We met on

Monday and had a long what I hoped would be a fruitful discussion. I'm not sure how fruitful the discussion was. You are aware of the questions I will ask, so we'll just jump right into it.

The first is, is Wachovia involved in any interest rate swap deals with the City of Philadelphia?

MS. PASTER: The answer is yes.

COUNCILMAN GOODE: Can you describe what the deals that we're involved in?

MS. PASTER: There's a -- the value of the swap with Wachovia is $90 million. That is -- it's part of a swap related to the Water Department. It's a $180 million swap, and right now 90 million is with Wachovia, 90 million with Merrill Lynch, and in anticipation of the Water Department's upcoming bond seal, which will be in the summer, the City as well as the Treasurer and Water are currently looking at that deal now to see what's the best way to proceed.

COUNCILMAN GOODE: Will the City pay Wachovia any money in the interest rate swap deal this year?

MS. PASTER: I don't know the answer to that question. I know that, like I said, it's under review right now in terms of how we would proceed and what it would cost.

COUNCILMAN GOODE: Are we losing money on the swap deal? Are we paying more money than we're getting on the swap deal?

(Witness approached witness table.)

COUNCILWOMAN TASCO: Here come the suits.

MR. COURSEY: I'm sorry. I'm Julius --

COUNCILWOMAN TASCO: Would you identify yourself for the record.

MR. COURSEY: My name is Julius Coursey.

The swap hasn't become effective yet. It was what's known as a forward-starting swap, and its effective date is actually August of 2010, August 1 of 2010. So up to now, there have been no payment obligations under the swap.

COUNCILMAN GOODE: So we have not lost any money under the deal?

MR. COURSEY: That's correct.

COUNCILMAN GOODE: And we do not anticipate losing any money on the deal?

MR. COURSEY: The City, as I think Cathy mentioned, is evaluating how it will proceed in anticipation of the effective date of the swap, and they may in fact decide to leave the swap in place or to terminate the swap. That decision and the level of interest rates at the time will impact whether the City makes money on the swap, loses money on the swap, what-have-you.

COUNCILMAN GOODE: Okay. Thank you.

MR. COURSEY: You're welcome.

COUNCILWOMAN TASCO: Sir,

before you leave, would you identify yourself clearly and where you're from?

MR. COURSEY: Sure. I'm sorry. My name is Julius Coursey and I'm with Wells Fargo Securities, a subsidiary of Wells Fargo Bank.

COUNCILWOMAN TASCO: Thank you.

COUNCILMAN KENNEY: I'm sorry, Madam Chair.

COUNCILWOMAN TASCO: Come back, sir.

Councilman Kenney.

COUNCILMAN KENNEY: Just so I understand the process, what does that have to do with Wachovia?

MR. COURSEY: Well, Wachovia and Wells Fargo are entered into a merger.

COUNCILMAN KENNEY: Right.

MR. COURSEY: And so Wachovia Bank was the original counterparty with which the City entered into that swap, and through the merger, Wells Fargo Bank is now obligated on anything that

Wachovia Bank had obligated itself on.

COUNCILMAN KENNEY: Why would you guys do a swap if you weren't going to make money?

MR. COURSEY: I'm sorry?

COUNCILMAN KENNEY: Why would you do a swap if you weren't going to make any money?

MR. COURSEY: I didn't mean to suggest that we did a swap.

COUNCILMAN KENNEY: Why would anyone, not just you, why would anyone consider doing a swap if you didn't make money on the deal?

MR. COURSEY: We do swaps as a way to help our clients hedge a particular risk; in this case, the risk of future increases in interest rates and the impact that they would have on your borrowing costs at the time that you do a new money deal.

COUNCILMAN KENNEY: So you're saying --

MR. COURSEY: So what we do is,

we make a market through swaps. We're not -- what we're really doing is helping our clients hedge a particular risk, and through doing so, we are making a market and so there is a spread.

COUNCILMAN KENNEY: So come August 1st, the City will determine whether or not they're going to pay more money by encountering future higher interest rates as they would encountering a swap?

MR. COURSEY: The City will make a determination as to whether to leave the swap in place and issue floating-rate debt. The swap is a swap that's designed to hedge floating-rate debt.

COUNCILMAN KENNEY: So what you're saying is, if the swap stayed in place, it could potentially cost the City money, but potentially not as much as it would incurring new debt later on? Is that accurate or no?

