

How States Can Create Their Own Credit: OWN A BANK

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Where's Our Bailout?

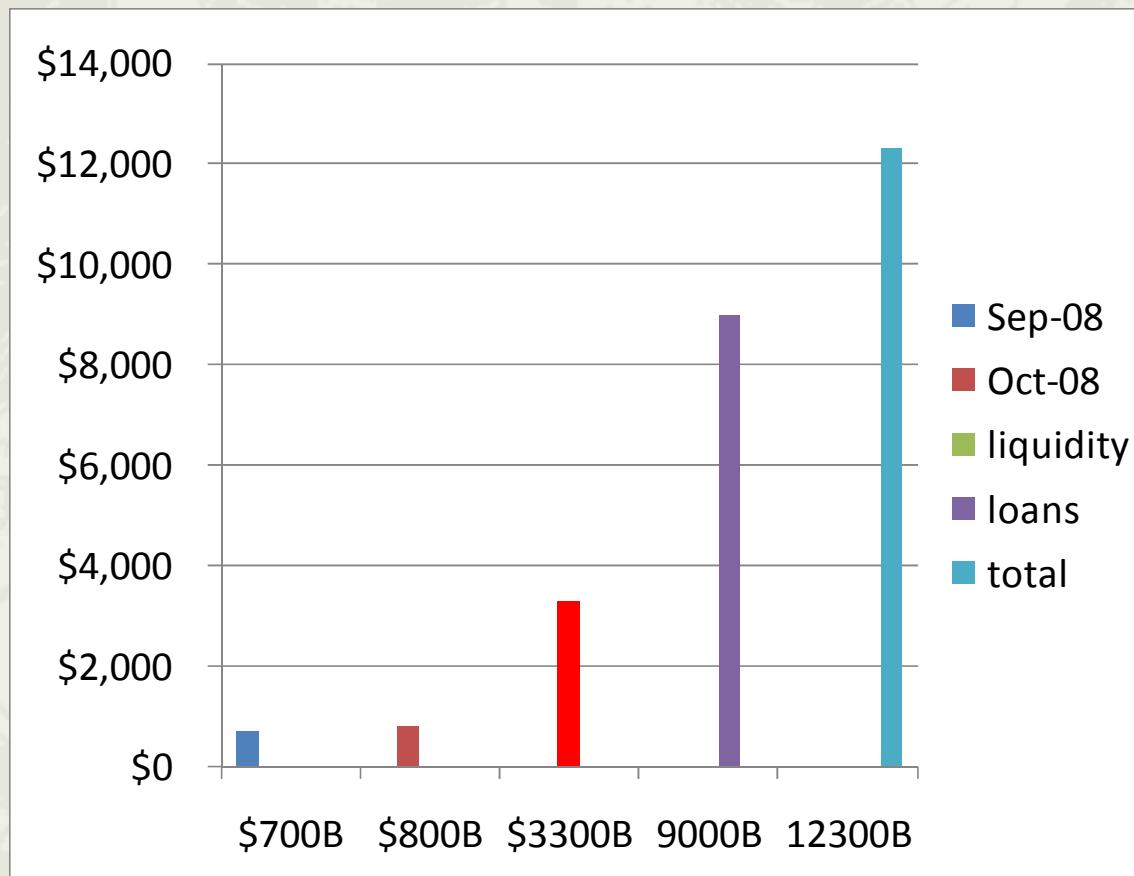
Wall Street flourishes while state economies are floundering.



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SOMEHOW, THE GOVERNMENT AND THE FED MANAGED TO TURN \$800 BILLION INTO \$12.3 TRILLION (\$3.3 TRILLION IN LIQUIDITY AND \$9 TRILLION IN SHORT-TERM LOANS).



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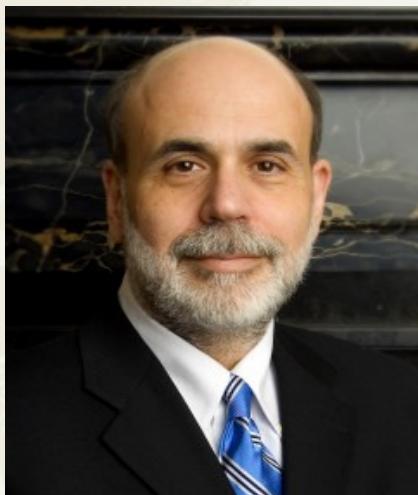
But the bailout money
isn't making it to Main Street.



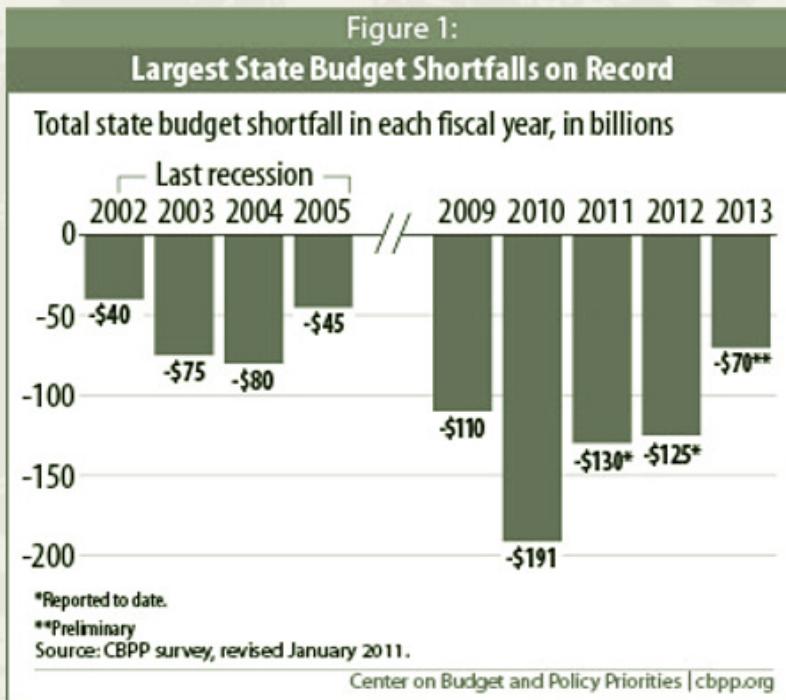
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In January 2009, President Obama suggested the Fed could bail out the devastated state and municipal governments. But the Fed says they are on their own.



Wall Street Journal, January 8, 2011:
"We have no expectation or intention to get involved in state and local finance," Mr. Bernanke said in testimony before the Senate Budget Committee. The states, he said later, "should not expect loans from the Fed."



Not that the Fed
can't afford it.
Compare the
states' total
budget shortfall .



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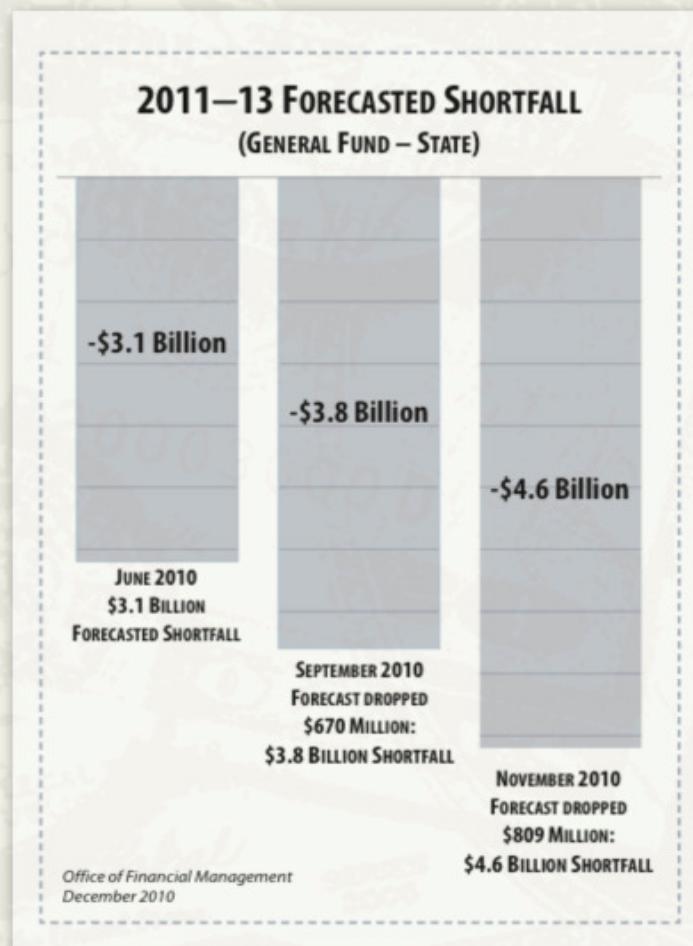
... to the bank bailout.



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Washington State's Budget Shortfall



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The TBTF banks get all the perks – perks the states could get as well, if they had their own banks.

Banks:

- Can borrow overnight at 0.2% (the Fed funds rate) and at 1.27% on 6-mo. CDs.
- Lehman Bros. and Bear Stearns were rated AAA a month before bankruptcy.
- The Fed dropped interest rates to near zero to save the banks.
- Banks have unlimited low interest credit lines with the Fed and federal government.

States:

- States rated AA pay an average of 4.45% on 20 year bonds.
- A year ago, CA was rated BBB (just above Greece).
- In 2010, CA paid \$5.5B in interest on a \$68.8B debt, an average of 8%.
- Near-zero interest caused massive losses to local governments on interest rate swaps – on which Wall Street made a killing.
- NO credit line with the Fed.



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Municipal governments are in even worse shape.

- Lacking low-cost unlimited credit lines, munis must maintain costly rainy day funds (reported in CAFRs), or issue bonds at “market” rates.
- Muni woes began in 2008, when their INSURERS lost their credit ratings from gambling in derivatives, driving up muni bond rates.
- Credit default swap spreads are greater for some local governments than for Greece and Spain.
- The market is now fleeing munis, fearing bankruptcies -- a self-fulfilling prophecy. If the market abandons the munis, where will they get much-needed credit?



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Let's see . . .
Where did the FED
get the money for
the bailout?



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The secret was revealed by Art Rolnick, former Chief Economist, Minneapolis Fed:

"We make money the old-fashioned way: we print it."



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But what about the states?

