PUBLIC BANKING INSTITUTE
Banking in the Public Interest



# FAQ

Here are the most frequently asked questions we get at the Public Banking Institute:

## Q: WHAT PRECEDENT IS THERE FOR PUBLIC BANKING IN THE US?

A: Public banking was the Founding Fathers' ideal. Many of them and some of the most famous US Presidents of the 19th century struggled against private central reserve banks for over one hundred years. See the New Economy Academy for more information.

At the US state level, the Bank of North Dakota provides an excellent example of the power of public banking, as it has since 1919.

Since 2010, in an attempt to regain control over regional economies in the face of a Wall Street crisis in which the banks that caused the crisis got bailed out but cities and states suffered terribly but did not get bailed out, almost half of the US states have had legislation introduced to create public banks.

## Q: WHAT IS THE DIFFERENCE BETWEEN A PUBLIC BANK AND ANY OTHER BANK?

A: A public bank is owned by the city, county, or state that founded it. That means that the money it makes by making loans comes back to the taxpayers, rather than to private banks and investors. A public bank has many of the same privileges as the private banks, for example it can use the fractional reserve system to multiply the value of its deposits through loans to students, homeowners, municipalities, and enterprises.

## Q: WHO WOULD BENEFIT FROM A PUBLIC BANK?

A: **Taxpayers,** who will benefit from both the profits the bank makes and the services the bank offers.
**Students,** who can access low interest education loans from the bank. Since Vermont would control it, we could also offer flexible repayment terms for people who go into public service and education, so our young people are not saddled with unreasonable debt.
**Homeowners,** who could get reasonable mortgages and home loans from the bank.
**Entrepreneurs** will have access to credit lines, loans, and other forms of finance to help their
businesses succeed.
**Municipalities:** the bank can offer competitive interest on public deposits and lower cost financing
for public works.

## Q: WHAT ARE THE PROBLEMS PUBLIC BANKS ARE TRYING TO SOLVE?

A: In the case of nearly every state and town government, it is standard practice to send millions upon millions of dollars a year to banks and investors to pay the interest on bonds that have been issued for state infrastructure. If you add up the money the towns collectively send to banks and investors for the same purposes, it is a lot of money. In the case of California, its long awaited new Bay Bridge span was recently completed at a cost of $6.4 billion - over 400% over its initial projection. What most Californians don't realize is that the total cost of the bridge will eclipse $13 billion when interest payments are considered over their life. 50% savings is not an aberration - it is pretty much a standard calculation for what municipalities can save by issuing their own loans for critical infrastructure from their own bank.

Meanwhile it is also standard practice to cut programs that benefit low income citizens and students to close “budget gaps” that appear on a regular basis. There are also many unmet needs for roads, bridges, public transit, energy, housing, education, water, and telecommunications. If the interest payments on infrastructure, housing, economic development, and student loans were going to the public sector instead, we would have lower taxes and more funds available for needed improvements.

## Q: WON'T GREEDY POLITICIANS JUST USE A PUBLIC BANK TO FUND PET PROJECTS AND LINE THEIR POCKETS?

A: The Bank of North Dakota shows that a public bank can and must be run free of influence from the legislature and other high offices, in order to effectively do its job.

## Q: WILL A PUBLIC BANK COMPETE WITH LOCAL BANKS IN MY AREA?

A: A public bank does not compete with local banks. It does not accept deposits from individuals, organizations, and businesses – only from the state and municipal governments. For local and regional banks, a public bank can also serve as a support system, allowing them to make loans and take deposits that normally would be out of their reach because of their small size. As an example, North Dakota, home of the publicy owned Bank of North Dakota, boasts the most banks per capita of any state in the nation. This is just one of the benefits of public banking - support of a diverse and robust private banking sector that truly serves the public.

## Q: WHY ARE SOME BANKS OPPOSED TO PUBLIC BANKING?

A: Banks that don't like the idea of a public bank typically are the large national and international banks that currently accept the deposits of state and municipal governments and invest them in out of state projects like – for example – the XL Pipeline and the tar sands up in Canada. Public banks offer municipalities and community banks enormous benefits and tend to have the effect of creating competition for the big banks - and they do not like competition.

## Q: HOW COULD A PUBLICLY OWNED BANK HELP AN ECONOMICALLY STRUGGLING STATE?

A: Among other things, publicly owned banks offer counter-cyclical relief by (1) issuing badly needed credit at low, or no, cost to the state, thus providing a means of revitalizing infrastructure and other services that are now endangered (according to studies, interest paid to private banks represents 30 to 50% of the cost of most public projects); (2) supporting local and regional banks by participating with capital and expertise in loan programs that address local and regional needs; (3) providing support for residential and agricultural financing that acts as a bridge during times of economic contraction, as the Bank of North Dakota did during the Great Depression; and (4) saving the state hundreds of millions of dollars on fees associated with simply keeping general tax revenues and other substantial funds in the big banks.

## Q: CAN'T CITIES AND STATES JUST DEPOSIT THEIR FUNDS INTO A CREDIT UNION? WOULDN'T THAT AMOUNT TO THE SAME THING?

A: Credit unions make regions economically strong, because the benefits and profits from the credit unions go to their members, rather than out of state investors. However, a public bank's profits go to the public – all of the residents and taxpayers of a city or state, not just the members of a single credit union.

More importantly, credit unions can only lend out what people deposit into their credit union. Credit unions cannot create money-credit through fractional reserve banking the way real banks (including public banks) can do.

## Q: WON'T A PUBLIC BANK REQUIRE A VERY LARGE INVESTMENT BY A CITY/COUNTY/STATE?

A: No. Nearly all city, county, and state governments have the capital needed for a public bank on their balance sheets of existing lending agencies as unrestricted assets, or in a variety of other asset pools - including funds on deposit with big private banks. These funds are more than adequate to serve as the capital for a bank. It requires a decision by the legislature, but there should be no need to raise additional money from taxes to provide the capital for the bank.

## WHO WILL SET POLICY FOR PUBLIC BANKS? WHO DECIDES WHETHER TO APPROVE LOANS? HOW ARE DECISIONMAKERS INSULATED FROM BRIBES AND FINANCIAL OR POLITICAL PRESSURE?

A: The governing legislators or lawmakers—whether at the state or municipal level—would make general policy decisions about public banks (and would likely have an advisory commission to consult), but day-to-day decisions would be made by the banks themselves—governed by their charters and subject to transparency and administrative review. The Bank of North Dakota shows that a public bank can and must be run free of influence from the legislature and other high offices, in order to effectively do its job.

The Bank of North Dakota is the State of North Dakota doing business as the Bank of North Dakota. As *Banking on Colorado* points out, "A three-member State Industrial Commission oversees Bank of North Dakota, composed of the Governor, the Attorney General, and the Commissioner of Agriculture. The Bank has a seven-member Advisory Board appointed by the governor. The members must be knowledgeable in banking and finance. The Advisory Board reviews the Bank's operations and makes recommendations to the Industrial Commission relating to the Bank's management, services, policies and procedures."

There is every reason to believe public banks will be fiscally conservative, balancing their chartered mandate to lend in the public interest with moderation and careful considerations of risk--moreso than big private banks who gamble with municipal money. Standard & Poor has consistently rated BND in the "A" range, indicating the highest levels of confidence in BND's creditworthiness and practices. According to North Dakota Attorney General Wayne Stenehjem, "The [2013] S&P review of the bank confirmed that it is well-managed and supports the economic needs of North Dakota . . . The report recognized BND for its conservative management strategy."

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