

Communication from Public

Name: Inclusive Action - Public Bank Support Letter 2023

Date Submitted: 05/26/2023 09:55 AM

Council File No: 19-1235

Comments for Public Posting: Dear Mayor Bass, Council President Krekorian, and President Pro Tempore Price, On behalf of Inclusive Action for the City (Inclusive Action), we express our strong support for the Municipal Bank of Los Angeles (MBLA), CF 19-1235, and the allocation of funding needed to move forward with the public bank RFP. It's no secret that the United States is experiencing economic volatility impacting all sectors of the economy, including but not limited to the banking and financial service sector. Talks of a looming recession, high-interest rates, and regulatory loopholes have contributed to bank failures, a decline in consumer confidence and have made lending more expensive. It's important to note four of the largest top fifteen banks, i.e., Credit Suisse, Silicon Valley Bank, First Republic Bank, and Signature Bank, have failed and have been absorbed by even larger banks, such as Chase, UBS Group AG, etc. The ripple effect of recent bank failures, high-interest rates, and a volatile economy presents two significant challenges: one, the Community Reinvestment Act (CRA) economic development initiatives are at greater risk of not being funded, and two, large banks are becoming more reluctant to lend to small businesses. As a Los Angeles-based non-profit and community development financial institution (CDFI) that provides commercial lending, technical assistance, and business coaching to BIPOC-owned small businesses and micro-entrepreneurs, Inclusive Action for the City (IAC) is confident, a Municipal Bank of Los Angeles (MBLA) can bring significant and positive benefits to our communities. It's important to highlight that an MBLA alone cannot resolve all the challenges in the banking and financial services sector. However, an MBLA can play a significant role as a "banker's bank" whose sole mission is to strengthen existing financial frameworks, facilitate lending streams, and advance the city's economic development objectives. It's estimated that an MBLA can advance the City of LA's priorities at a fraction of the cost due to cost savings on interest and services fees paid that it will no longer have to pay to Wall Street banks or private commercial banks. Moreover, two positive benefits of an MBLA are its potential to hedge against economic uncertainty and boost commercial lending activities. Even before the threat of a recession, large banks were reluctant to lend to small businesses. While large

banks have been reporting record profits since 2008, said large banks have gradually approved less than half the amount of loans as community banks. For local context, as of 2022, large banks, such as Bank of America, Wells Fargo, JP Morgan, and US Bank, accounted for 62% of the market share in Los Angeles County. The threat of a looming recession exacerbates the reluctance of large banks to lend directly to small businesses. This is amplified when large banks make lending to small businesses challenging when they reduce overall lending to CDFI/MDIs that originate commercial loans and raise interest rates on CDFI/MDI investments. High-interest rates on CDFIs/MDIs make it increasingly difficult and financially infeasible for CDFI/MDI lenders to lend to local small businesses. An MBLA can play a significant role in hedging against recession and facilitating commercial lending activity. First, the City of LA can leverage the MBLA to establish strategic partnerships with and invest in local community banks and CDFIs/MDIs to amplify their small business lending activity through infusions of low-cost capital. Doing so can lessen the ripple effects of a recession by stabilizing lending activity and ensuring local small businesses have access to low-cost capital to support their business operations. Lastly, an MBLA can spur economic opportunity and innovation by developing new and strengthening existing special-purpose credit programs, or targeted lending products designed for specific businesses or stakeholders. The MBLA can play a critical role in funding and partnering with large and regional banks to sustain and or launch new special-purpose credit programs such as small business loans, lending products for worker cooperatives, and commercial real estate loans for small business owners including nonprofits. Special-purpose credit programs further enable the City of Los Angeles to reinvest in communities and repair historical harms to under-resourced communities. The City of Los Angeles has the opportunity to establish a public bank. In this letter, Inclusive Action has highlighted the benefits of a public bank for small businesses and CDFIs/MDIs. In addition, we acknowledge a public bank can strengthen affordable housing and broader economic development initiatives. We encourage you to join us in supporting this endeavor. Sincerely, Rudy Espinoza
Executive Director Inclusive Action for the City



May 26, 2023

The Honorable Karen Bass
The Honorable Paul Krekorian
The Honorable Curren Price
Los Angeles City Hall
200 N Spring St. Ste 303
Los Angeles, CA 90012

Dear Mayor Bass, Council President Krekorian, and President Pro Tempore Price,

On behalf of Inclusive Action for the City (Inclusive Action), we express our strong support for the Municipal Bank of Los Angeles (MBLA), [CF 19-1235](#), and the allocation of funding needed to move forward with the public bank RFP.