In 2009, Governor Schwarzenegger declared:



**Our wallet is empty. Our bank
is closed. Our credit is dried up.**

— Governor Arnold Schwarzenegger

“I understand that these cuts are very painful and they affect real lives. This is the harsh reality and the reality that we face. Sacramento is not Washington – we cannot print our own money. We can only spend what we have.”



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How banks
create money
and Washington
could too!



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Money & Banking 101

- What is money?
- Who creates our money?
- The goldsmiths and Fractional Reserve Lending
 - Gold and “gold notes”
- Our current Fractional Reserve System
 - Monetary base (“base money”) and “bank money”
- Money Supply
- Money is created when a bank issues a loan
- Check clearing process
- A Typical Bank’s Balance Sheet
- What rules regulate banking?
- How does the Central Bank create money? By purchasing Assets.
- Central Bank’s Balance Sheet
- Tools of the Central Bank and their Effect on the Money Supply
- Main Sources of Credit: Banks & Non-Banks



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What is money?

- Money is anything that people will accept in exchange for goods or services, in the belief that they may, in turn, exchange it, now or later, for other goods or services.
- Money is an abstract social invention to facilitate transactions beyond the barter process.
- Money should not be confused with wealth. Wealth is a combination of resources and labor. Money itself is only a claim to wealth, not wealth itself.
 - Wealth is created by Main Street, not Wall Street.
- “Both Aristotle and Plato noted the paramount principle - that the nature of money is a fiat of the law, an invention or creation of mankind.” Around 340 BC, Aristotle wrote: “Money exists not by nature but by law.” (www.monetary.org)



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Who creates our Money?

- Under the Constitution, it is the right and duty of Congress to create money. It is left entirely to Congress.
- Congress has farmed out this power – has let it out to the banking system, composed of the Federal Reserve and the commercial banks.
 - Only these two can manufacture money, i.e., currency and demand deposits (checkbook money) which are instantly available to make purchases and pay bills.
 - None of the other financial institutions of any nature has this power to manufacture money.
- The ability to manufacture money is the heart of the commercial banking system. This money is not unlimited – the banking system can only create so much money at any time.



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Goldsmiths & Fractional Reserve Lending

- Fractional reserve lending began with the goldsmiths, with whom people deposited their gold for safekeeping.
 - The goldsmith gave a depositor a “claim check, or a receipt, for his gold. In time, these receipts became transferable. Anyone having possession of a receipt was supposed to be able to go to the goldsmith and claim the gold.
 - What actually happened was that these receipts for gold began circulating as money.
- Few people who held the goldsmith’s receipts came in to claim their gold. As the goldsmiths realized this, they also realized that they could make loans of the gold which had been left in their safekeeping.
 - That is, they could write out receipts for gold to borrowers who, in fact, were not depositing new gold but borrowing the ownership of gold already in the goldsmith’s possession.
 - This gold—actually the certificates of ownership—being loaned by the goldsmith was not his to lend. He did not own it.
 - But so long as the calls for gold by the original depositors were so infrequent, the goldsmith felt he could lend without undue risk and earn interest on a certain portion of the deposited gold.
- In other words, the goldsmith wrote receipts for people who were not depositing gold. These receipts too circulated as money.
 - So, receipts for more gold than the goldsmith actually had in his vaults were circulating. The goldsmith had only a fraction of the amount of gold needed to meet the claims against him.
- This is the fractional reserve system.



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Our Current Fractional Reserve System

- Analogous to the goldsmiths who held depositors' gold and issued gold receipts, or "gold notes," today we have a two-layered system.
- At the upper layer is the Federal Reserve System which creates something called reserves, or "base money," that play the role in our banking system played by gold for the goldsmiths.
- At the lower layer are the commercial banks where the public's checking accounts are held (in "bank money," or "bank credit").



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Our Current Fractional Reserve System

- “**Base Money**”
 - The money system today is based on *fiat money*, not on *commodity money*.
 - Fiat money is issued by the Federal Reserve. It is produced at trivial cost relative to its face value.
 - Its value derives from the fact that it is the only kind of money acceptable in payment of taxes and for settling private debts in court.
 - Thus it can be viewed as a credit that is widely accepted as a medium of exchange.
- “**Bank Money**”
 - Commercial banks expand the scope of fiat money by issuing credit through the act of lending.
 - Note: Bank money cannot be used as a substitute for state money to pay taxes.
 - The value of bank credit money is based on the promise that it can be converted to fiat money at par.
 - Banks must hold sufficient reserves of fiat money to accommodate such conversion on demand.

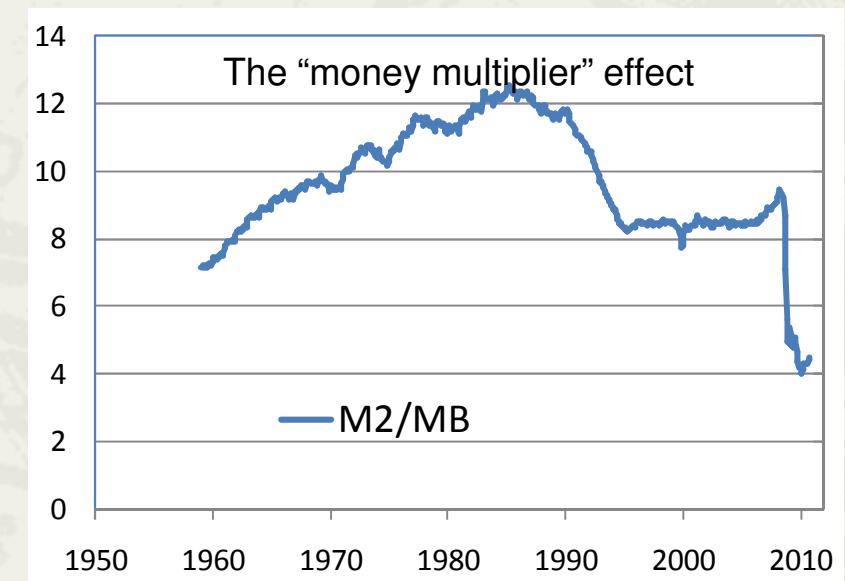
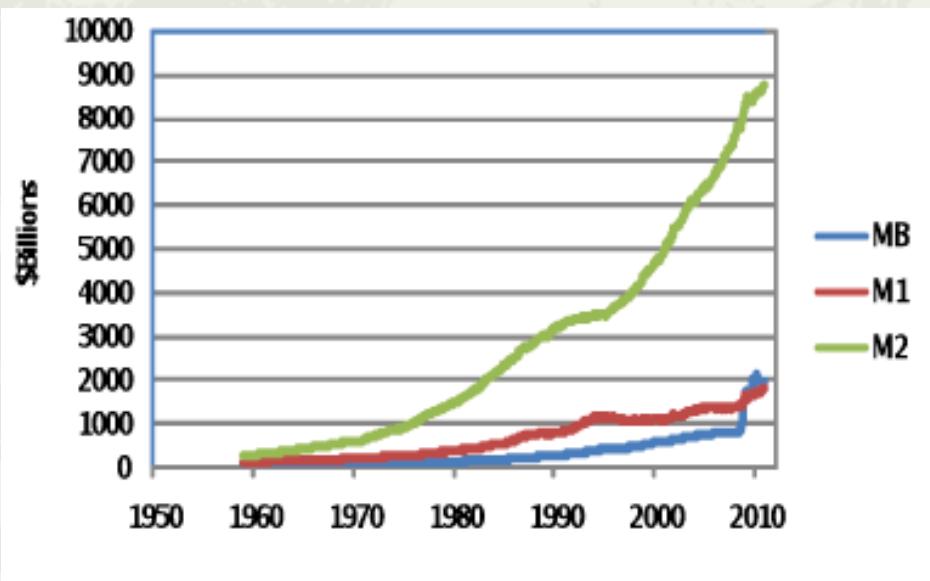


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Money Supply

- MB: Monetary Base
 - Composed of currency in circulation and reserves of financial institutions (held in their accounts at the Fed)
- M1: Currency in circulation plus checking accounts
- M2: M1 + savings deposits and time deposits (incl. money-market deposits)



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Money is created when a bank issues a loan

- Banks issue credit, i.e., bank money, in the form of loans to the public.
- When a bank makes a loan, it does not transfer liquidity from depositor to borrower. Instead the loan creates new liquidity. Credit extension by banks automatically results in the issuance of new money.
- When a bank issues a loan, or “bank credit,” to a customer, who pledges an IOU, say \$1000:
 - A deposit liability of \$1000 on the bank’s balance sheet is credited to the customer’s account, out of thin air by bookkeeping entry.
 - A “bank credit” asset (the loan) of \$1000 on the bank’s balance sheet is also created.
- Every dollar of credit is matched by an equal amount of debt. A bank loan creates a credit for the borrower in the form of a *negotiable IOU* (the deposit) and a matching debt (the obligation to repay the loan). For the bank, it creates an often illiquid asset (the loan contract) and an equal liability (the negotiable IOU)
- NOTE: In the aggregate, bank money is not a net asset to the public since the assets and liabilities created by bank loans must always balance out.
- When the loan is paid off, the money is extinguished – i.e., both the associated asset and liability disappear.

