

PUBLIC BANKING: Who's Bank? Our Bank!



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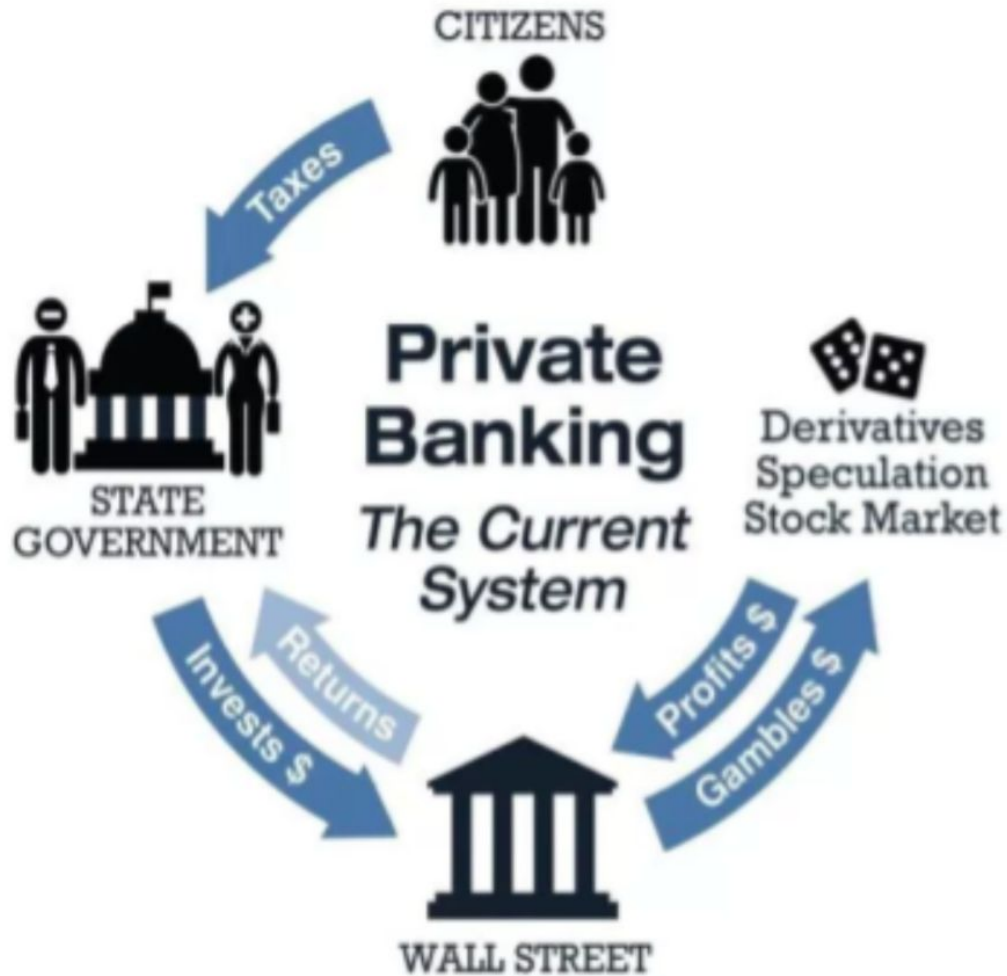
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Public Banking's Potential to Support Economic Equity

May 24, 2023
publicbankeastbay.org



In the current system, all bank charges for handling public money go to private banks and their shareholders.



With public banks, the expenses of banking circulate back into the local ecosystem, multiplying positive effects.



What is a Public Bank?

A financial institution owned by public entities, such as a city/county/region, instead of private shareholders.



- **Takes its priorities** from the people it serves
- **Leverages its equity** to make low-cost loans and to provide credit, liquidity and financial services to local financial institutions
- **Distributes federal funds** equitably and ethically
- **Reinvests profits** back into the community
- **Builds wealth** by supporting small marginalized businesses

A Public Bank is NOT:

- **A retail bank** housing accounts for individuals and small businesses.
- **Competition for local financial institutions.** Both the California Public Banking Act and our mission involve partnering with community banks, credit unions, and CDFIs to expand their reach.
- **An extractive drain on the community**

Public Banks ensure our dollars are working for the public good by:

- **Allowing governmental agencies to divest** public money from projects that don't align with our priorities or community values.
- **Investing in a circular, local economy** that actively meets and adjusts to community needs.
- **Increasing public revenue** without raising taxes.

