Joint Informational Hearing on Public Banking
Testimony of Sushil Jacob, Lawyers' Committee for Civil Rights
February 4, 2019

INTRODUCTION
Good afternoon, my name is Sushil Jacob, and I am a Senior Attorney at the Lawyers' Committee for Civil Rights of the San Francisco Bay Area. I am a participant in the San Francisco Municipal Bank Feasibility Task Force. Today I am speaking as a member of the California Public Banking Alliance.

WHY WE NEED PUBLIC BANKING
California is facing twin crises, which public banking can help to resolve. The first is the crisis of unaccountable Wall Street finance that takes our public dollars and invests them in fossil fuels, private prisons, arms manufacturers and predatory lending – which are antithetical to California's progressive values.

The second problem is the loss of California's local banking industry.
The data shows that we are losing local and community banks in California at a rapid scale.

- In 1994, there were nearly 500 banks headquartered in California.
- The Department of Business Oversight's website lists 116 remaining state-chartered commercial banks. The vast majority of banks that have disappeared are community banks.
- The loss of local banks means a loss of local relationships with bankers who understand the needs of the local governments and communities in which they are embedded.

CALIFORNIA PUBLIC BANKS CAN HELP in BOTH of these respects.

First, public banks will allow California cities and counties to create sound investments that will save them money and allow them to invest their public deposits in fiscally, socially and environmentally responsible activities.

Second, Public banks can save taxpayer funds that are currently going to big banks and instead use those funds to finance public goods such as affordable housing, transparent student loans, renewable energy, rebuilding after natural disasters, and local infrastructure projects such as schools, parks and roads.

Third, In partnership with local banks and credit unions, public banks can provide affordable loans and lines of credit to local small businesses and nonprofits, and provide a critical bulwark against displacement of community-serving anchor institutions. Public banks can increase the lending capacity of the local banking system through participation loans, by providing liquidity, and serving as regional bankers banks.

THE CALIFORNIA PUBLIC BANKING ALLIANCE

The California Public Banking Alliance brings together advocates based in nine cities and regions across the State, ranging from San Diego, Los Angeles, San Francisco, Oakland, Silicon Valley, up to Eureka. Our vision is a network of public banks that are owned at the regional, county and municipal levels. All of the member organizations of the Alliance are in various stages of advocating for public banks in our regions and cities. In San Francisco, where I am based, we are nearing completion of a feasibility study to submit to our Board of Supervisors, and we look forward to a robust discussion on the possible next steps to move this idea forward.

The California Public Banking Alliance is pursuing a charter-based approach to public banking where we are not seeking to legislate a bank, but rather provide a pathway so that localities can create them.

The Alliance's 2019 goal is to introduce legislation that creates a clear pathway for the Department of Business Oversight to license and regulate local public banks, which would be classified as special-purpose commercial banks—which would be separate legal entities from their public shareholders. These banks would have separate, independent boards of directors, staffed by banking professionals. We know this because the DBO, through its regulatory oversight, would require it. We are basing our legislation on what exists—the state commercial bank charter.

In order to facilitate the deposits of public funds into public banks, the legislation will allow counties to lend their credit to public banks, to allow pooled investment funds to invest in debt of public banks, and to allow public banks to receive local agency money. The legislation would also allow public banks to obtain deposit insurance that is satisfactory to the DBO Commissioner of the DBO. The legislation will require that, wherever possible, the public bank's retail services be conducted in partnership with local financial institutions.

We believe the charter approach to public banking enables our regions to be laboratories of public finance—one in which we allow localities to decide if they want banks, and how and when to launch them. By decentralizing authority to California's regions—we believe we are diversifying the risks of public banking, as well as the rewards. In our vision, public banks will be created to meet the particular needs of local economies—whether it is rebuilding after wildfires, financing affordable housing, or preventing displacement of local businesses and nonprofit agencies.

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After consulting with the county treasurers, we no longer seek to amend the collateralization requirements for public deposits.

Our view of public banking is based upon the highly successful Bank of North Dakota and its relationship with the State of North Dakota, the local banking system, and the federal government. A few points on the bank of North Dakota:

1. **It is 100 years old.** This year the Bank of North Dakota celebrates its centennial anniversary. Founded in 1919, BND was formed as a way for the state to protect North Dakota farmers from out-of-state financiers who restricted access to credit and charged higher interest rates. Does this sound familiar?
2. **It is profitable.** BND recorded its 14th consecutive year of record profits in 2017. That year the state's return on its investment at the bank was an astonishing 17%. Over the last 20 years, BND has made $385 million in payments to the State's general fund. That works out to about $3,300 per family — meaning North Dakota households received $3,300 more in public services than they had to pay for through taxes.
3. **It is good for the economy.**
   The Bank's operating policy requires that it be "helpful to and to assist in the development of state and national banks and other financial institutions and public corporations within the state **and not, in any manner, to destroy or to be harmful to existing financial institutions."**
   BND partners with community banks and credit unions, increasing their lending capacity and providing local businesses with greater access to credit. As a result of their relationship with the BND, North Dakota has more banks and credit unions per capita than any other state. In fact, it has nearly *six times* as many local financial institutions per person as the country overall. While locally owned small and mid-sized banks and credit unions (those under $10 billion in assets) account for only 29 percent of deposits nationally, in North Dakota they have a remarkable 83 percent of the market.
4. **It beat the financial crisis.** BND avoids subprime lending and other risky behaviors typical in Wall Street banks. By operating prudently, it avoids the volatile swings of the market cycle, including the 2008 crisis. According to the Wall Street Journal, "In 2008, North Dakota's economy grew 7.3%, twice as fast as any other state except Wyoming, which grew 4.4%." A key priority for BND is to maintain a strong and stable balance sheet to protect taxpayer money.

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