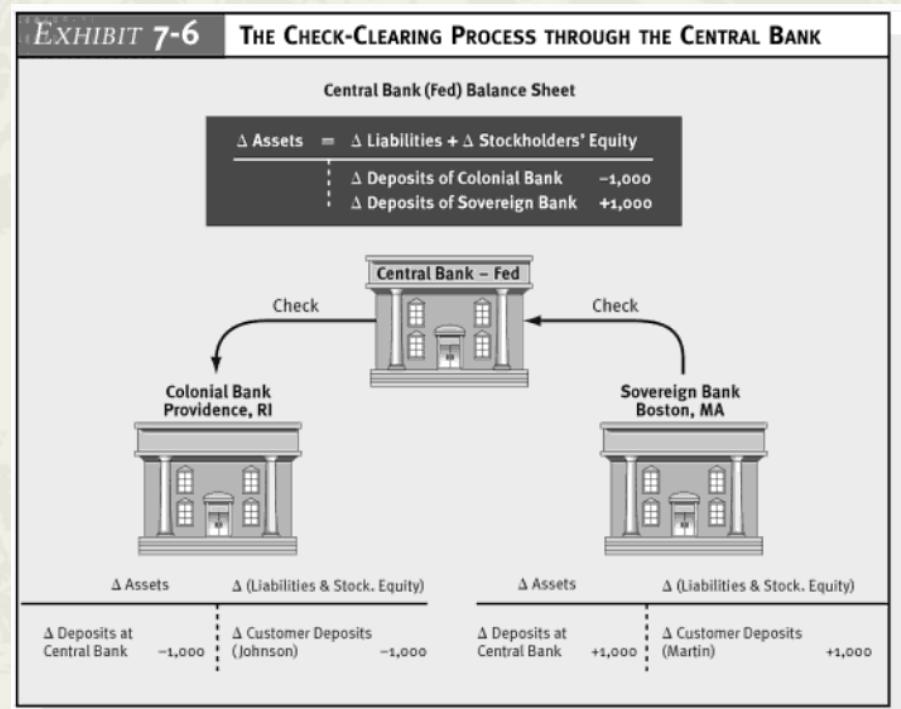


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Check Clearing Process

- If the borrower keeps the \$1000 in his account, the bank's reserve requirement increased by \$100.
- If the borrower spends the \$1000, say by writing a check, resulting in the \$1000 being deposited in a second bank, the following occurs:
 - The deposit liability of \$1000 is transferred to the second bank.
 - An amount of \$1000 in reserves held at the bank's Fed account is transferred to the second bank's Fed account.
 - Note: No change in the money supply when the funds get transferred.



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A Typical Bank's Balance Sheet

| EXHIBIT 7-5 TYPICAL BANK'S BALANCE SHEET | |
|--|---|
| ASSETS | = LIABILITIES + STOCKHOLDERS' EQUITY |
| Reserves <ul style="list-style-type: none">• Cash in the vault• Deposits at the central bank | Deposits <ul style="list-style-type: none">• Checking deposits• Savings deposits• Time deposits, etc |
| Loans <ul style="list-style-type: none">• Principal & interest due | Borrowing from the central bank <ul style="list-style-type: none">• Interest charged is called discount rate |
| Securities <ul style="list-style-type: none">• Bonds, T-bills, etc. | Borrowing from other banks <ul style="list-style-type: none">• Called the "interbank market"• In U.S. called "federal funds market" |
| Deposits at other banks <ul style="list-style-type: none">• Called the "interbank market"• In U.S. called "federal funds market" | Stockholders' equity <ul style="list-style-type: none">• Also called "Shareholders' equity"• Also called "Owners' equity"• Also called "Capital account" |
| Other assets <ul style="list-style-type: none">• Buildings, computers, etc | |



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What rules regulate banking?

- Capital requirement apply to assets (i.e., bank credit, or loans)
- Reserve requirement applies to liabilities (i.e., deposits)
- Capital requirements
 - A bank's capital, also known as equity, is the margin by which creditors are covered if the bank's assets were liquidated.
 - The minimum capital is specified as a percentage of the risk-weighted assets of the bank
 - In 1989, the US adopted the capital requirements established by the Bank for International Settlements (BIS) in Basel, Switzerland.
 - When a bank creates a deposit to fund a loan, its liabilities and assets increase equally, with no increase in equity. That causes its capital ratio to drop.
 - Thus, the capital requirement limits the total amount of credit that a bank may issue.
- Reserve Requirements
 - In the US, the required reserve ratio is set at 10% for demand deposits.
 - in the longer term they can influence the level of bank lending, deposit rates, and the quantity of credit and deposits
 - Even with no reserve requirement, banks must hold enough reserves for their depositor's checks to clear. A bank that is short of reserves can, if necessary, borrow the funds it needs at the Fed's discount window or borrow the excess reserves of other banks.
- Note: It should be easy for a state to satisfy capital requirements for a state-owned bank.

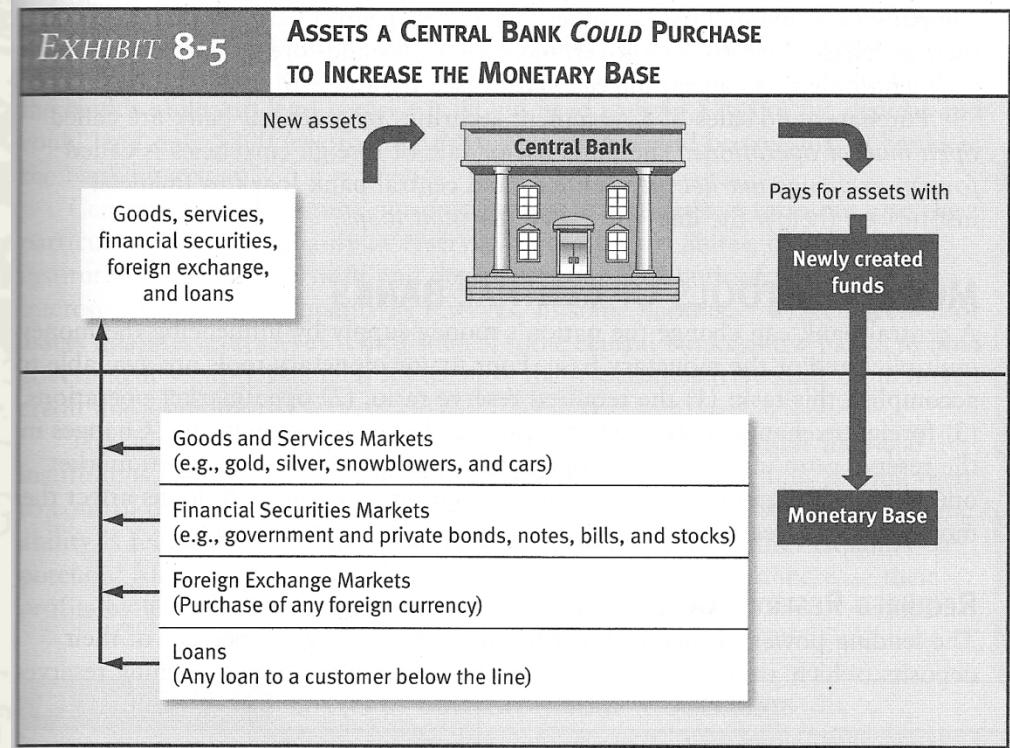


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How does the Central Bank create money? By purchasing Assets.

- Any time a central bank purchases something of value or makes a loan, it acquires an asset, and this asset is recorded in the central bank's balance sheet.
 - A nation's monetary base changes by the same amount regardless of what its central bank purchases or sells and regardless of whom the central bank deals with.
- The central bank pays for their newly acquired assets simply by creating liabilities on themselves, and creating these liabilities requires nothing more than a computer keystroke.
- These newly created central bank liabilities are in the form of bank deposits at the central bank, which become part of the nation's monetary base.
- An easy way to determine whether a nation's monetary base has increased is to see whether the central bank's balance sheet has increased.
- Generally, central banks restrict their purchases and sales to government securities and foreign currencies, and they lend only to financial intermediaries (i.e., banks).
- Purchases and sales of government securities by a central bank are called *open market operations*.
- The purchase or sale of foreign currencies is called *foreign exchange market intervention*, and central bank loans to financial institutions are called *discount loans*.

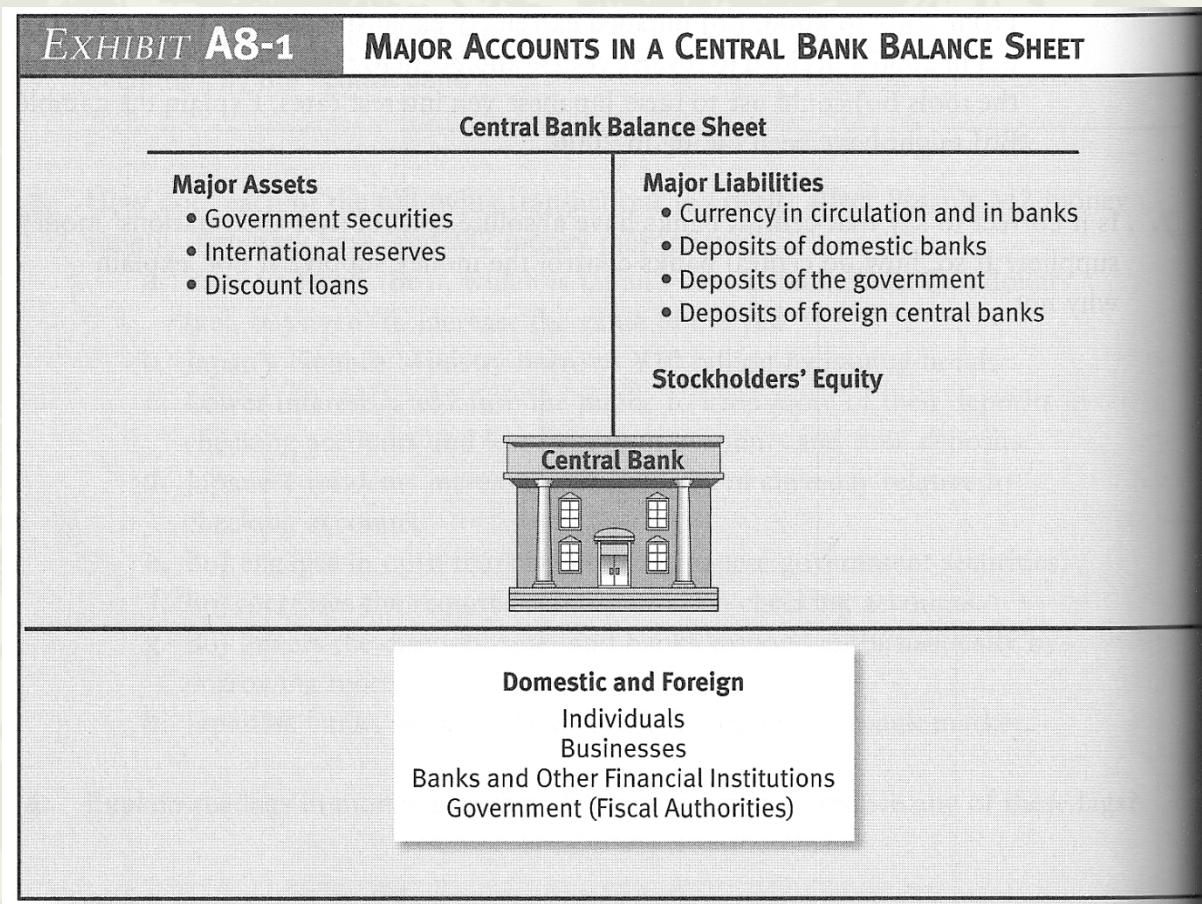


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Central Bank's Balance Sheet