IMPACT: Loan and Investment Policies



**Affordable Housing
Development**



**Residential
Electrification**



**Small Business
Lending**



**Municipal
Financing**

Community-driven to prioritize:

- Racial equity
- Community wealth-building
- Environmental sustainability
- Other local priorities

**Public Banking provides an alternative to Wall St.
for foundations and philanthropists looking to
invest endowment funds to achieve impact.**

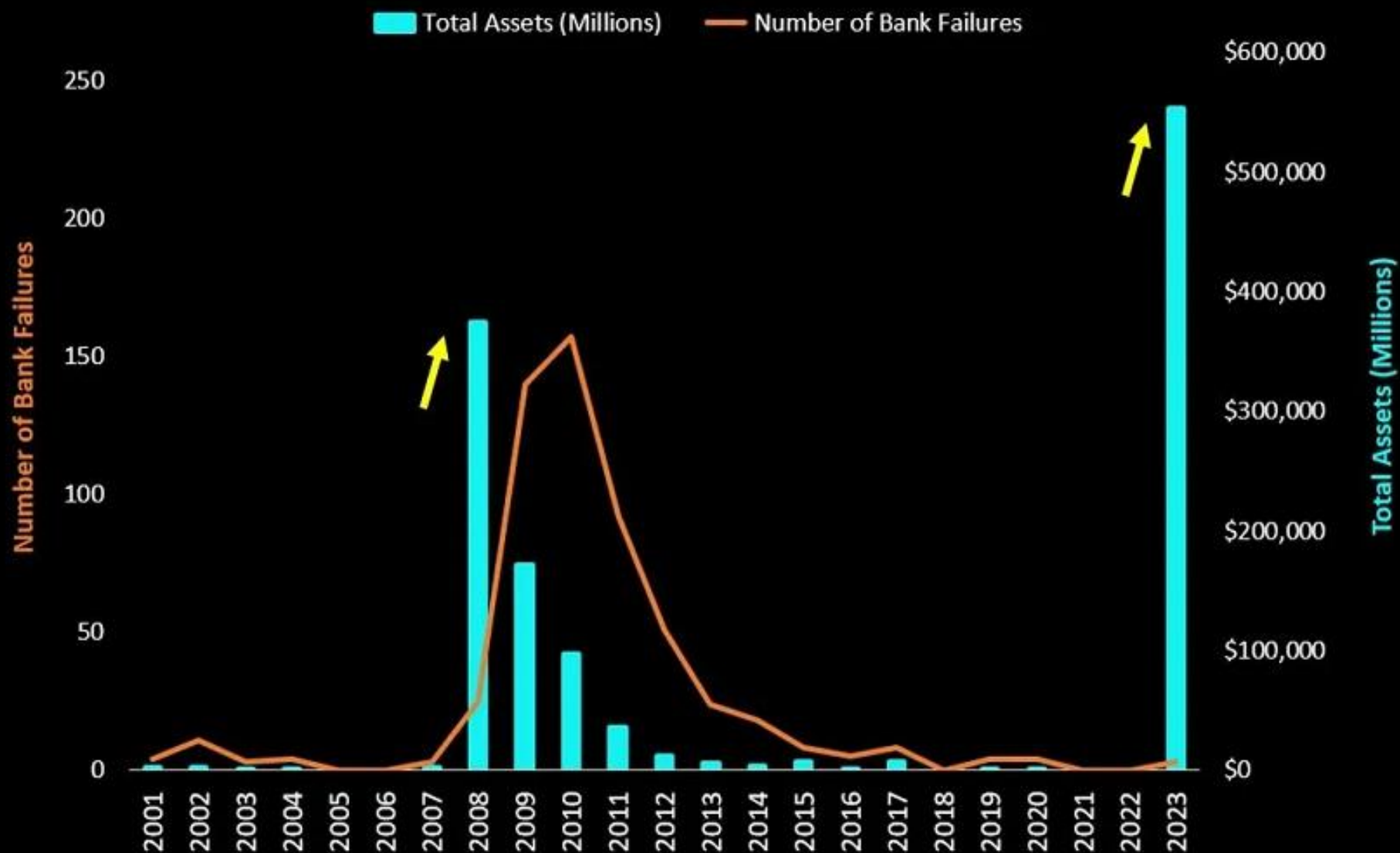
Bailouts for All...At Whose Expense?

The FDIC decision to bail out *all* depositors in the failed banks simply illustrates that the **banks are only private when they succeed, and a public trust when they fail.**

Public banks are public from their inception; our successes build community wealth and meet local needs.



Bank Failures by Year



Source: FDIC; Nathaniel Gilbert

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Public Banks Reduce Risk

- Drawing from a small pool of governmental and semi-governmental agencies reduces risk of “bank runs” and massive deposit withdrawals.
- A goal of moderate profits reinvested in the community reduces the incentive to gamble on derivatives, sub-prime mortgages, and other risky endeavors.

THE
Nation.

What if the People Owned the Banks?

The case for public banking.

AXIOS San Francisco

How a public bank could work in San Francisco

truthout

OP-ED | ECONOMY & LABOR

The SVB and Signature Bank Crashes Show Why We Need Public Banking

MOTHERBOARD
TECH BY VICE

Private Banks Are In Crisis. What If They Were Public Banks?

WHERE WE ARE

A transformative movement.
A critical moment.



