

Big Banks Don't Want California's IOUs

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By RYAN KNUTSON

A group of the biggest U.S. banks said they would stop accepting California's IOUs on Friday, adding pressure on the state to close its \$26.3 billion annual budget gap.



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Dorothy Cottrill of the state controller's office inspects IOUs last week.

The development is the latest twist in California's struggle to deal with the effects of the recession. After state leaders failed to agree on budget solutions last week, California began issuing IOUs -- or "individual registered warrants" -- to hundreds of thousands of creditors. State Controller John Chiang said that without IOUs, California would run out of cash by July's end.

But now, if California continues to issue the IOUs, creditors will be forced to hold on to them until they mature on Oct. 2, or find other banks to honor them. When the IOUs mature, holders will be paid back directly by the state at an annual 3.75% interest rate. Some banks might also work with creditors to come up with an interim solution, such as extending them a line of credit, said Beth Mills, a California Bankers Association spokeswoman.

Meanwhile, on Monday morning, a budget meeting between Gov. Arnold Schwarzenegger and legislative leaders failed to produce a result. Amid the budget deadlock, Fitch Ratings on Monday dropped California's bond rating to BBB, down from A minus, the latest in a series of ratings downgrades for the state.

The group of banks included [Bank of America Corp.](#), [Citigroup Inc.](#), [Wells Fargo & Co.](#) and [J.P. Morgan Chase & Co.](#), among others. The banks had previously committed to accepting state IOUs as payment. California plans to issue more than \$3 billion of IOUs in July.

Ms. Mills of the CBA said some banks were concerned that there aren't processes in place to accept IOUs, and also worried about fraud issues. She noted that not all banks have set a July 10 deadline, and that dozens of credit unions in the state will keep accepting IOUs.

Wells Fargo's head of community banking, Lisa Stevens, said: "We're very disappointed, as are many Californians, that California has taken the unfortunate step of issuing IOUs in lieu of payments to some businesses and individuals."

State officials said they were disappointed by the banks' decision. Garin Casaleggio, a spokesman for Mr. Chiang, said: "We don't want anybody to suffer who can't redeem them when they need cash."

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