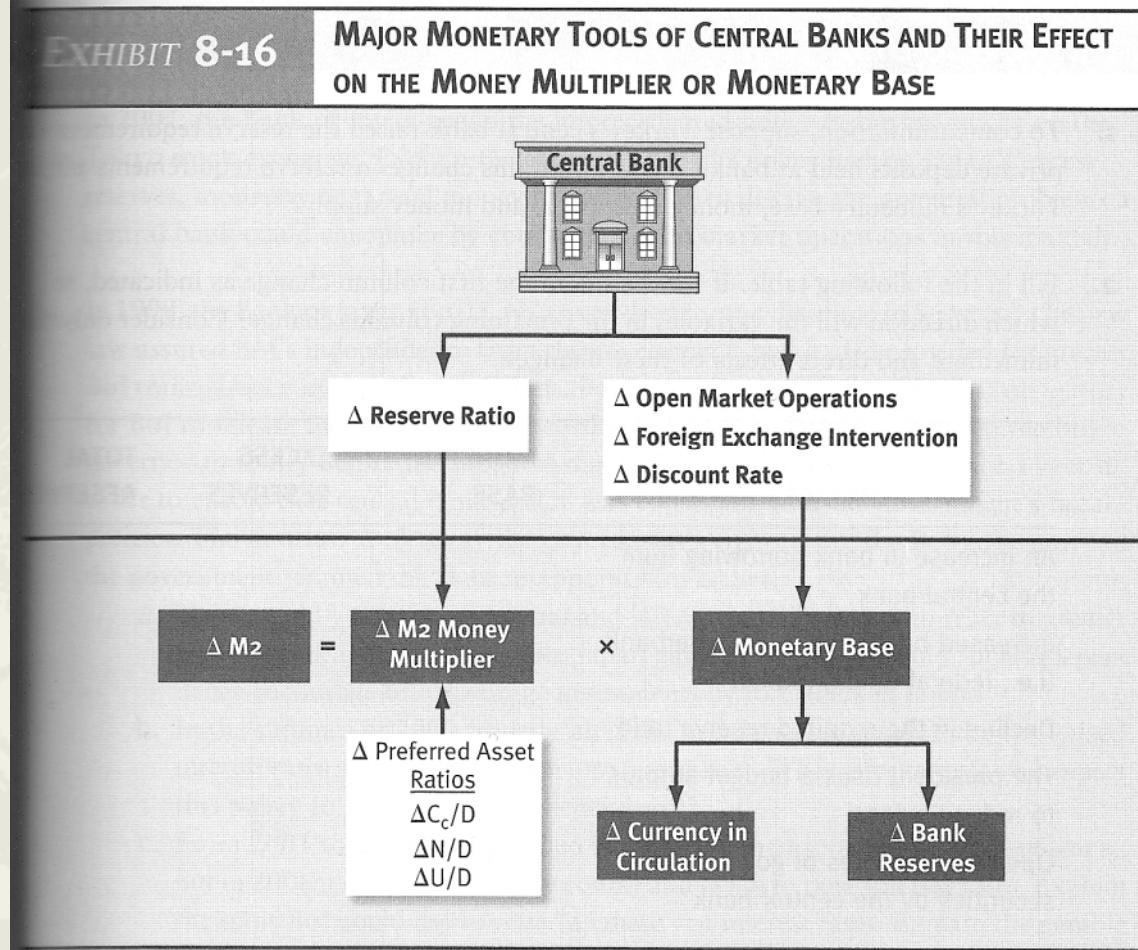
EXHIBIT A8-1

MAJOR ACCOUNTS IN A CENTRAL BANK BALANCE SHEET



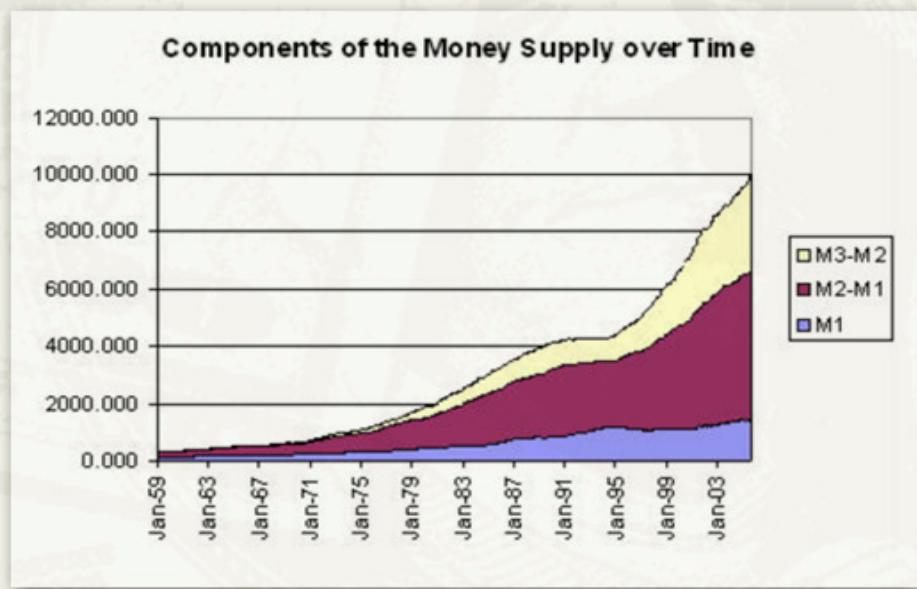
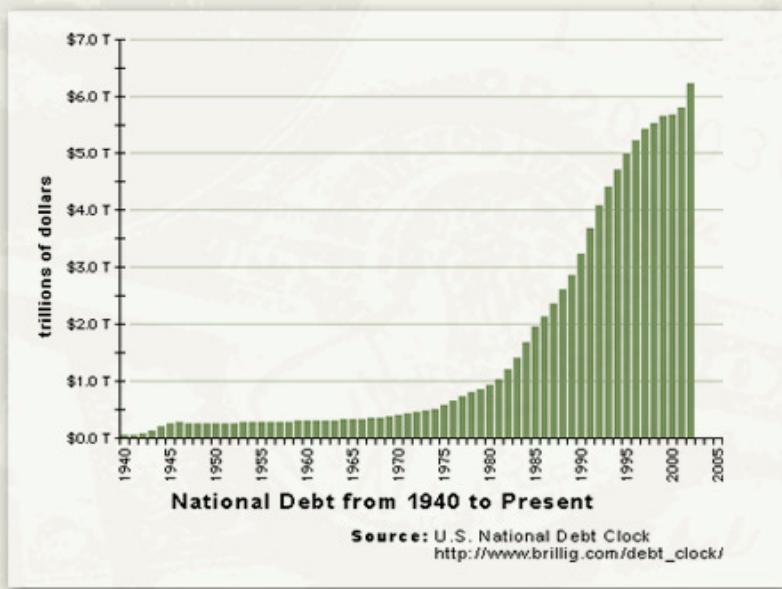
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Tools of the Central Bank and their Effect on the Money Supply



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Private debts zero out when repaid, but the federal debt is never paid off. That means the federal debt basically IS our money supply. When private debt shrinks, government debt MUST increase to maintain a stable money supply. No debt means no money.



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Main Sources of Credit: Banks & Non-Banks

- Banks are not ordinary intermediaries. Banks increase the money supply when they issue loans.
- Non-bank financial institutions (NBFIs) are ordinary intermediaries and cannot increase the money supply.
 - NBFIs borrow \$1M from party A at X%, lend to party C at Y%. In effect, \$1M in A's bank account is transferred to C's bank account.
 - No new money is created, but the total credit market debt increases by \$2M.
- The total of bank deposit liabilities is equal to the net amount of bank credit issued.
- At one time, banks were the main source of credit.
- Nowadays, NBFIs such as mutual funds, pension funds, asset-backed security issuers, insurance companies, and the like, together issue far more credit than do banks. Indeed, deposits created by banks now comprise less than 20% of the total credit market debt.
- The Fed has little control over the total amount of credit market debt. But the real danger to the financial system is not how much credit is created. It is the cascading of debt relations in which a single default can result in a system-wide reaction.

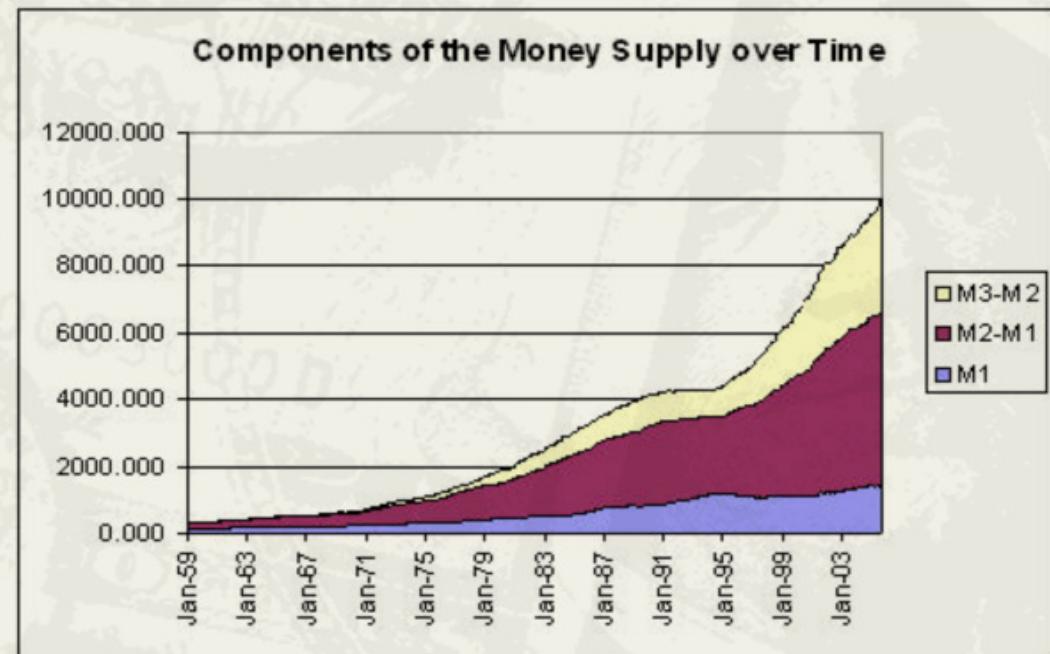


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...Back to the solution

- States aren't allowed to print money
- But they are allowed own banks
- and they are allowed to create money on their own books
- in fact, most of the money supply was created as “bank credit”



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Bank debt expands the money supply was explained by the Dallas Federal Reserve:

“Banks actually create money when they lend it. Here's how it works: Most of a bank's loans are made to its own customers and are deposited in their checking accounts. Because the loan becomes a new deposit, just like a paycheck does, the bank once again holds a small percentage of that new amount in reserve and again lends the remainder to someone else, repeating the money-creation process many times.”