Public Bank East Bay

Our Model

- **Owned** and capitalized by local cities and Alameda County.
- **Governed** by 15-member board with majority community members.
- **Partners** with local financial institutions to increase their capacity.
- **Regulated** by state and FDIC.
- **Will grow** into taking municipal deposits and providing banking services for the cities and county, charging low, fair fees.



Our Progress



Public Bank East Bay Viability Study



Prepared by Tom Sgouros
Commissioned by Friends of the Public Bank East Bay
March 2022



- **Worked to pass AB 857 in 2019**, creating a legal pathway for the establishment of public banks in CA.
- **Completed a comprehensive Viability Study** and received commitments from Richmond, Berkeley, and Oakland to participate in an Agency Working Group that will develop the final corporate structure and capitalization plan.
- **Recruited a slate of Board Candidates** for agency review after extensive community outreach.
- **Raised over \$500k** with support from foundations and the County.

What's Next

- **Complete Business Plan:**
 - Engaged Gary Findley of Findley & Associates to write our Business Plan.
 - Working with recruiters to hire CEO before submitting charter application.
 - PBEB's Business plan also serves as the charter application to state and FDIC.
- **Finalize Governance Structure:**
 - Currently 9 community members and 4 elected representatives are Bank Board candidates and are actively engaged in Business Plan development.
 - Board and CEO must be approved by government partners and regulators.



Cooperative Center
Federal Credit Union



WELLSTONE DEMOCRATIC
RENEWAL CLUB

Green Party of
Alameda County



Friends of
the Earth
United States



CLIMATE
WORKERS



HARBORSIDE



SUNWALKER
ENERGY



CALIFORNIA
community
BUILDERS



CODEPINK



Kehilla
Community Synagogue

Get in touch!

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Banking Landscape

crc

California
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Financial Ecosystem

- Big, medium and small banks have a Community Reinvestment Act obligation
 - Small business lending not many loans under \$250,000
 - Mortgage lending
 - Affordable housing lending
 - LIHTC
- Credit Unions have no CRA obligation to invest or lend and no reporting requirements
- Community Development Financial Institutions (CDFIs) share a common goal of expanding economic opportunity in low income communities by providing access to financial products and services.
 - 110 certified CDFIs headquartered in California as of February 2022, including
 - 14 CDFI banks 27 credit unions and 67 loan funds, and 2 venture capital funds

Big Banks Failing to Meet Community Needs

Banks with CRA-negotiated agreements reinvest roughly twice the amount of dollars back into communities (with bank size taken into consideration).

Data shows that smaller banks (those with California deposits under \$10 billion) have been more successful with CRA activity than the largest banks.

- Small banks had an average of 11.6% of California deposits for CRA activity
- The mega-banks (above \$50 billion statewide) averaged 3.8%.

Small Business Lending

- Average small business loan by large national banks was \$593,000
- The percentage of small businesses that received all the funding they applied for continued to decline from 36 percent in 2020 to 30 percent in 2021.
- The share of applicants receiving all of the funding they sought fell from 51% in 2019 to 36% in 2020 to 31% in 2021.
- Black-owned businesses accounted for 8.6 percent of all PPP loans.
 - Accounted for 3.3 percent of loans issued by small banks
 - compared with 26.5 percent of loans made by fintech lenders.
 - Although fintech lenders made just 17.4 percent of overall loans in the sample, they processed 53.6 percent of loans received by Black-owned businesses.

Community Benefit Agreements

- BMO Harris/Bank of the West - \$40B for CA
- U.S Bank/Union Bank - \$60B for CA
- First Citizens/CIT - \$8B for CA
- **Silicon Valley/Boston Private - \$9B for CA**
- Banc of CA/PM - \$1.4B for CA
- Columbia/Umpqua \$8B for West
- Mechanics/Rabo - \$9.5B for CA

CDFIs Attempt to Fill the Gap

TOTAL INVESTMENT



49,934 originations totaling \$2.3 billion

JOBS



52,327 permanent FTE jobs and 16,793 construction jobs

BUSINESS INVESTMENT



45,192 loans and investments totaling \$1.1 billion to California businesses, nonprofits, and community facilities

REAL ESTATE



10.4 million sq. ft. of commercial real estate constructed or rehabilitated

Democracy isn't dying in darkness, it's being murdered in broad daylight.