MR. COURSEY: The City intends

to issue new money debt to the tune of approximately 180 million for water and wastewater purposes, and this swap was designed to hedge that future issuance. And the City's decision point before the effective date of that swap will be are we better off terminating this swap and selling fixed-rate bonds at current interest rates at the time that they do it presumably in August when the swap is effective, or are we better off using the swap rate as our hedge and issuing floating-rate debt.

COUNCILMAN KENNEY: Okay. All right. Fine. Thank you.

COUNCILMAN GOODE: Can someone from Wachovia explain what they believe the requirements are under The Philadelphia Code with regard to fair lending and community reinvestment?

MS. WALL: As it relates to the ordinance --

COUNCILWOMAN TASCO: Would you identify yourself, please.

MS. WALL: I'm sorry. Stephanie Wall, Wachovia Bank.

As it relates to the ordinance requirement in the City of Philadelphia?

COUNCILMAN GOODE: Yes.

MS. WALL: It is my understanding that annually it is due by June 30th, that all City depositories submit their community reinvestment goals for that year. It is required. It's sent to the Treasurer's Office and it's due by June 30th.

COUNCILMAN GOODE: And in addition to that?

MS. WALL: If -- well, as relates to the lending study; is that your question? The lending study that is completed -- that is on a year lag -- we as a depository are required to submit a strategic plan that talks to the discrepancies or the disparities in the lending study as it relates to the year that it was --

COUNCILMAN GOODE: So has

Wachovia been required to submit a strategic plan in the past?

MS. WALL: We have.

COUNCILMAN GOODE: And what disparities were found in past lending studies?

MS. WALL: I'm sorry?

COUNCILMAN GOODE: What disparities were found, disclosed in past lending studies?

MS. WALL: The most recent lending study that was just completed in final form was on the lending year for 2008 and -- would you like us to talk specifically to what were the queries that came out of that lending study?

COUNCILMAN GOODE: I'm asking where you fell below the bar in terms of lending performance within the study, in what areas. It's a very simple question.

MS. WALL: I'd like to at least -- well, I'd like to say that the study, if we're talking specifically to --

4/22/10 - FINANCE - BILL 100093, etc.

COUNCILMAN GOODE: I asked a question. I'd like you to answer it. I'm asking in what areas were you found to fall below the bar that required you to have to submit a strategic plan? A strategic plan is supposed to be to match or exceed pure lending performance in those areas. So what areas did you fall below the bar in terms of other City depositories?

MS. METZ-GALLOWAY: Shelley Metz-Galloway, Wells Fargo Bank.

The areas that I've identified in the report where it appears that we have done less than our peers includes in the LMI borrower home purchase originations, is an area that appears that we have fallen below peer performance, as well it appears that we may have fallen below as well in home purchase originations to African Americans in home purchase originations.

On the refinance side, it appears that we may also have fallen below in LMI borrower refinance, as well as in the 80 to 100 percent minority tract refinance originations.

COUNCILMAN GOODE: So for the record, what percentage of home purchase loans went to African Americans in 2008?

MS. METZ-GALLOWAY: Home purchase originations of our total originations was approximately 10.4 percent.

COUNCILMAN GOODE: What percentage of home purchase loans went to African Americans in 2009?

MS. METZ-GALLOWAY: In 2009, African American representation for home purchase originations was 20.1 percent.

COUNCILMAN GOODE: What percentage of home purchase loans went to African Americans in the first quarter of 2010?

MS. METZ-GALLOWAY: Twenty-four percent.

MS. WALL: Chairwoman, I was wondering if I could approach the bench.

We're referring to some information that perhaps the rest of the Finance Committee may not have in front of them.

COUNCILWOMAN TASCO: Yes.

COUNCILMAN GOODE: Is this the information that you e-mailed to me?

MS. WALL: I'm sorry?

MS. METZ-GALLOWAY: Yes, sir.

COUNCILMAN GOODE: They have it.

MS. WALL: They all have this?

COUNCILWOMAN TASCO: Yes.

COUNCILMAN GOODE: Is that consistent with your fair lending strategic plan?

MS. METZ-GALLOWAY: I believe that at -- for the first quarter of 2010, the 24 percent is just slightly below what appears in the Econsult in the peer percentages.

COUNCILMAN GOODE: That's not my question. My question is, is that consistent with your fair lending strategic plan?