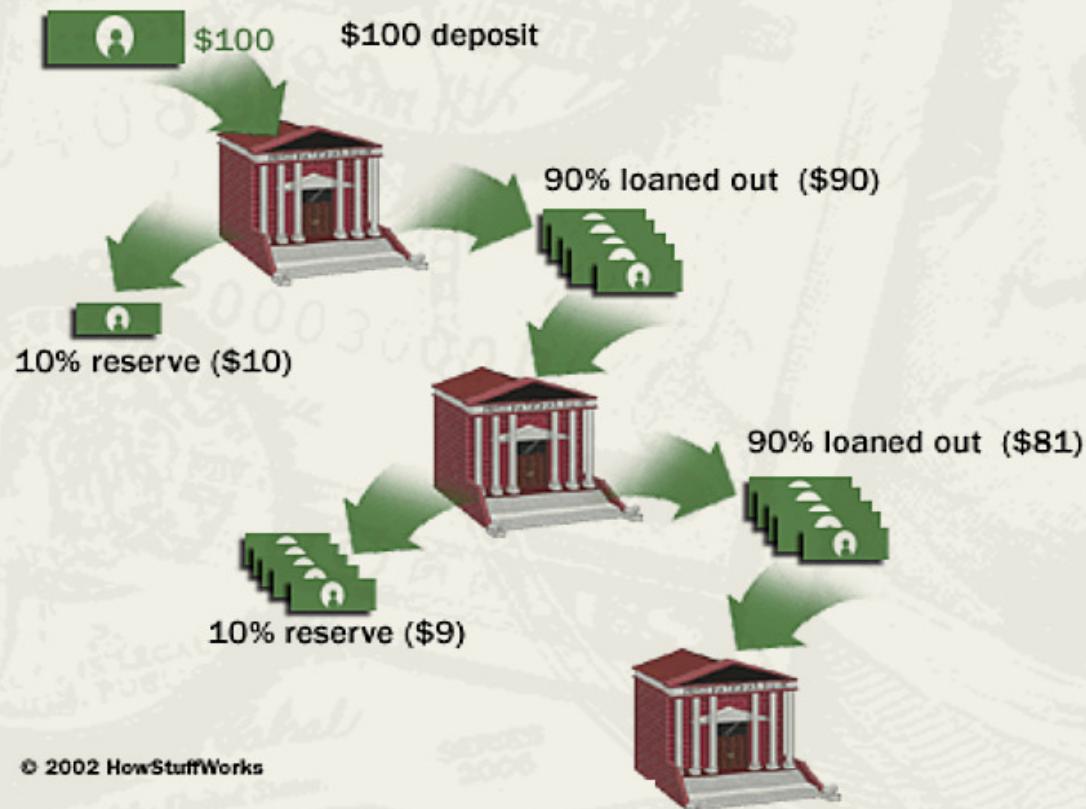
www.dallasfed.org/educate/everyday/ev9.html



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Deposits become loans . . . become checks
. . . become deposits in other banks.



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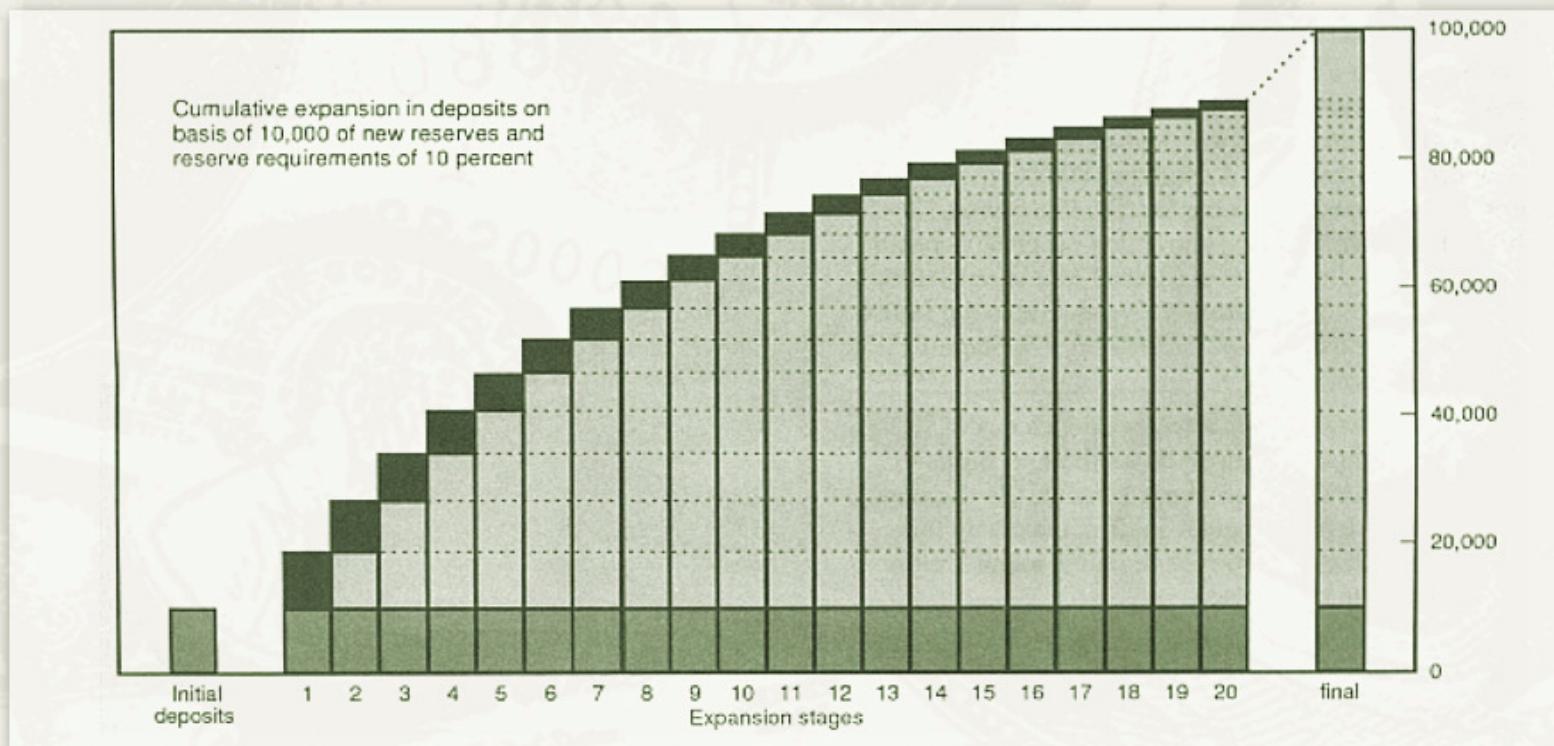


Fractional Reserve Lending Example

Assuming a 20% Reserve Requirement

| Individual Bank | Amount Deposited | Lent Out | Reserves |
|-----------------|----------------------------------|-------------------------------|---|
| A | 100 | 80 | 20 |
| B | 80 | 64 | 16 |
| C | 64 | 51.20 | 12.80 |
| D | 51.20 | 40.96 | 10.24 |
| E | 40.96 | 32.77 | 8.19 |
| F | 32.77 | 26.21 | 6.55 |
| G | 26.21 | 20.97 | 5.24 |
| H | 20.97 | 16.78 | 4.19 |
| I | 16.78 | 13.42 | 3.36 |
| J | 13.42 | 10.74 | 2.68 |
| K | 10.74 | | |
| | | | Total Reserves |
| | | | 89.26 |
| | Total Amount of Deposits: | Total Amount Lent Out: | Total Reserves + Last Amount Deposited |
| | 457.05 | 357.05 | 100 |

Modern Money Mechanics, p. 49:
“With a uniform 10 percent reserve requirement, a \$1 increase in reserves would support \$10 of additional transaction accounts.”



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That's the conventional model, but banks actually create the loans FIRST. They find the deposits to meet the reserve requirement later.

Banks can originate all the loans they can find creditworthy borrowers for, but they need incoming deposits ("LIQUIDITY") to clear the checks.

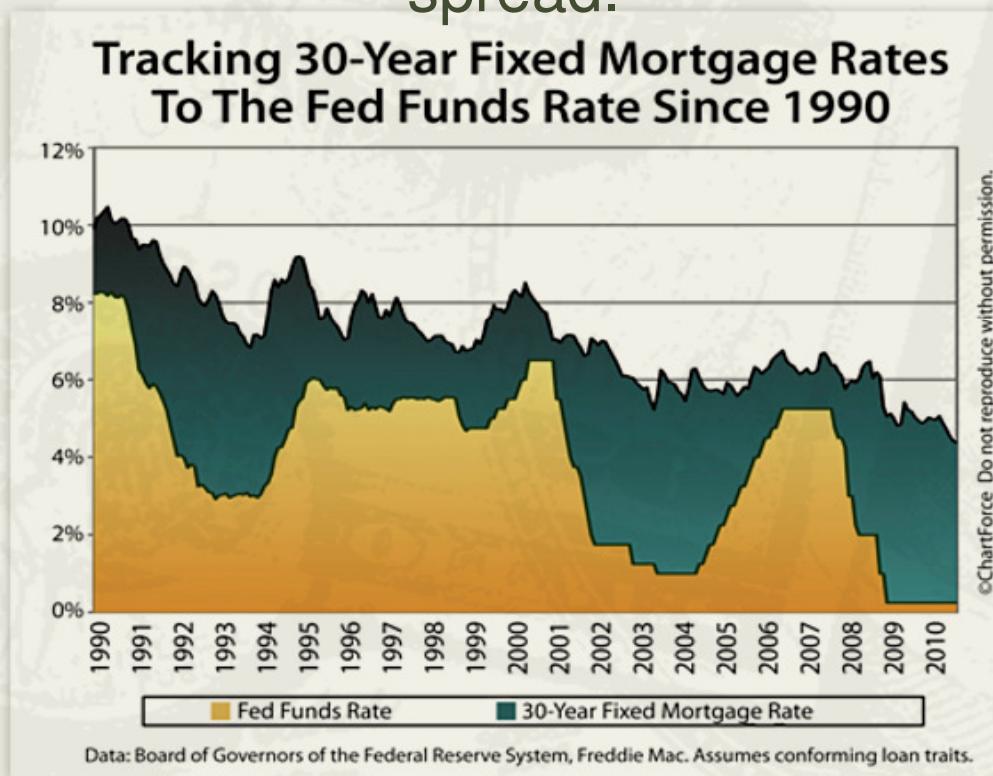
If they don't have the deposits, however, they can borrow them.