HOLD BANK ACCOUNTABLE

STOP
• EVICTION
• HARASSMENT
NEIGHBORHOOD DESTRUCTION

Doing Good While Doing Harm



Redlining not a thing of the past

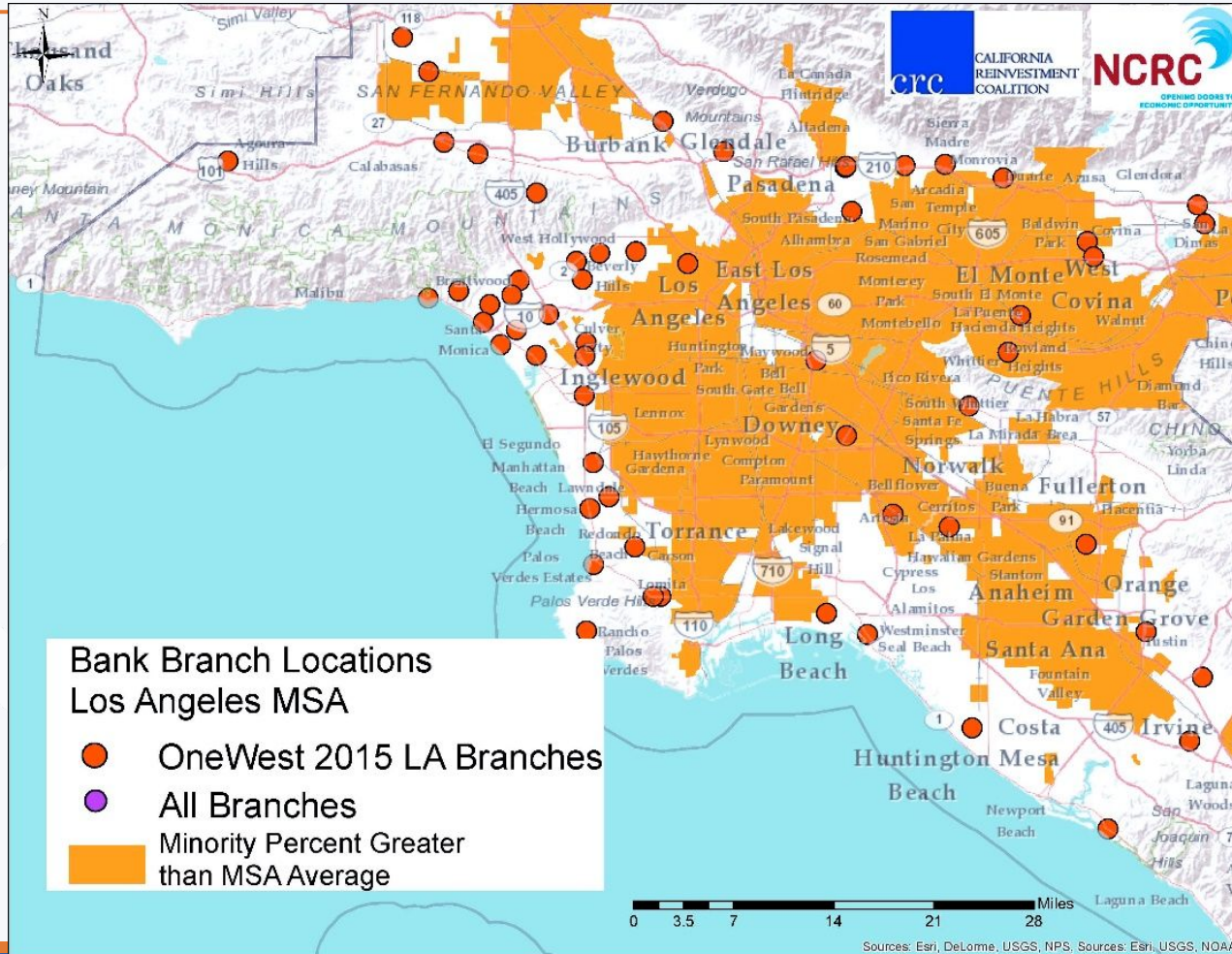
City National

- Between 2017 and 2020 avoided marketing and underwriting mortgages in majority Black and Latino neighborhoods in Los Angeles County.
- Other banks operating in those neighborhoods received six times the number of mortgage applications that City National did, according to federal officials.