MS. WALL: For the activity that took place in 2008, I would say that we were below plan, and we were below plan and -- the information is in front of you, but 2008, as everyone knows, was an extraordinary year, specifically extraordinary for Wachovia, and we were struggling during that year to retain being independent. So the lending --

COUNCILMAN GOODE: My question was simply, was it consistent with your fair lending strategic plan.

MS. WALL: Performance was not on.

COUNCILMAN GOODE: Excuse me?

MS. WALL: The efforts were in place, as noted in the strategic plan. The goals were not achieved.

COUNCILMAN GOODE: Okay. What percentage of home purchase loans should have gone to African Americans under your strategic plan?

MS. WALL: I don't have that information with me.

COUNCILMAN GOODE: I don't understand.

MS. WALL: The strategic plan identified lending to --

COUNCILMAN GOODE: You don't know what percentage of home purchase loans you intended to give to African Americans?

MS. WALL: What I have in front of me is broken --

COUNCILMAN GOODE: I asked a question.

MS. WALL: I don't have it with me.

COUNCILMAN GOODE: You don't know?

MS. WALL: It's not that I don't know. I don't have it with me.

COUNCILMAN GOODE: If you know, you can just tell us.

MS. WALL: I don't know it off the top of my head and I wouldn't want to give you inaccurate information.

COUNCILMAN GOODE: Can you tell

me in general what percentage you think should go to African Americans?

MS. WALL: I would not want to guess at that.

COUNCILMAN GOODE: Should it be 10.4 percent?

MS. WALL: I'm sure it was higher than that, and I think that part of the discussion that we had was the working to achieve, at a minimum, what peer --

COUNCILMAN GOODE: What percentage of home purchase loans went to African Americans in terms of all depositories?

MS. METZ-GALLOWAY: The average it was 28 percent. In 2008 it was 28 percent.

COUNCILMAN GOODE: So you fell below the bar?

MS. WALL: Yes.

MS. METZ-GALLOWAY: Yes, we did.

COUNCILMAN GOODE: Why did you

fall below the bar?

MS. METZ-GALLOWAY: Well, I'm sorry. So thank you for correcting me. It was 24.7 percent.

Thank you for that correction.

COUNCILMAN GOODE: The Committee has that in front of them.

MS. METZ-GALLOWAY: Thanks.

Wachovia's performance in 2008 really reflected a decline not only in the City of Philadelphia but nationwide as well. Lending decreased significantly in the second half of the year. More than 75 percent of all lending took place for Wachovia in home purchase and refinance originations in the very first half of the year, but as Wachovia struggled in the second half of the year, lending volume fell precipitously, and that's what led to the merger with Wells Fargo.

Wachovia's 44 percent decline in Philadelphia was consistent with the 43 percent decline that occurred in the

City of Philadelphia and nationwide. Lending went down year over year between 2007 and 2008 significantly as foreclosure volume increased, as unemployment increased, as you're probably aware.

COUNCILMAN GOODE: Excuse me. I asked why you fell below the bar.

MS. METZ-GALLOWAY: We fell below the bar because the bar was set at a time that didn't necessarily reflect the conditions that Wachovia was experiencing in 2008.

COUNCILMAN GOODE: What about 2009?

MS. METZ-GALLOWAY: In 2009, the Wachovia/Wells Fargo originations for African Americans was 20.1 percent. We --

COUNCILMAN GOODE: I'm asking where do you think you fell. Did you fall below the bar in 2009?

MS. METZ-GALLOWAY: We do not yet know whether or not we have fallen below peer averages, because we do not have that data.

COUNCILWOMAN BROWN: Point of information, Madam Chairwoman.

COUNCILWOMAN TASCO: The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: Thank you.

When was the merger?

MS. METZ-GALLOWAY: The merger took place on December 31st, 2008.

COUNCILWOMAN BROWN: And the process for that in terms of span of time equals what?

MS. WALL: It was officially started in fourth quarter of 2008. So actually it was the beginning -- the first week of October.

COUNCILWOMAN BROWN: October '08. And it was finalized when?

MS. WALL: December 31st, 2008.

COUNCILWOMAN BROWN: Thank you, Madam Chairwoman.

Thank you.

COUNCILMAN GOODE: So if the

bar from 2008 was 24.7 percent, you dramatically fell below that in 2008.

