

**ASSEMBLY COMMITTEE ON BANKING AND FINANCE, ASSEMBLY  
COMMITTEE ON LOCAL GOVERNMENT**

**Joint Informational Hearing**

**“Public Banks: An Examination of Public Banking at the Local Level”**

**February 4, 2019, 3:30 p.m.  
State Capitol Room 444**

**Testimony of  
Jan Lynn Owen, Commissioner  
California Department of Business Oversight**

**Introduction**

Good Afternoon Chairwoman Aguiar-Curry, Chairwoman Limon, and members of the committees. I’m Jan Owen, Commissioner of the California Department of Business Oversight. Thank you for the opportunity to participate in this hearing about a familiar, but important, subject.

The Department licenses and regulates more than 360,000 individuals and entities that provide financial services in California. More pertinent to this discussion, our Division of Financial Institutions licenses and supervises State-chartered financial institutions, including 120 banks with assets that total more than \$500 billion. We examine these banks every 12 to 18 months, or more often if deemed necessary, to ensure they operate safely, soundly and lawfully.

As Commissioner, I am the Administrator of the Local Agency Security Program. This Program reviews weekly and quarterly reports from approximately 158 depository institutions holding over \$17 billion in California local agency deposits.

It is the Department's responsibility to ensure these deposits are adequately protected by the depository institutions. Additionally, our banking program examines state-chartered banks for compliance with the Local Agency Security Program, more specifically, to validate local agency deposits are properly identified, reported and secured.

In your written invitation to testify today, you have asked us to provide insight and expertise related to the municipal banking model. Specifically, you requested information on: 1) how the Department reviews and makes approval decisions on new bank charter applications; 2) how the Department oversees banks that accept deposits from local government agencies; 3) regulatory considerations unique to a bank that is owned and controlled by a local government agency; and, 4) the Department's views about whether a state-level depository institution should be subject to the Department's supervision and enforcement. I will be offering the committee the Department's perspective on the appropriate oversight of a depository institution owned by the state as well as our view on the concept of transforming the California Infrastructure Bank into a depository institution.

## **Testimony**

### **I. Bank Charter Application Approval**

One of a bank regulator's most important jobs is to evaluate applications to establish a new bank. These are known as "de novo" applications. The integrity of the banking system depends on this work being done with the utmost diligence.

The process involves a rigorous review of the proposed bank to determine whether it will have the capital, asset quality, management expertise, earnings capacity, and risk management profile required to succeed and serve the consumers and businesses in its community.

An application to establish a new bank may be approved only if the following criteria are met:

- The public convenience and advantage will be promoted by the establishment of the proposed bank.
- The proposed bank will have a reasonable promise of successful operation.
- The proposed bank is being formed for no other purpose than the legitimate objectives contemplated by the banking law.
- The proposed capital structure is adequate.
- The proposed officers and directors have sufficient banking experience, ability, and standing to afford a reasonable promise of successful operation.
- The name of the proposed bank does not resemble, so closely as to be likely to cause confusion, the name of any other bank in California.
- And, the applicant has complied with all the applicable provisions of the banking law and regulations.

In reaching its decision, the Department considers factors including the following:

- The character, reputation, and financial standing of the organizers and their motives in seeking to organize the proposed bank.
- The need for the new bank, giving consideration to the adequacy of existing banking and the need for further banking.

- The character, financial responsibility, banking experience, and business qualifications of the proposed officers of the bank.
- The character, financial responsibility, business experience, and standing of the proposed stockholders and directors.
- The adequacy of banking facilities to support its operations.
- The adequacy of capitalization to support the projected volume and type of business.
- The likelihood the bank will achieve and maintain profitability.
- The viability of the Business Plan given the economic condition, growth potential, and competition of the proposed market area.
- And, whether the bank is free from abusive insider transactions and apparent conflicts of interest.

## **II. Local Government Agency Deposit Oversight**

Next, I will discuss how the Department oversees banks that accept deposits from local government agencies, which are public funds.

Our examinations play a key role in the supervisory process to ensure public funds are protected.

In particular, our examiners review the following:

- To ensure local agency deposits are adequately secured (collateralized); we validate the existence of waiver forms, which offset the amount of securities needed to secure those deposits. Local agency treasurers have

the discretion to waive the collateral requirement up to \$250,000 (the maximum deposit insurance amount).

- To ensure the accuracy of weekly and quarterly reports submitted to DBO; we review the bank's list of deposit accounts to validate the deposit information submitted to DBO.
- To ensure the accuracy of weekly and quarterly reports submitted to DBO; we review reports from the holders of the depository's securities to validate the amount of securities pledged to local agency deposits.
- To ensure all local agency deposits are reported to DBO; we review the bank's list of accounts for unreported local agency deposits.
- To ensure the amount of local agency deposits held by a depository institution do not pose undue risk to the institution; we review the depository institutions risk management, compliance and liquidity practices relative to local agency deposits.

### **III. Local Government Agency State Banking**

A bank that is owned and controlled by a local government agency should be treated no differently than any other state-chartered bank licensed and supervised by the Department. Such an institution should be subject to the same state and federal laws, and examinations should focus on the same basic components, including capital, asset quality, management, earnings, liquidity, and sensitivity to market risk.

#### **IV. State oversight of a depository institution owned by the state**

The DBO would be the appropriate regulator of a depository institution owned by the State. This includes any circumstance in which the California Infrastructure Bank or any existing lending program is expanded by statute to become a state-level FDIC depository institution. Supervision and oversight by the DBO would not only be appropriate, it would be necessary. As with any other depository institution, it would be subject to the same state and federal laws. It would likely need to obtain FDIC deposit insurance and a master account from the Federal Reserve to be viable. Our examinations would cover the same components. In such a scenario, it would be vitally important to protect the deposits, the hard-earned money, of the people and businesses of California. The Department is the only agency with the knowledge and expertise to do that job.

#### **Closing**

In closing, the Department will be glad to offer our technical assistance on any policy consideration related to public banking. Thank you again for giving me the opportunity to testify. I would be happy to take any questions.