Settlement

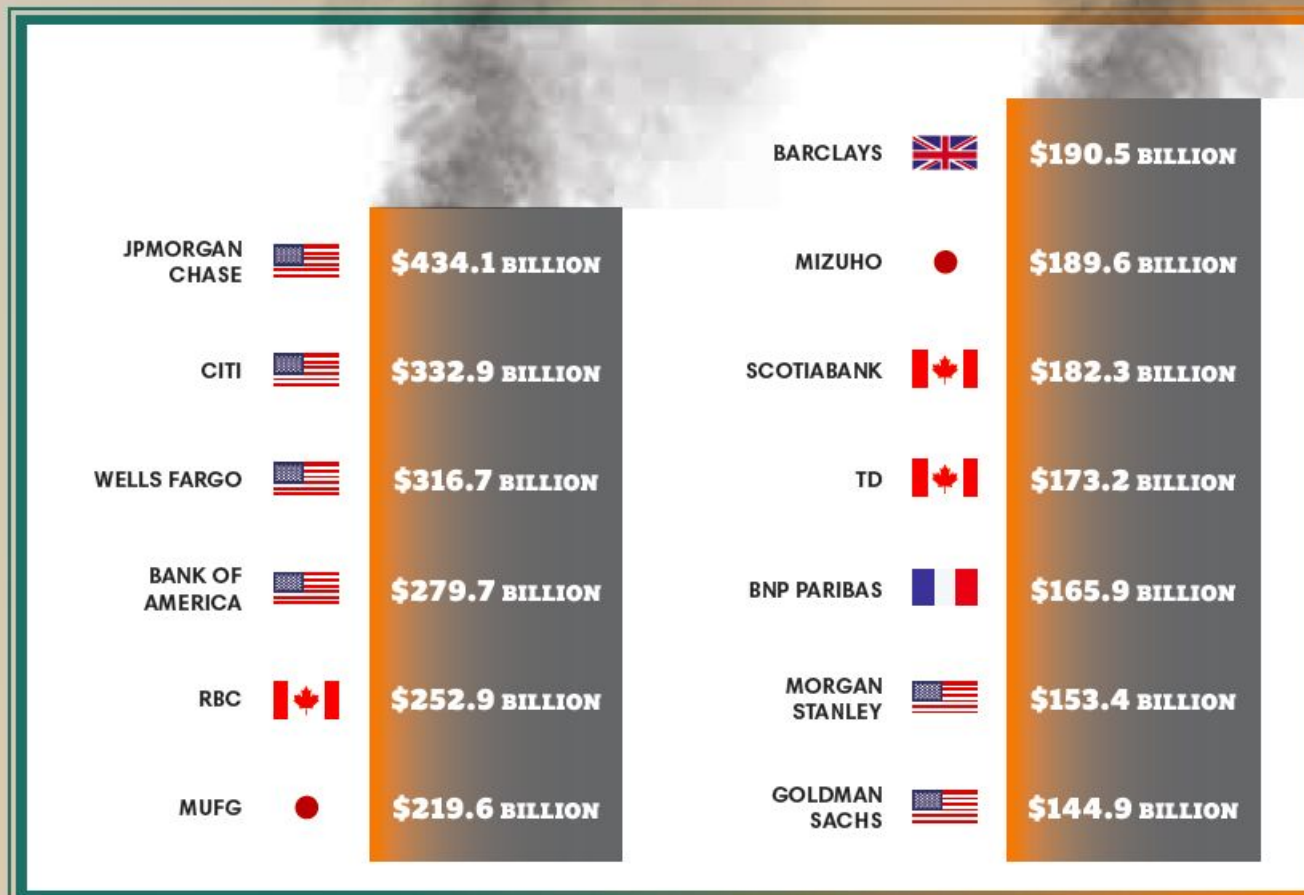
- Invest at least \$29.5 million in a loan subsidy fund for residents of majority-Black and Latine neighborhoods in Los Angeles County
- Open one new branch in a majority-Black and Hispanic neighborhood and evaluate future opportunities for expansion within Los Angeles County;
- Conduct a Community Credit Needs Assessment, a research-based market study, to help identify the needs for financial services for majority-Black and Hispanic census tracts within Los Angeles County.

Onewest Bank Redlining Complaint



Banking on Climate Chaos-RAN

THE LARGEST FOSSIL FUEL FINANCIERS SINCE THE PARIS AGREEMENT, 2016-2022



The Need for a CalAccount

- Black adults report paying an average of \$12 a month for checking accounts at banks or credit unions
- Latine are paying \$14 a month, on average.
- White checking account holders paying an average \$5 per month,
- 79% of whites paid no monthly fees.
- 56% of Blacks and 50% of Hispanics had no monthly fees.
- In CA credit unions make up 15 of the top 20 state chartered financial institutions when ranked by revenue from overdraft fees

2021 Bankrate Survey yougov poll

<https://www.cnbc.com/2021/01/13/black-and-hispanics-paying-twice-amount-banking-fees-than-whites-survey.html>

2022 DFPI report on overdraft fees



California
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California Public Banks: Structure & Pathways

Sylvia Chi, Esq.
California Public Banking Alliance
May 2023

Requirements under AB 857 (2019)

- Modeled on Bank of North Dakota:
 - Wholesale, not retail; partners with local financial institutions
 - Holds deposits of local governments
- Owned by a city, county, or combination thereof
- Each public bank will determine their own governance and business plans
- Regulated by California Department of Financial Protection and Innovation (DFPI) and FDIC



Green Banks: An interim step?