MS. WALL: That is correct.

COUNCILMAN GOODE: The bar stayed the same for 2009. You still fell below the bar. If the bar is the same in 2010, you slightly fall below the bar. So my question is, has your strategic plan changed? Does it need to change, and where are you setting your own bar in terms of home purchase loans for African Americans? Where should you be at now? Let's forget 2008.

MS. METZ-GALLOWAY: The lending to African Americans in 2010 I think at the percentage rate of 24 percent is, I believe, is accurate for this point in time. The market is continuing to contract, and we actually expect that lending overall will in 2010 decline year over year from 2009. So I think that 24 percent is likely to be an appropriate peer average for 2010.

COUNCILMAN GOODE: In terms of

African American to white denial ratios, where do you fall?

MS. METZ-GALLOWAY: And the data that I have is for 2008. We do not yet have 2009 data. But for 2008, Wachovia's denial rate was at 40.7 percent. That is only slightly higher than the 40.1 percent of --

COUNCILMAN GOODE: I asked about the ratio.

MS. METZ-GALLOWAY: Okay. The ratio is at 1.19, which is significantly less than the 1.38 reported by the top depositories in the City of Philadelphia.

COUNCILMAN GOODE: The denial ratio was what?

MS. METZ-GALLOWAY: One point one nine overall.

COUNCILMAN GOODE: That's not what the disparity study says.

MS. METZ-GALLOWAY: Is that overall? Are you speaking to particular --

COUNCILMAN GOODE: I'm talking

about home purchase loans.

MS. METZ-GALLOWAY: So for home purchase originations, Councilman Goode, is that for African Americans or for all home purchase originations?

COUNCILMAN GOODE: For home purchase loans, what is the African American to white denial ratio?

MS. METZ-GALLOWAY: The denial ratio is 1.51. That is not what is contained in this document. We went back and did a full review of all of our HMDA data and our submissions to the federal regulators. We did a comparison to the Econsult data. We have recognized that there is a difference in the data between Econsult and the data that we submitted to the federal regulators, and we are working collaboratively with Econsult to identify where those differences occurred and why the information is not the same.

COUNCILMAN GOODE: Can Mr. Huang approach the witness table.

(Witness approached witness

table.)

COUNCILMAN GOODE: Please identify yourself for the record.

MR. HUANG: Lee Huang. I'm a Director at Econsult Corporation. Last name is H-U-A-N-G.

COUNCILMAN GOODE: In terms of home purchase loans, what is the African American to white denial ratio for Wachovia?

MR. HUANG: According to our analysis, calendar year 2008, home purchase prime single-family loans in Philadelphia, African American --

COUNCILWOMAN TASCO: Sir, please speak into the mike and a little slower, please.

MR. HUANG: Sure. The African American to white denial ratio for calendar year 2008, 1.87. What 1.87 means is that African Americans were 87 -- excuse me; that the denial ratio for African Americans was 1.87 times greater than the denial ratio for whites.

COUNCILMAN GOODE: So Wachovia denied African Americans more than whites at a higher ratio than our other depositories; is that true?

MR. HUANG: Than the aggregate of all depositories. All depositories in aggregate, the African American to white denial ratio was 1.39 and the aggregate for all banks, not just the depositories, was 1.98.

COUNCILMAN GOODE: So we set the bar in terms of the aggregate of all depositories?

MR. HUANG: No. Actually, when we do our rankings of City depositories, we compare them in comparison to all City banks, not just depositories.

COUNCILMAN GOODE: Okay. If we set the bar in terms of all depositories, it's a fair statement to say that Wachovia is more likely to deny African Americans more so than the aggregate of other depositories?

MR. HUANG: Than the other

depositories that the City does business with. That would be a correct statement.

COUNCILMAN GOODE: Can Wachovia explain that?

MS. METZ-GALLOWAY: We are not at this time able to explain that, because we don't believe that that data accurately reflects our performance.

COUNCILMAN GOODE: That's not the question I asked. I asked whether you can explain why you deny African Americans more than whites even more so than the aggregate of our other depositories. Do you think that's a fair question, to ask why you deny African Americans more than whites more than anyone else does?

MS. METZ-GALLOWAY: I think that the HMDA data cannot explain denial rates, because there are credit factors that are not included in the HMDA data.

COUNCILMAN GOODE: The credit factors are the same for every financial institution.