Today they can borrow very cheaply – at the Fed funds rate of **0.2%** for overnight loans.



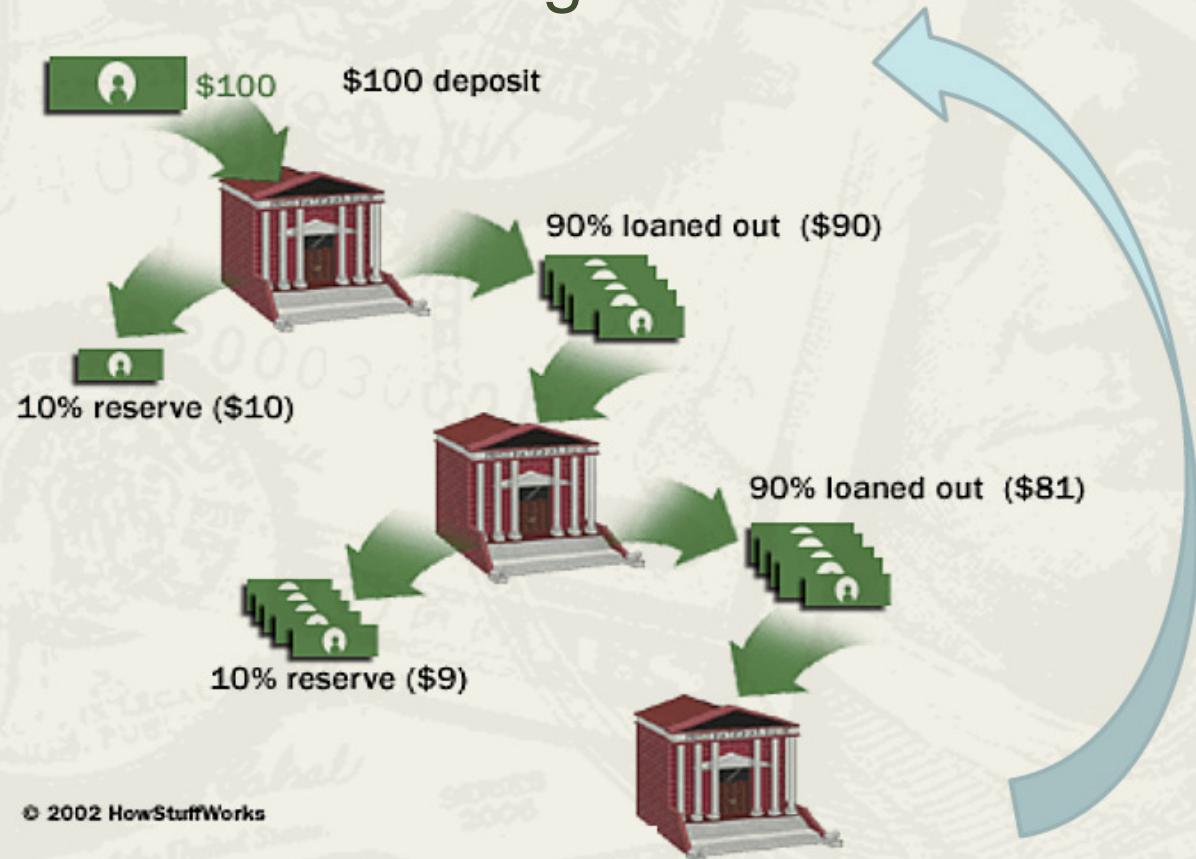
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The Fed Funds Rate was dropped to bail out the banks, but this windfall isn't passed on to us. States are borrowing at 4-5% and consumers at higher yet. The banks keep the spread.



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Meanwhile, local credit is shrinking because of “deleveraging.” The money multiplier effect is working in reverse.



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Why? There are other limits on credit creation besides the cost of funds --

- **The capital requirement:** \$8 of capital is required per \$100 of loans. The loss of \$8 in capital removes \$100 in credit potential.
- **Creditworthy borrowers:** Now that the subprime boondoggle has been exposed, banks can no longer dump “toxic” mortgages on investors. They are therefore becoming much more selective about borrowers and terms.



Local banks would like to invest in local projects — low-cost housing, renewable energy, etc. — but they can't, because they lack the capital and deposit base for large loans.



- And Wall Street banks are not interested. They can make more money leveraging OUR capital and deposits at the new low interest rates in speculative investments abroad.
- They invest in derivatives and commodities, driving up prices; or in China and other competitors, taking away OUR jobs.
- And they're doing it with OUR MONEY.



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State and local governments that invest their capital on Wall Street and deposit their revenues there are giving their enormous credit power away.



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How Washington could tap into Wall Street's perks: OWN A BANK!

- If the state had its own bank, it could leverage its own capital and deposits into credit for local government, local banks and businesses.
- The state bank could have access to Fed funds at 0.2%.
- The state bank could partner with local banks to help with capital requirements.
- The state bank could buy muni bonds, saving the cities from insolvency while generating a nice return for the state.



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A GROWING GRASSROOTS MOVEMENT



- A number of state legislatures have introduced bills for state-owned banks, including OR, WA, HI, IL, MA, VA, AZ, VT and LA.
- In the last election, a number of candidates also proposed this solution, from all across the political spectrum — Democrats, Republicans, Greens, and Independents.
- Careful analyses of the Washington and Oregon bills done by the Center for State Innovation showed substantial employment and revenue gains for both. See <http://StateInnovation.org>.



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These states are all following the lead of North Dakota, the only state to have its own bank – and the only state to have a major budget surplus.

North Dakota has had its own bank since 1919, when farmers were losing their farms to the Wall Street bankers. They organized, won an election, and passed legislation.



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ONLY NORTH DAKOTA ESCAPED THE CREDIT CRISIS.

- In 2009, while other states floundered, North Dakota had its largest budget surplus ever.
- The Bank of North Dakota (BND) has an average return on investment of 25-26%.
- ND has the lowest unemployment rate in the country, the lowest default rate, and the most local banks per capita.

75 cents

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One billion big ones

State budget outlook predicts huge surplus, \$70 oil

By DALE WETZEL
Associated Press Writer

A new forecast of North Dakota's tax collections predicts a \$1 billion budget surplus in July, continuing a robust financial trend that has defied a national recession and budget deficits in most states.

Oil prices, a key contributor to the state's wealth, are expected to average \$70 a barrel for the next two years, the forecast finds.

Revenues are expected to rise almost 10 percent during the same period. An even higher spike is expected in sales tax collections, which provide the biggest share of

the budget for North Dakota government.

"I think it's good news, but it's not unexpected," Lt. Gov. Jack Dalrymple said Tuesday. "It shows the economy in North Dakota is still in good shape."

North Dakota's current two-year budget is \$8.84 billion, a figure that includes

federal aid to the state.

The forecast was compiled by the state Office of Management and Budget and Moody's Economy.com, a West Chester, Pa.-based consultancy, to prepare Gov. John Hoeven's budget recommendations. Its numbers will be updated in November, a month before the governor's

spending plan is presented to the Legislature, said Pam Sharp, the state budget director.

The forecast includes estimates of state tax collections for the rest of the current 2009-11 budget period, which ends June 30, and a forecast of revenues for the

Continued on A4



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The BND has a captive deposit and capital base. All state revenues are deposited in it by law. (Only 1% of its deposits are from consumers.) Further, the BND is a “dba” of the state. That means that ALL the state’s assets are the bank’s assets.