- Public or quasi-public institutions
- Financial assistance to deploy renewable energy, energy efficiency, etc., often in partnership with private lenders
- Don't hold deposits
- No direct regulation under federal or California law (*if public*)
- **Current opportunity:** \$6 billion from EPA Greenhouse Gas Reduction Fund for capitalizing “community lenders”

San Francisco's journey to a public bank

2019

Treasurer's Municipal Banking Feasibility Task Force

2021

Ordinance passed to create Reinvestment Working Group

RWG met for 1 year to create plans for an MFC that would transition into a public bank, completing work in **May 2023**

2023

SF BOS creates SF Green Bank (MFC)

RWG will present plans to BOS in July 2023, then it will be up to BOS to pass an ordinance to enact an ordinance to execute

2026

SF Green Bank transitions to Public Bank

After 3+ years of MFC operation, SF Green Bank applies to DFPI and FDIC for approval to become a public bank and hold SF's deposits.

Municipal Finance Corporation/Green Bank

- **Objective:** Create a fiscally safe and sound institution to invest SF's public funds in a way that advances the City's interests and values
- Will provide loans and other financial products to:
 - Increase overall capital supply
 - Expand access to prospective borrowers by promoting alternative underwriting criteria or other risk adjustments
- Will not hold deposits

MFC becomes depository public bank between Years 3 and 4

Millions of \$	MFC			Public Bank				
	Year 1 2024	Year 2 2025	Year 3 2026	Year 4 2027	Year 5 2028	Year 6 2029	Year 7 2030	Year 8 2031
Capital (EOY)	19.5*	29.5	39.5	59.5**	59.5	59.5	59.5	59.5
<i>Net New</i>	20.0	10.0	10.0	20.0	0.0	0.0	0.0	0.0
Funding (EOY)	6.0	30.0	50.0	110.0**	150.0	180.0	220.0	250.0
<i>Net New</i>	6.0	24.0	20.0	60.0	40.0	30.0	40.0	30.0

* Initial capitalization of \$20.0M minus \$0.5M in pre-opening costs.

** Includes capital and funding rolled over from MFC (\$39.5M in capital and \$50.0M in funding).

Participation and Syndication Lending

Figure 8. Loan Participation Process (MFC or Public Bank)

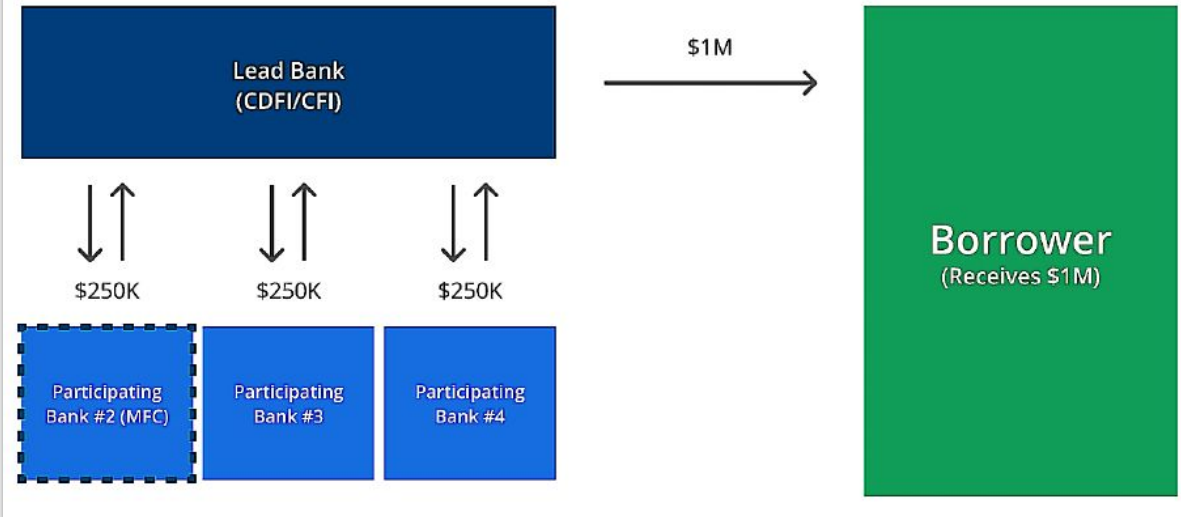


Figure 9. Loan Syndication Process (MFC or Public Bank)

