



## **FOR IMMEDIATE RELEASE**

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Read the Full Report: <http://pennbpc.org/too-big-to-trust>

### **Bank Swap Deals Continue to Cost Philadelphia City, School District**

*New report documents millions in costs, calls on banks to renegotiate deals*

PHILADELPHIA, PA (January 17, 2012) — Large financial institutions, including many that received financial bailouts through the Troubled Asset Relief Program (TARP), will continue to make hundreds of millions of dollars off interest rate swaps negotiated with the City and School District of Philadelphia, according to a new report from the Pennsylvania Budget and Policy Center (PBPC).

Swap deals negotiated with banks such as Wells Fargo, Morgan Stanley and Goldman Sachs have cost the city and school district \$331 million in net interest payments and cancellation fees, according to the report, "Too Big to Trust? Banks, Schools and the Ongoing Problem of Interest Rate Swaps." If interest rates continue to remain low, still-active swaps could cost the city another \$240 million in future net interest payments.

The City and School District of Philadelphia were among almost 200 local governments that entered into these swaps agreements, which were heavily marketed after the Pennsylvania General Assembly authorized municipal use of these instruments in 2003.

PBPC Director and report author Sharon Ward noted that while taxpayers provided billions of dollars in bailouts to banks in the wake of the financial crisis, municipalities and school districts have been forced to cut services and lay off staff without receiving any financial consideration from the banks for the high cost of swap deals.

"Financial institutions have returned to profitability, yet schools cannot afford to keep nurses on staff," Ward said. "Now the banks have an opportunity to step up and help prevent more damaging cuts to schools and public safety, just as taxpayers helped the banks avoid total collapse just a few years ago."

The report recommends that the banks act as good corporate citizens by refunding a portion of the cancellation fees they received for terminating bad deals and renegotiating those deals which are currently active.

Ward presented the findings of the new report at the first briefing of the 2012 Philadelphia City Council session. She was joined by Philadelphia School District nurses and other employees, parents and community leaders who supported the report's call for the banks to do the right thing.

In a 2009 investigation, Auditor General Jack Wagner characterized interest rate swaps as “highly risky and impenetrably complex transactions that, quite simply, amount to gambling with public money.” He urged the Commonwealth to take steps to prohibit the use of these instruments.

The report urges Philadelphia City Council to use its leverage with the banks that continue to do business with the city to negotiate a refund of cancellation fees paid by the city and school district, and to renegotiate the terms of still-active swaps.

“The millions lost by city taxpayers have been an added burden at time when state funding for schools has been slashed and the city has struggled to balance its budget through the recession,” Ward said. “Refunding cancellation fees is a good investment in the families and children of Philadelphia, and one the banks should be willing to make.”

You can read the full report at <http://pennbpc.org/too-big-to-trust>.

*The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget and related policy matters, with attention to the impact of current or proposed policies on working families.*