

Bond Case Briefs

Municipal Finance Law Since 1971

Chicago Ends Business With Wells Fargo as Fallout Grows.

Chicago is severing business ties with Wells Fargo & Co. for a year after the bank paid penalties to settle claims that employees opened accounts without customers' consent to meet sales goals.

A measure, approved by the city council Wednesday with support from Mayor Rahm Emanuel, will freeze the bank out of any work with Chicago, including underwriting its bonds. Chicago Chief Financial Officer Carole Brown said she would move quickly to terminate any deals the city has with Wells Fargo that it can without paying large penalties, including trustee agreements.

"We do need to send the message that the city does business with those people who perform with integrity, transparency, and who hold themselves accountable for best practices because as a city we have to do that," Brown said in an interview at City Hall.

Chicago is part of a widening political furor that's emerged since Wells Fargo last month agreed to pay \$185 million to resolve claims that employees opened accounts consumers didn't know about to boost sales tallies.

The settlement prompted hearings in Congress and led both Illinois and California to suspend work with the bank.

Wells Fargo is "disappointed" that Chicago moved to end its "relationship with one of the nation's safest and strongest financial institutions at a time when the city needs access to dependable financial partners," Gabriel Boehmer, a spokesman for the San Francisco-based bank, said in an e-mailed statement.

Emanuel responded during a press conference at City Hall after the vote. "The city's disappointed in Wells Fargo," Emanuel said.

Brown noted that while other financial institutions worked with Chicago after Moody's Investors Service downgraded the city to junk in May 2015, Wells Fargo was the only bank that demanded payment to cancel derivative trades and wouldn't negotiate a forbearance agreement, according to Brown. While the bank hasn't been an underwriter since 2014, the city has chosen not to use them since the Moody's cut, Brown said.

"Wells Fargo doesn't believe in the city right now," Brown said. "So we're going to work with those firms that do."

Chicago has a interest-rate swap agreement with Wells Fargo for Midway International Airport that officials will monitor, according to Brown, who noted the city won't do anything to disrupt that or risk a large termination payment.

Banking Fees

City Treasurer Kurt Summers is working to divest \$25 million from Wells Fargo. For his office, which manages Chicago's \$7 billion investment portfolio, this move is "probably the most punitive action

that we can legally take,” Summer told the finance committee on Wednesday as he testified in support of the city’s ban.

Wells Fargo has collected about \$19 million in fees from Chicago over the last decade, according to Alderman Edward Burke, chair of the city’s finance committee.

“This kind of conduct by a huge financial institution in America simply can’t take place without some negative implications with municipalities that have done business with it in the past,” Burke told the council. “I’m further quite certain that municipalities around the nation will follow suit after they learn about what we have done.”

Bloomberg Business

by Elizabeth Campbell

October 5, 2016 — 9:21 AM PDT Updated on October 5, 2016 — 12:05 PM PDT

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com