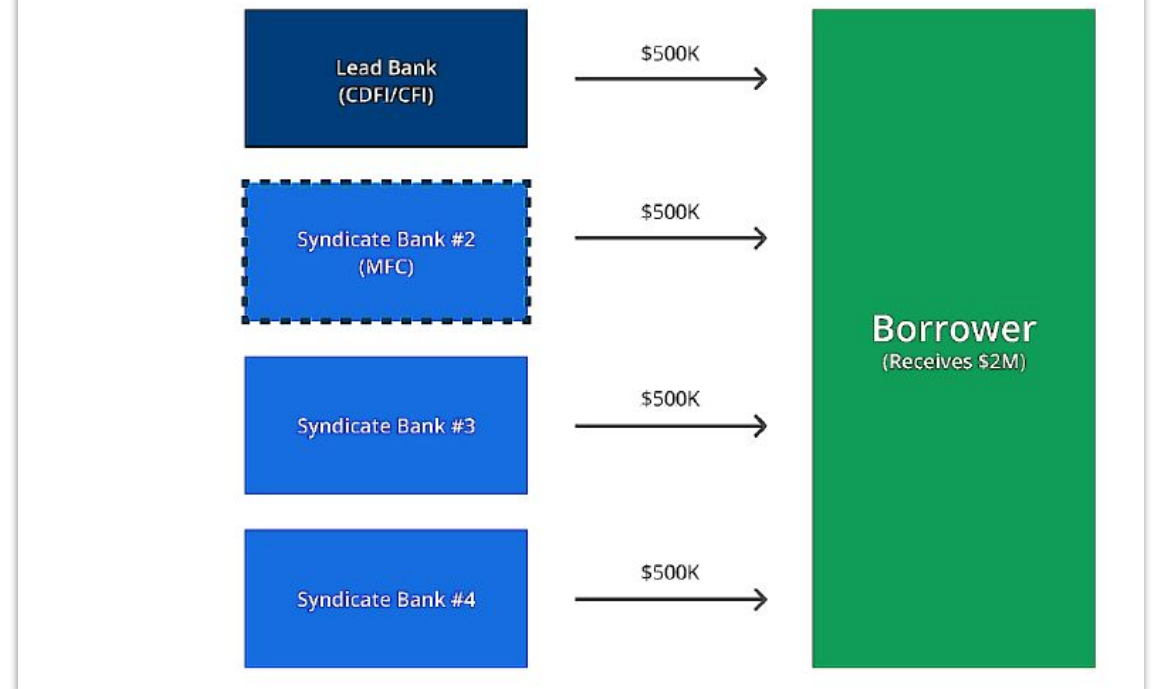
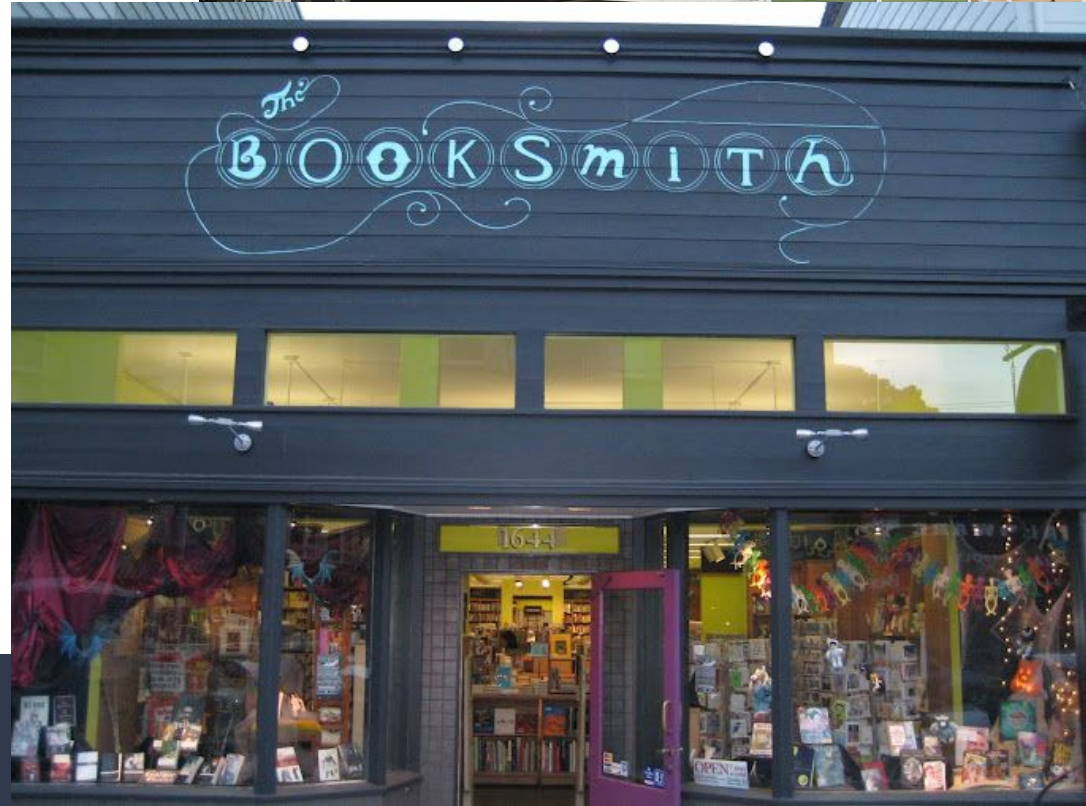