It's no secret that the United States is experiencing [economic volatility](#) impacting all sectors of the economy, including but not limited to the banking and financial service sector. Talks of a looming recession, high-interest rates, and regulatory loopholes have contributed to bank failures, a decline in consumer confidence and have made lending more expensive. It's important to note four of the largest top fifteen banks, i.e., Credit Suisse, Silicon Valley Bank, First Republic Bank, and Signature Bank, have failed and have been absorbed by even larger banks, such as Chase, UBS Group AG, etc.

The ripple effect of recent bank failures, high-interest rates, and a volatile economy presents two significant challenges: one, the Community Reinvestment Act (CRA) economic development initiatives are at greater risk of not being funded, and two, large banks are becoming more reluctant to lend to small businesses. As a Los Angeles-based non-profit and community development financial institution (CDFI) that provides commercial lending, technical assistance, and business coaching to BIPOC-owned small businesses and micro-entrepreneurs, Inclusive Action for the City (IAC) is confident, a Municipal Bank of Los Angeles (MBLA) can bring significant and positive benefits to our communities. It's important to highlight that an MBLA alone cannot resolve all the challenges in the banking and financial services sector. However, an MBLA can play a significant role as a "banker's bank" whose sole mission is to strengthen existing financial frameworks, facilitate lending streams, and advance the city's economic development objectives. It's estimated that an MBLA can advance the City of LA's priorities at a fraction of the cost due to cost savings on interest and services fees paid that it will no longer have to pay to Wall Street banks or private commercial banks.

Moreover, two positive benefits of an MBLA are its potential to hedge against economic uncertainty and boost commercial lending activities. Even before the threat of a recession, large banks were reluctant to lend to small businesses. While large banks have been reporting record



profits since 2008, said large banks have gradually [approved less than half](#) the amount of loans as community banks. For local context, as of 2022, large banks, such as Bank of America, Wells Fargo, JP Morgan, and US Bank, accounted for 62% of the market share in Los Angeles County. The threat of a looming recession exacerbates the reluctance of large banks to lend directly to small businesses. This is amplified when large banks make lending to small businesses challenging when they reduce overall lending to CDFI/MDIs that originate commercial loans and raise interest rates on CDFI/MDI investments. High-interest rates on CDFIs/MDIs make it increasingly difficult and financially infeasible for CDFI/MDI lenders to lend to local small businesses.

An MBLA can play a significant role in hedging against recession and facilitating commercial lending activity. First, the City of LA can leverage the MBLA to establish strategic partnerships with and invest in local community banks and CDFIs/MDIs to amplify their small business lending activity through infusions of low-cost capital. Doing so can lessen the ripple effects of a recession by stabilizing lending activity and ensuring local small businesses have access to low-cost capital to support their business operations. Lastly, an MBLA can spur economic opportunity and innovation by developing new and strengthening existing special-purpose credit programs, or targeted lending products designed for specific businesses or stakeholders. The MBLA can play a critical role in funding and partnering with large and regional banks to sustain and or launch new special-purpose credit programs such as small business loans, lending products for worker cooperatives, and commercial real estate loans for small business owners including nonprofits. Special-purpose credit programs further enable the City of Los Angeles to reinvest in communities and repair historical harms to under-resourced communities.

The City of Los Angeles has the opportunity to establish a public bank. In this letter, Inclusive Action has highlighted the benefits of a public bank for small businesses and CDFIs/MDIs. In addition, we acknowledge a public bank can strengthen affordable housing and broader economic development initiatives. We encourage you to join us in supporting this endeavor.

Sincerely,

A handwritten signature in dark ink, appearing to read "Rudy", with a stylized flourish extending to the right.

Rudy Espinoza
Executive Director
Inclusive Action for the City