MS. METZ-GALLOWAY: They are the same.

COUNCILMAN GOODE: So why do you deny African Americans more than whites at the level that you do?

MS. METZ-GALLOWAY: I cannot explain that.

COUNCILMAN GOODE: Okay. I cannot vote for your contract.

Thank you.

COUNCILWOMAN TASCO: Thank you.

The Chair recognizes Councilman Greenlee.

COUNCILMAN GREENLEE: Thank you, Madam Chair. And since I put my light on, I know there was a lot of other questions answered, but I guess -- I don't know. I'll just speak for myself, but I think others have sort of the same frustration here.

With all due respect -- and I'm not trying to lecture or give a sermon here, but Councilman Goode even said that he asked a lot of questions when you had your meeting on Monday. Obviously we weren't there. But it seems like there's still a lot of questions you can't answer, and I guess I don't understand that. I mean, I would think you would come in here with every possible figure, every possible answer that has anything to do with loans to minority groups.

It's no secret that this Council, a lot of members, are really -- that's a key issue to them, certainly Councilman Goode and a lot of other people. It just seems that there's still -- you still don't have a lot of answers to questions. You don't have figures that you should have. You don't have explanations. And I guess I just don't get it. I don't know how else to say it. I just don't understand why -- you should have everything right there, because this is no secret. He's not tripping you up here. This is something that's been asked for a long time.

So I don't know. That's more

of a statement than a question. If you have anything to say about that, you can.

MS. METZ-GALLOWAY: Sir, I'd like to be as helpful as possible here. To the issue as to why Wells Fargo declines African Americans more than all other depositories in the City of Philadelphia, our data indicates that that is not correct, that our denial ratio is 1.5 times versus all other lenders at 1.9 times. So --

COUNCILMAN GOODE: Excuse me. What is it for all depositories?

MS. METZ-GALLOWAY: I have 1.9 times. And --

COUNCILMAN GOODE: For depositories?

MS. METZ-GALLOWAY: For all depositories, and I have Wachovia for 2008 at 1.5 times.

COUNCILMAN GOODE: Mr. Huang, what did you say the denial ratio was for all depositories?

MR. HUANG: For all City

depositories for calendar year 2008, 1.39.

COUNCILMAN GOODE: So even if your denial ratio was 1.5, that's still worse than 1.39. But I'm actually going to trust our consultant before I trust you.

MS. METZ-GALLOWAY: So that being it is -- at 1.5 to 1.9, it is slightly higher. Mr. Huang is perhaps a statistical -- could explain the statistical importance of that. I don't think that it is a significantly meaningful difference between 1.39 and 1.5.

That said, however, I think it is important to note, as I was about to say earlier, that there are credit factors, FICO scores, debt-to-income ratios, loan-to-value ratios --

COUNCILMAN GOODE: And that's the same for every financial institution.

MS. METZ-GALLOWAY: It is the same, and it does --

COUNCILMAN GOODE: That has nothing to do Wachovia's lending performance.

MS. METZ-GALLOWAY: To the degree that underwriting standards are different across different organizations, you will necessarily receive different outcomes in terms of lending. In the prior years --

COUNCILMAN GOODE: If you loan less to black people, you loan less to black people.

MS. METZ-GALLOWAY: No. Because by virtue of -- comparatively speaking, if I look at Wachovia's performance in home purchase origination --

COUNCILMAN GOODE: No. I'm actually saying the way it actually is calculated, if African Americans received 24 percent or 20 percent or 10 percent of your home purchase loans, who received the rest?

MS. METZ-GALLOWAY: For 200 --

in the first quarter of 2010, African Americans received 24 percent, Hispanics received 4.8 percent, LMI borrowers received 49 percent, LMI tracts received 61 percent --

COUNCILMAN GOODE: That's not my question. Who received the rest of the home purchase loans in terms of --

MS. METZ-GALLOWAY: All other groups received the rest of the home purchase loans, and those were the groups that I was identifying here.

COUNCILMAN GOODE: What percentage of home purchase loans were received by whites?

MS. METZ-GALLOWAY: Approximately 60 percent.

COUNCILMAN GOODE: Okay. You loan less to African Americans and you deny African Americans more.

MS. METZ-GALLOWAY: That is not -- that denial rate was well within the experience of our peer lenders in the City of Philadelphia and nationally as well.