dba =
doing
business
as

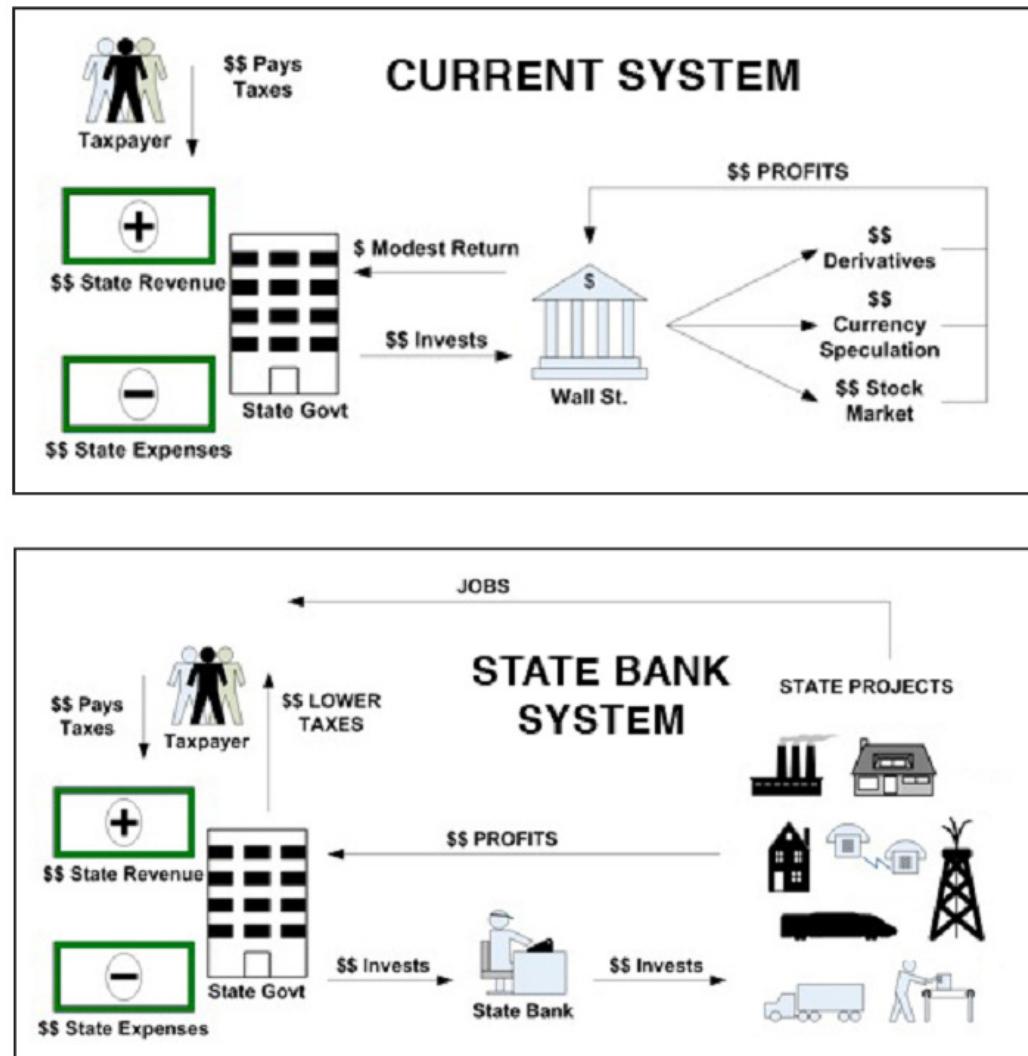


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The Benefits of a State-Owned Bank

- Create new jobs and spur broader economic growth
- Increase state revenues
- Strengthen local banks
- Lower debt costs for state and local government



Consider the possibilities for California . . .

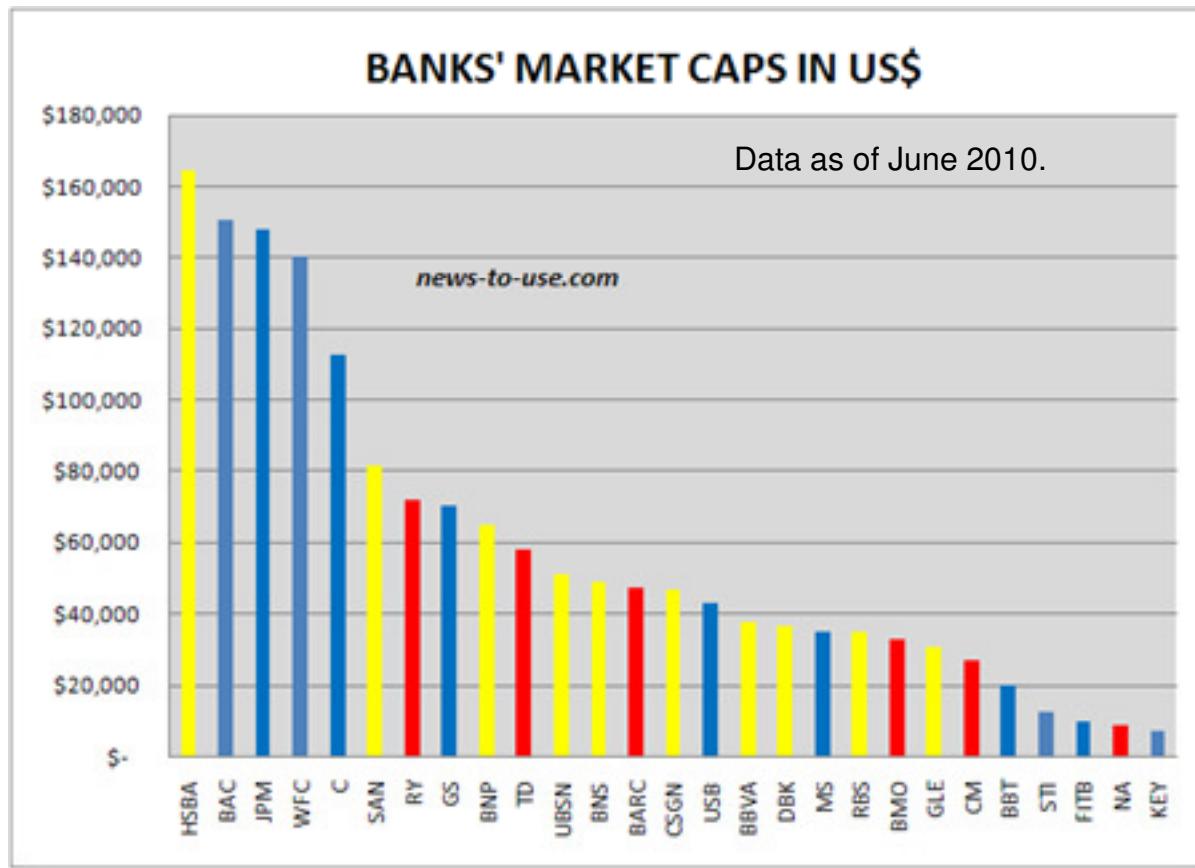
- CA has funds in a Pooled Money Investment Fund managed by the Treasurer totaling **\$71.4 billion** as of January 31, 2011, earning a very modest 0.65% interest in 2009-10.
- CA has a Public Employees Retirement Fund holding **\$201.6 billion** at the end of 2010.
- In 2008, CalPERS LOST 25% in Wall Street investments, and in 2009 it LOST 31%.
- Compare the BND (rated A+ by Standard & Poor's), which had a return on investment in 2008 of 26% and has delivered over \$300 million to the state treasury in the last decade – impressive for a population only 1/14th the size of L.A. County.



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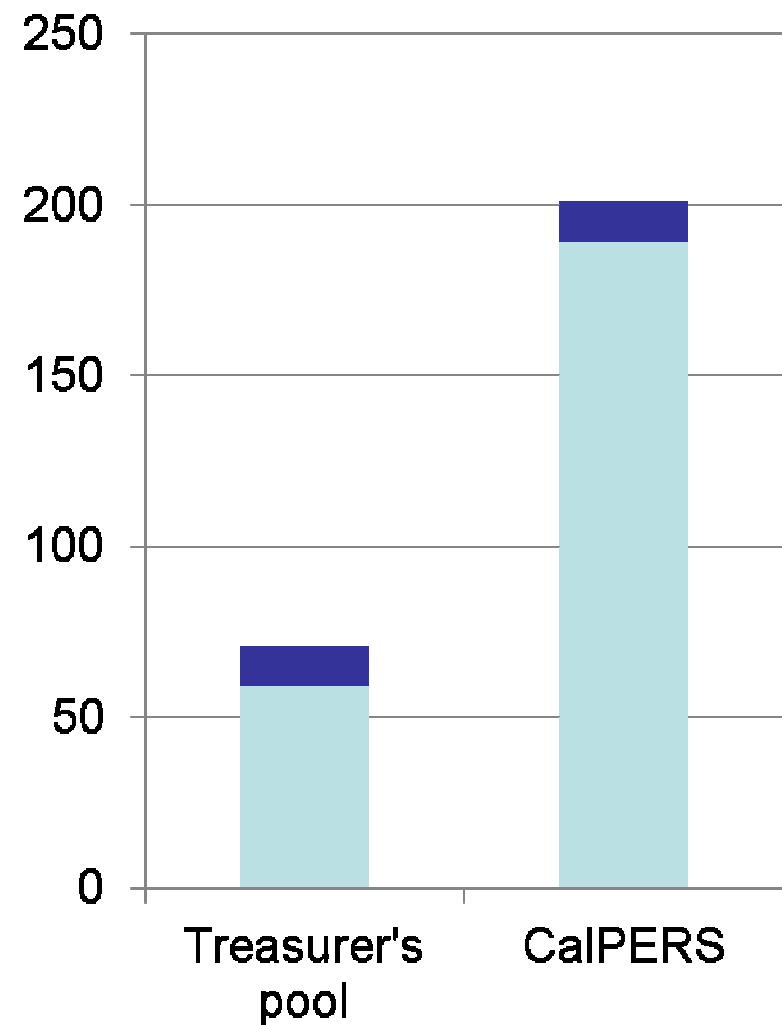


If the \$201 billion in the CalPERS pension fund were invested in a state-owned Bank of California, the bank could have a market cap **greater than any private bank in the world**.



But we don't need to go that far . . .

- At an 8% capital requirement, investing only **\$12B** of this money as equity in the state's own bank could back a potential loan portfolio of **\$150B**.
- The state has a variety of funds, some of which are sitting idle and could be tapped into without ruffling political feathers.
- Note that bank capital isn't "lent." It is an investment in equity, which grows like other investments.