Table 4. Prioritized Lending Products

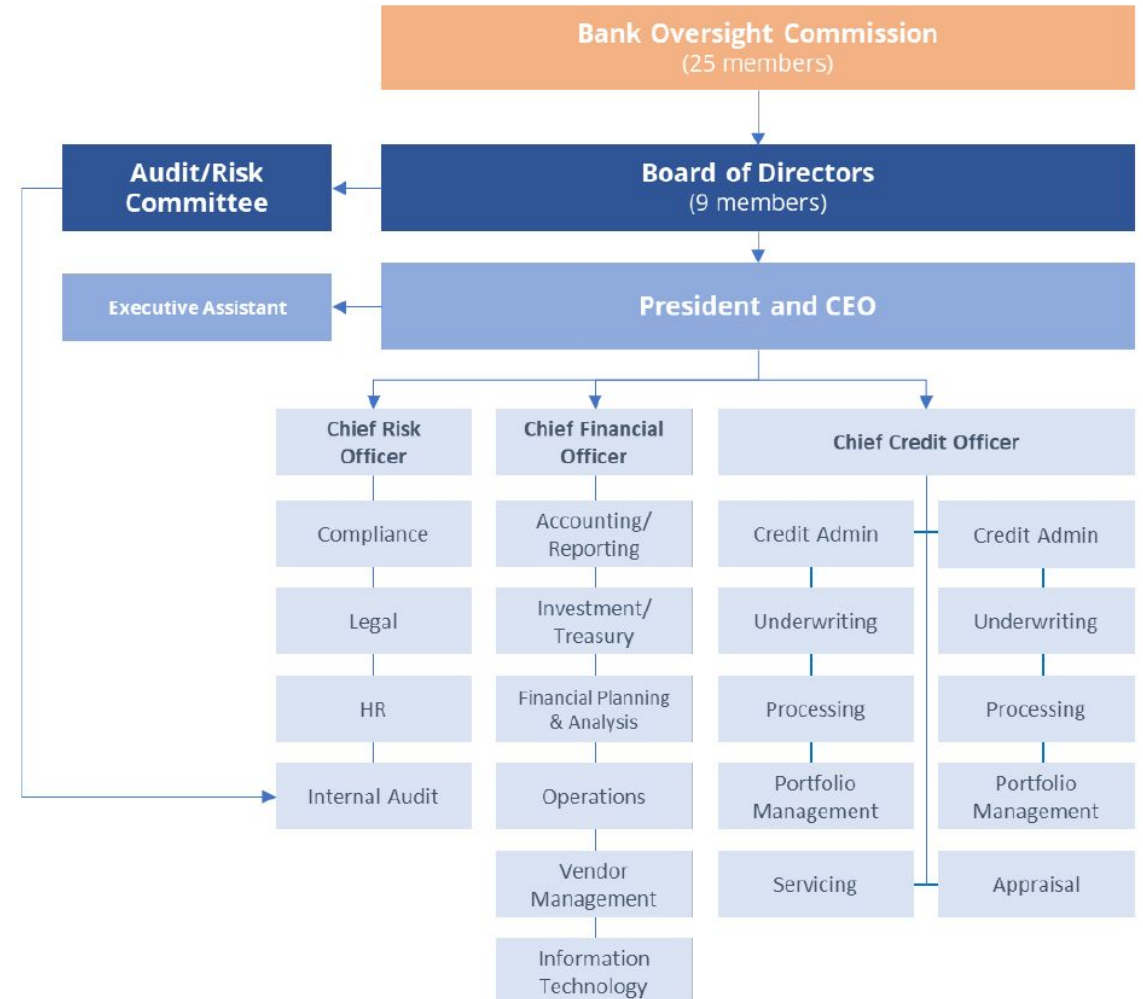
Lending Area	Need	Potential Demonstration Project Supported by Partner CFI/CDFI
Affordable Housing Development and Homeownership	Gap financing	Help developers address mismatches between costs and revenue and cover unexpected increases in labor and material costs through gap financing.
	Short-term financing	Provide pre-development loans to developers to cover a wide variety of expenses such as architectural and engineering fees and acquisition costs, among others.
Local Enterprises	Startup capital	Provide smaller-sized loans between \$50,000 and \$100,000 for entrepreneurs and business owners in early stages. Loans can be used for startup purposes, supplies and inventory, lease improvements, vehicles, and working capital, among other purposes.
	Growth capital between CDFI cap and commercial bank minimum	Provide sufficient capital to enable CDFIs and CFIs to issue loans between \$350,000 and \$1 million, which can support businesses that are growing but still too small to receive adequate support from existing banks.
Green Investments & Environmental Justice	Short-term loans for residential and commercial building upgrades	Provide a short-term loan to a property owner to perform energy efficiency upgrades and/or electrification for appliances.



Lending Priorities of SF MFC & Public Bank

San Francisco Public Bank (planned)

- Will rely on partnerships with CFIs and CDFIs established by precursor MFC
- Separate legal entity (nonprofit mutual benefit corporation) with San Francisco as sole member
- Governance structure provides for robust public accountability and independence from City and County of San Francisco





Grantmakers Advancing
Economic Equity