COUNCILMAN GOODE: It's higher than the other depositories, and I'm still not voting for your contract.

MS. METZ-GALLOWAY: Even if you look at the Econsult at 1.5, Citigroup is at 1.58, Bank of America is at 1.70, Sovereign Bank is at 1.71, Toronto-Dominion Bank of the North is at 1.96, PNC Financial Services is at 2.32.

COUNCILMAN GOODE: PNC did 31 percent of their loans to African Americans, Sovereign did 30 percent of its loans to African Americans, Citizens did 56 percent of its loans to African Americans.

MS. METZ-GALLOWAY: And while that is true, I also do not believe that that's a fair representation of our lending because of how large our overall lending is.

COUNCILMAN GOODE: You don't care about percentages?

MS. METZ-GALLOWAY: I think

that the --

COUNCILMAN GOODE: We do.

MS. METZ-GALLOWAY: -- percentages are not -- do not fairly --

COUNCILMAN GOODE: Whether you care about percentages or not, we do.

COUNCILWOMAN TASCO: The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: How familiar were you with the Econsult report prior to this hearing? When did you get it? When did you review it? When was the Econsult report released?

Please, sir.

MR. HUANG: Well, we delivered it in February of this year. I'm not sure when it was posted to the website and made publicly available.

COUNCILWOMAN BROWN: And what is your standard operating procedure -- let me just be clear on my own information. This report was done at the request of?

MR. HUANG: The Treasurer's

Office.

COUNCILWOMAN BROWN: And procedurally what happens after a report has been completed, period? Let me not editorialize. What happens with a report like this once completed?

(Witness approached witness table.)

MR. DiSILVESTRO: Hello. My name is Mark DiSilvestro. I'm in the Treasurer's Office.

After we receive the report from Econsult, we post it on Philadelphia's website at phila.gov, and that was done approximately the end of March. I don't have the exact date.

COUNCILWOMAN BROWN: Is a formal notification given to all those parties referred to in this report so that the information is universal at the same time -- the awareness of the information is universal at the same time?

MR. DiSILVESTRO: A

notification did not go out to all of the authorized depositories.

COUNCILWOMAN BROWN: Is that standard operating procedure, that you not notify those that have been discussed, covered in the report?

MR. DiSILVESTRO: All of the authorized depositories are aware that this study is done every year.

COUNCILWOMAN BROWN: Okay. All right.

MR. DiSILVESTRO: Because every year after the report is published, every year we have an RFI that goes out, and they need to submit comments about the study, the long-term strategic plan.

COUNCILWOMAN BROWN: That is helpful.

Given that background, at what point did Wachovia become aware of the report? Wachovia -- not you, sir. I'm now speaking to the bank officials here. At what juncture, what point did Wachovia/Wells Fargo become aware of the report?

MS. WALL: I believe it was the first week of April.

COUNCILWOMAN BROWN: And what happens internally when you receive reports of this type and you do -- what happens internally?

MS. WALL: Internally we prepare for the request that comes from the Treasurer's Office to all depositories to respond to the study. That has not come out yet.

COUNCILWOMAN BROWN: Forgive me?

MS. WALL: There is a request that comes from the Treasurer's Office to all the depositories asking that we review the study in-depth and respond to the queries. If you go through the study, for each institution there are questions, and we are asked to respond to them in a formal notification that goes back to the Treasurer's Office.

COUNCILWOMAN BROWN: Is there a

timeline, a deadline attached to that?

MS. WALL: Yes. And usually it comes out in the end of April or May, May 1st. It has not come out yet.

COUNCILWOMAN BROWN: So is it fair to say that internally the colleagues at Wells Fargo/Wachovia have read the report?

MS. WALL: That is correct.

COUNCILWOMAN BROWN: And addressed the inquiries being made by the Treasurer's Office?

MS. WALL: Not formally, but yes.

COUNCILWOMAN BROWN: So given the numbers as they exist here and knowing the legitimate concerns raised by my colleague, what remedies or corrective action does an institution like yours consider to move to a place where the numbers more aptly reflect what's happening with your peers?

MS. WALL: The lending study is a year lag. So the lending study that just became final is on 2008 data, which I am sure all of Council is well aware what was happening in the banking industry and specifically with Wachovia. In the debt that you have, there is a page that shows exactly what was happening with Wachovia.