Extrapolating from the BND model, using ONLY state government revenues

North Dakota:

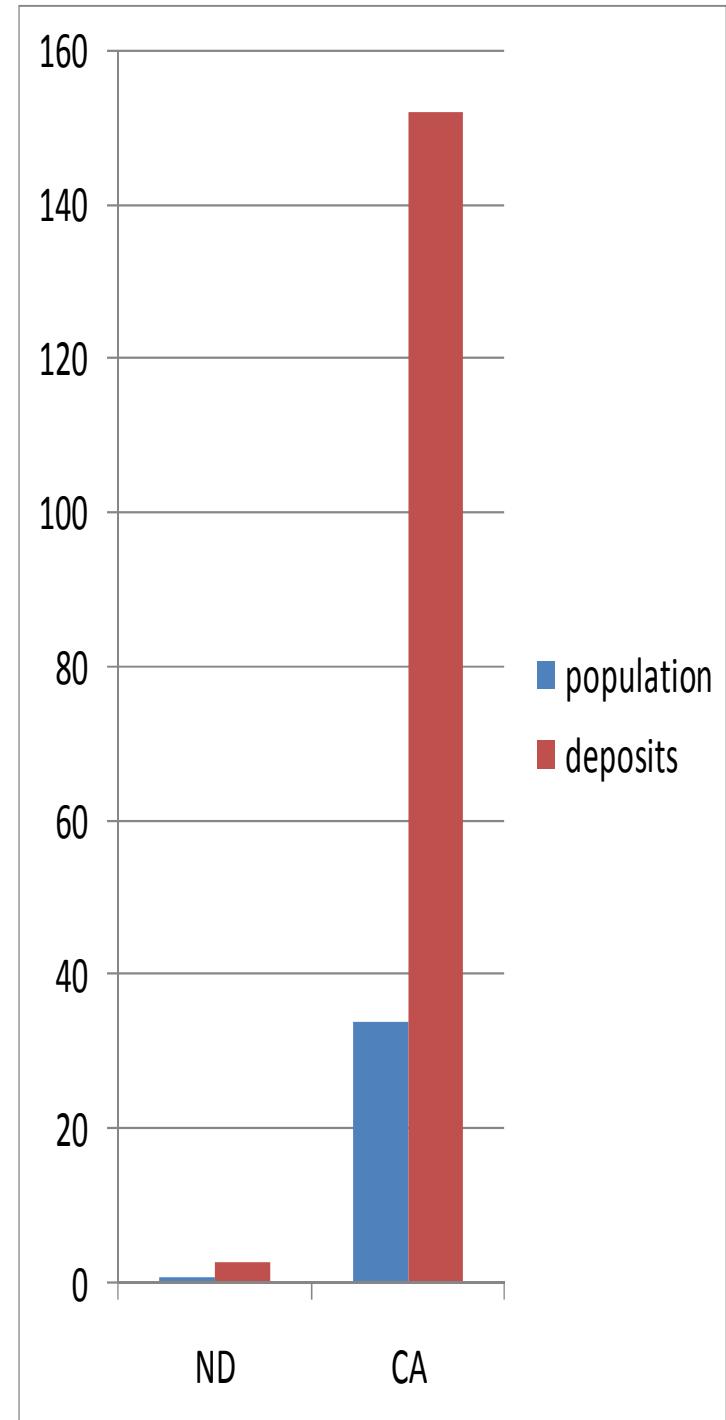
- Population 647,000
- Deposits \$2.7B
- Deposits per capita ~\$4000
- Loans \$2.6B

California:

- Population 37,000,000
- At \$4000/person, deposits = \$148 B
- Potential loans = \$148 B

Washington:

- Population 6,700,000
- At \$4000/person, deposits = \$26.8 B
- Potential loans = \$26.8 B

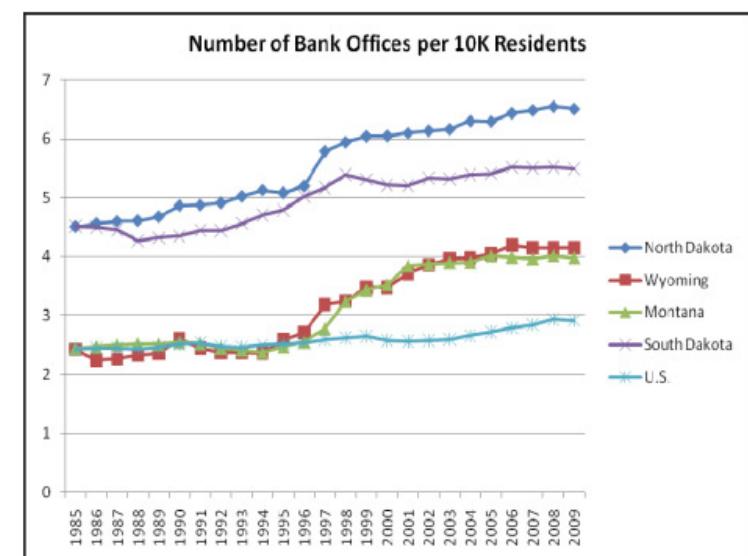


Where would the local banks get the capital to back all these new loans? In North Dakota, the BND helps with capital requirements. It does this through:

- Loan purchases
- Participation loans
- Letters of credit (loan guarantees)



- *Note that the BND does not compete with other banks; it partners with them.*
- The North Dakota Bankers Assn strongly endorses the BND.
- ND has one of the largest number of local banks per capita.



With a state “bankers’ bank” to back them, local banks can turn muni government revenues into lendable funds, further expanding credit.

- In ND, **municipal government deposits go into the local banks** -- NOT into the BND.
- But government deposits have to be “secure,” which means either FDIC-insured or backed by “collateral.”
- Since **the FDIC insures only up to \$250K**, the bulk of the larger deposits must be invested in collateral such as Treasuries and are not available to back loans.
- With a BND **letter of credit**, this money IS available for loans.
- How to insure local bank solvency? Require regular audits, full transparency and accountability.

Should the Bank of California be FDIC insured? Probably not.

- Only an estimated 10% of state and local deposits are FDIC-insured; the rest exceed the \$250K limit.
- So while the state bank COULD buy FDIC insurance, the benefits are slight – and it's quite expensive.
- Worse, buying FDIC insurance means giving the FDIC the power to put the state bank into receivership.
- Better to self-insure and be independent – like the BND, which has had no solvency problems in 92 years!



Consider the possibilities for WA

- Center for State Innovation (CSI) WA state bank analysis:
 - **Job creation/retention.** Estimated that a state bank could help create or retain 7,400-10,700 additional small business jobs in WA.
 - **New Lending.**
 - The BND helped to sustain a loan to asset ratio for ND banks. In WA, this would have resulted in roughly 5.22-7.55 percentage points greater loan to asset ratios during the economic downturn.
 - Approximately 8.2% , or \$2.6B, in new lending activity due to bank participation loans.
 - **New Revenue.** A WA state bank capitalized at \$100M and conservatively run could pay total accumulated dividends to the state's General Fund of \$71M after 10 years, \$206M after 20 years, \$382M after 30 years, and \$675M after 40 years.
 - **Return on Equity.** A WA state bank would have a positive Return on Equity of real profits to the state within 4 years with prudent banking practices.
 - **Other Economic Impacts.** The actual effect of a state bank on the state economy and job market would likely be greater than the above estimates, since this analysis does not look at non-small business lending, nor does it try to account for indirect and induced economic impacts of increased lending.



How long would it take to have a bank up and running?

- **60-90 days**, says banking law consultant Bruce Cahan.
- Here's how: buy a failed bank that is already FDIC insured, using the **shelf registration** process. First, get organizers approved and get approval to own a bank; then make bids on failed banks.
- Another plan that would take even less time is Oregon Treasurer Ted Wheeler's. A "**virtual bank**" requiring no brick and mortar buildings, it would basically be a consolidation of the assets and revenues of the state under one agency, to leverage and maximize for local use. We think the state bank concept could be taken much further, but the online bank idea is interesting.

**In summary –
the Bank of Washington,
like the Bank of North Dakota:**



- Would PARTNER, not COMPETE, with local banks.
- Would involve INVESTING, not SPENDING, the state's capital.
- Would MAKE rather than COST money long-term.
- Would involve LESS RISK, not MORE, than the Wall Street alternative.
- Would ADD jobs, ADD revenues, INCREASE local credit, and SUPPORT the local banking system.
- Would introduce TRANSPARENCY and ACCOUNTABILITY into banking, and a MANDATE TO SERVE THE PUBLIC INTEREST.
- Would mean ECONOMIC SOVEREIGNTY.

Status on State Legislation for a State-Owned Bank

- **Eleven states** now have bills pending either to form state-owned banks or to do feasibility studies to determine their potential. This year, bills were introduced in the [Oregon State legislature](#) on January 11; in [Washington State](#) on January 13; in [Massachusetts](#) on January 20 (following a 2010 bill that lapsed); in the [Maryland legislature](#) on February 4, in [Arizona](#) on January 24th, in [Vermont](#) on March 8th, and in [California](#) on February 17th (amended on March 31st). They join [Illinois](#), [Virginia](#), [Hawaii](#), and [Louisiana](#), which introduced similar bills in 2010.
- The Center for State Innovation, based in Madison, Wisconsin, was commissioned to do detailed analyses for [Washington](#) and [Oregon](#). Their conclusion was that state-owned banks in those states would have a substantial positive impact on employment, new lending, and state and local government revenue.

Status of Washington State Legislation

- Bills were introduced this year in both the House and Senate that will add Washington to the growing number of states now actively moving to create public banking facilities. The bills, House Bill 1320 and Senate Bill 5238, propose creation of a Washington Investment Trust (WIT) to “promote agriculture, education, community development, economic development, housing, and industry” by using “the resources of the people of Washington State within the state.”
- Currently, all state funds are deposited with Bank of America.
- HB 1320 proposes, “all state funds be deposited in the Washington Investment Trust and be guaranteed by the state and used to promote the common good and public benefit of all the people and their businesses within [the] state.”

Status of WA State Legislation (cont.)

- Because of the Treasurer's and banks' objections, the Washington Investment Trust HB 1320 did not pass out of committees in either the House or the Senate.
- Rep. Bob Hasegawa, who has been pushing the State Bank idea, submitted a bill, HB2040, through Rep Hans Dunshee. It was voted on April 12 by the Capital Budget Committee and passed on a party line vote 6 to 5.
- HB2040 is a study bill and does not have an implementation deadline to set up a Washington Investment Trust as did 1320. However, it is a hybrid of HB1320 and HB 1915, a request bill by the State Treasurer. Bill 2040 creates a task force of 20 people to create an operational plan for a state agency that supports financing infrastructure and economic development. It is to report back to the legislature by December 31, 2012.
- Bob has asked that we contact our legislators to support the passage of this bill. Frank Chopp, as speaker, will need to bring it to the floor of the House.
- Cindy Cole and John Repp have been working to pass this legislation.

For more information –

<http://PublicBankingInstitute.org>

<http://Public-Banking.com>

<http://StateInnovation.org>

<http://WebofDebt.com>

Contact your state coordinator found at
www.publicbankinginstitute.org





THE UNITED STATES OF AMERICA
IN CONGRESS ASSEMBLED
July 4, 1776
We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the Pursuit of Happiness.—That to secure these rights, Governments are instituted among Men, deriving their just Powers from the Consent of the Governed, —That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its Foundation on such Principles, and establishing such a Constitution, as to them shall seem most likely to effect their Safety and Happiness. —Prudence, indeed, will dictate that Governments long established should not be changed for轻率的举动; but circumstances often render it necessary. —It has pleased the Almighty God to give us through our先哲们的智慧和勇气, a克斯顿, 1776年7月4日

Thank You