Part of the solution, not specifically to that element, but part of the solution was the acquisition by Wells Fargo and the pulling together of two very strong institutions fundamentally. So the activity going forward to increase our lending back to where it had been in previous years prior to the spiraling that was going on in 2008 for Wachovia Bank is part of this acquisition.

COUNCILWOMAN BROWN: So then is it fair for one to assume that -- for me it would beg the question, what has Wells Fargo's experience, track record been in these areas?

MS. METZ-GALLOWAY: I can speak to that. So our track record has been excellent. Wells Fargo nationally has been the number one lender consistently to African Americans, Hispanics, Asians, low- and moderate-income communities and low- and moderate-income borrows.

COUNCILWOMAN BROWN: So with that rich track record, help me understand why that was not sustained during the acquisition.

MS. METZ-GALLOWAY: So in 2008 when we operated as two separate companies, as Councilman Goode pointed out, our lending to -- Wachovia's lending to African Americans was at the 10.4 percentage range. In 2009, as the companies were coming together, you see a significant increase in lending to African Americans up to the 20.1 percent range. And now in 2010 in the first quarter, we are at 24 percent lending to African Americans.

So what we are seeing here is the merger, the coming together of the two companies and the commitment that

Wells Fargo has always had in this area being able to be lived out through Wachovia as well.

COUNCILMAN GOODE: Point of information.

COUNCILWOMAN TASCO: Point of information.

COUNCILMAN GOODE: Where were you at in 2007?

COUNCILWOMAN TASCO: Is that Wachovia or Wells Fargo?

COUNCILMAN GOODE: Wachovia.

MS. METZ-GALLOWAY: I'm sorry. I did not print 2007 data.

COUNCILMAN GOODE: Twenty-two point one percent.

COUNCILWOMAN BROWN: That's Wachovia?

COUNCILMAN GOODE: Yes.

So you went from 22.1 percent down to 9 and 10 percent, then back up to 20 percent, and you act like that's progress.

MS. METZ-GALLOWAY: And we're

at 24 percent at this time.

COUNCILMAN GOODE: So you went from 22 percent to 24 percent, and you think that's progress when it still probably falls below the bar.

MS. METZ-GALLOWAY: So as I am looking at the combined Wachovia and Wells Fargo, if you look at it on a combined basis -- I did a pro forma for 2008 for the African American community.

On a combined basis for home purchase originations in 2008, the Wells Fargo/Wachovia combined entity would have been the number one lender to African Americans in the City of Philadelphia.

COUNCILMAN GOODE: Percentage-wise? No.

MS. METZ-GALLOWAY: By unit volume. By unit volume.

COUNCILMAN GOODE: Percentage-wise were you number one? No.

COUNCILWOMAN BROWN: So we're at a crossroads. And do you fully grasp the issue raised by my colleague

Councilman Goode?

MS. METZ-GALLOWAY: I do fully grasp it, and my response to it is this, that because of the very large size of Wachovia/Wells Fargo, percentages become distorted. So that we could in fact by unit volume produce the largest number of home purchase originations, refinance originations in the City of Philadelphia compared to all other peer lenders, but because of how large our overall production is, our percentages appear to be very low.

So, for example, we may originate some 600 or 700 units of home purchase originations to African Americans in the City of Philadelphia and the next closest lender may be at 300 units and we might be doing twice what all other lenders are doing on average, but we don't get credit for that because our total origination, the denominator in the calculation of the percentages, is so much larger than all other of our peer lenders.

So we believe that by virtue of unit volume, that that is a more fair representation of our commitment and our reach and our impact on the African American community in terms of moving African Americans into homes as purchases and in maintaining homeownership through refinances.

So I do fully understand the percentage that he's working with, but I also fully appreciate the impact is not purely in percentages. It is in units actually originated, lending that actually takes place in the community.

COUNCILWOMAN BROWN: Thank you for that.

Econsult, as you conduct your research, is that -- you're a researcher; I'm not. Is that a factor in you gathering your data or gathering your findings?

MR. HUANG: Some of the more commonly accessed parts of our report are the rankings, and in order to account for and create a somewhat level playing field for the larger players and the smaller players, we use a wide array of categories, 13 in all, and we try to mix and match raw levels with percentages with denial ratios. So we try to account so that it's neither unfairly biased towards or against the big players by accounting for both the raw numbers and the percentages.

COUNCILWOMAN BROWN: Who are the other big players equal to Wells Fargo?

MR. HUANG: Equal to -- well, in the case of 2008, the biggest players in terms of prime loans originated were Wachovia as well as Sovereign, Bank of America, Citizens, TD Bank North/Commerce.

COUNCILWOMAN BROWN: So it's all those that are here in this document?

MR. HUANG: Yes. Yes.

COUNCILWOMAN TASCO: Point of

information, and I hope I heard correctly Wells Fargo. You said your volume is much larger compared to the other banks?

MS. METZ-GALLOWAY: Yes, ma'am.

COUNCILWOMAN TASCO: In terms of lending?

MS. METZ-GALLOWAY: Our overall volumes tend to be very large comparatively. And I'd also like to note for the record that the volumes that are reported in the Econsult study for 2008 are 1,000 units short for Wachovia. So there's a significant difference in the number of loans that we have reported to the federal regulators and the number of loans that we have been given credit for in the Econsult document.

So I personally feel very uncomfortable defending percentages that appear not to be accurate because of the differences in what we have reported to the federal regulators and what is reported in the Econsult document.

COUNCILWOMAN TASCO: Well, if

your volume is larger, then you have more money to provide for loans. Why wouldn't you have a larger percentage goal set for African Americans instead of being in that small pool of maybe -- whatever the ratio is? If you have more money, then you have a bigger pool to loan money and then you can provide more money to more people. So it seems to me that the ratio should be higher, because you have more money to provide. You're a big guy.

MS. METZ-GALLOWAY: And while I think that appears to be true in some cases, if we were to do the full percentage -- I don't have my calculator in front of me, but say, for example, if we were to say -- exactly have pure parity with all of other peers or exceed peer, we in some cases, depending on what community we're talking about, would be in the position of doing, say, 90 percent of all lending that took place within that particular city just by virtue of our total originations.

COUNCILMAN GOODE: What does that have to do with the percentage you lend to African Americans?

MS. METZ-GALLOWAY: It is relevant from the standpoint of every segment is impacted by our total origination volume. So whether you're African American, Asian, LMI borrower or LMI tract, those percentages are impacted by the total origination volume that is there.

COUNCILMAN GOODE: So 60 percent went to whites, 24 percent to African Americans. What percentage to Latino?

MS. METZ-GALLOWAY: Latino was, in the first quarter of 2010, 4.8 percent.

COUNCILMAN GOODE: Four point eight?

MS. METZ-GALLOWAY: Yes.

COUNCILMAN GOODE: What percentage to Asian Americans?

MS. METZ-GALLOWAY: I don't

have that immediately available. I don't have that immediately available.

COUNCILMAN GOODE: Okay. Are you familiar with the demographics of Philadelphia?

MS. METZ-GALLOWAY: I have seen it in the report, and I believe that Philadelphia is 40 percent African American. Is that correct?

COUNCILMAN GOODE: Forty, 43, 45.

MR. HUANG: Mid 40's.

COUNCILMAN GOODE: I'm finished.

COUNCILWOMAN TASCO: Thank you very much.

Questions, other questions?

(No response.)

COUNCILWOMAN TASCO: Anyone else here to testify on this bill?

(No response.)

COUNCILWOMAN TASCO: Thank you very much for your testimony. This bill will be held until the call of the Chair.

We will now end our hearing and go into our public meeting.

The Chair recognizes Councilman Goode to call on Bill -- I'm sorry; Councilwoman Blackwell. I'm sorry.

COUNCILWOMAN BLACKWELL: Thank you, Madam Chair. We move that Bill No. 100093 be reported out of Committee with a favorable recommendation and also a recommendation for suspension of the rules so as to be considered at our next session of Council.

(Duly seconded.)

COUNCILWOMAN TASCO: Thank you. It has been moved and seconded that Bill 100093 be reported out of Committee with a favorable recommendation and a request for the suspension of rules so that this bill can be heard at Council's next session.

All in favor will say aye.

(Aye.)

COUNCILWOMAN TASCO: Is there any opposition?

(No response.)

COUNCILWOMAN TASCO: There being none, this meeting is adjourned -- the motion is passed, and the meeting is adjourned.

Thank you.

(Committee on Finance concluded at 2:20 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on April 22, 2010, and that this is a true and correct transcript of same.

____

MICHELE L. MURPHY
RPR-Notary Public

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