



# Putting Maine Money to Work for Maine: Introducing the Maine Street Economic Development Bank

## SUMMARY

Maine can put deposits of state tax revenue to use in ways that tilt the economic playing field back toward Main Street businesses, our community banks, and long-term job growth. A Maine Street Economic Development Bank—like the successful Bank of North Dakota—will generate new revenue for Maine, save local governments money, and make our small businesses, farms and consumers less vulnerable to cutbacks in lending in our state.

## BIG OUT-OF-STATE BANKS ARE FAILING MAINE SMALL BUSINESSES

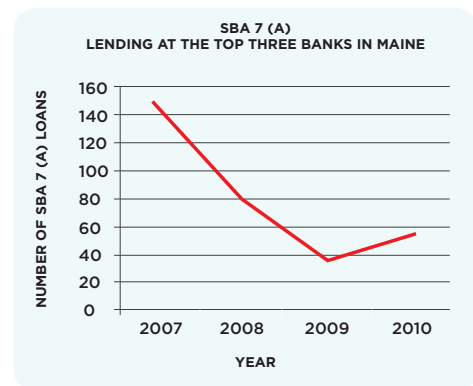
Now more than ever, the future of Maine’s middle class depends on the health of our small businesses. Yet the engine of a thriving small business economy—affordable credit—has stalled in our state since the financial industry set off the Great Recession in 2008. While Maine has lost **30,000 jobs**,<sup>1</sup> the largest banks have returned to profitability after taxpayer bailouts, and many of these same banks have yet to restore lending to small businesses and consumers to pre-crisis levels.<sup>2</sup>

For example, in 2007, one of our largest out-of-state banks made only 29 Small Business Association 7(a) loans—the flagship program for small business lending—in Maine.<sup>3</sup> In 2009 and 2010, **the same bank made zero SBA 7(a) loans—a 100 percent decline** that has pushed Maine small businesses either out of business or onto higher-interest credit cards.<sup>4</sup> The average business card interest rate is 16 percent, but quality SBA 7(a) loans average seven to nine percent. In 2009, **97 percent of the bank’s small business loans in Maine were on credit cards**.<sup>5</sup> According to a May 2011 Maine Small Business Coalition survey, 68 percent of small businesses in Maine experienced deteriorating credit terms during the recession.<sup>6</sup>

The large bank lending cutbacks have had a disproportionate impact on the Maine economy due to high bank consolidation in the state. Just three large national banks currently control 50 percent of all deposits, up from 37 percent before the crisis.<sup>8</sup>

## A SOLUTION FROM THE HEARTLAND: WHAT NORTH DAKOTA KNOWS

While Maine and other states’ treasuries send billions of dollars out-of-state by banking with Wall Street banks each year, the 92-year-old Bank of North Dakota (BND) keeps taxpayer dollars in-state, cycling them back through community banks to help small businesses add local jobs.



Source: FOIA request to the SBA

“Wall Street banks have cut back on small business lending... [by] more than double the cutback in overall lending. The big banks pulled back on everyone, but they pulled back harder on small businesses... [Small business] options just keep disappearing.”

– Chair of the TARP Congressional Oversight Panel, May 2010<sup>7</sup>

The Bank of North Dakota doesn't compete with community banks; it supports them to create a 'crowding in' effect. From 2007 to 2009—through the trough of the financial crisis—BND increased its lending to strengthen the state's economy and save jobs. BND's participation loans **with local banks actually grew by 35 percent**.<sup>10</sup>

That's the essence of countercyclical, and Maine needs to look closely at this model.

In broad terms, BND has helped keep Main Street banks serving local business borrowers in tough times. BND allows community banks to level the playing field in markets that would otherwise be dominated by big out-of-state banks. BND supports local banks with the participation loans, bank-stock purchases, and interest rate buy-downs that make possible productive loans that would otherwise not be made.

BND has done all that in partnership with the state's economic development programs and at a profit, about half of which it pays annually into North Dakota's General Fund.

It's a tremendous success as a business and as economic policy.

## MAKING MAINE'S MONEY WORK FOR MAINE

Elected leaders serious about crafting policies that produce new jobs and new revenue know that a BND-style Economic Development Bank is one of a very few good options. They want to put public money to work leveraging what Maine businesses need most: access to the affordable capital they need to grow. Maine small businesses also know this plan will benefit them. The Maine Small Business Coalition's May 2011 survey found nearly three-quarters of the state's small business owners support the creation of an Economic Development Bank.<sup>11</sup>

The Maine Street Economic Development Bank will partner with local banks, credit unions and CDFIs to keep public money at home, where it will:

- **Create new jobs** and spur broader economic growth. Recent Center for State Innovation estimates predict that a fully-capitalized Economic Development Bank could add 3,500 new jobs and spur \$1.1 billion in new lending. The Bank would also lead to higher tax receipts as in-state jobs are created and small business markets improve.<sup>12</sup>
- **Generate new revenue for Maine** with bank dividends. A fully-operational Economic Development Bank would generate **\$48 million in net income** for the state over the first ten years and could return **\$39 million to Maine's General Fund** (assuming the same rate of return as the BND). And that doesn't include the interest paid on state deposits, which would add roughly another \$10 million per year.<sup>13</sup> Over the past decade, BND's dividend to the state has been worth about \$300 million.<sup>14</sup> The Bank would also lead to higher tax receipts as in-state jobs are created and small business markets improve.
- **Strengthen local banks.** Primarily because of BND's unwavering support for local banks, North Dakota has seven times more community banks per capita than Maine.<sup>15</sup> There have been zero bank failures in North Dakota in this crisis, and the Bank's charter is clear that it must "be helpful to and to assist in the development of [North Dakota banks]," not compete with them.<sup>16</sup>
- **Make public funds count.** We should take the opportunity provided by the proposed legislation to write stringent accountability standards for job creation into the state's economic development programs. Taxpayers have to know

A fully operational BND-style bank in Maine can help generate:

- 3,500 new jobs
- \$1.1 billion in new lending
- \$39 million in payments to the state General Fund over ten years

Source: Center for State Innovation estimates

## MAINE SMALL BUSINESSES SUFFER IN THE CREDIT CRUNCH

**Raymond, Maine.** John Kendall, president of CHIPCO International, a poker supplies manufacturer, says it's a "horrendous environment" to get new equity. When his company encountered the financial struggles inevitable in an economic downturn, he found banks unwilling to lend to anyone in a challenging situation. "The small business owner spending a number of days in meetings in front of bankers, who go through three and four levels of loan approvals to finally get turned down to start the next one is not a happy one," he said.<sup>9</sup>

that public funds for economic development are creating good Maine jobs. This includes requirements that both the state and borrowers track the numbers of jobs created and the wages paid, and disclose their methodologies.

- **Serve vital Maine public needs.** A Maine Street Economic Development Bank can provide bridges to our state when federal money—whether disaster relief or health care reimbursements—is slow in coming. They also offer local governments a more affordable alternative to volatile Wall Street prices with Letters of Credit for infrastructure projects.<sup>17</sup>

## WHO'S AFRAID OF INNOVATION?

Maine has every reason to study this successful model closely. A Maine Street Economic Development Bank has the opportunity to put Maine money to work right here, supporting the entrepreneurs and community banks that make Maine go.

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## ABOUT THE AUTHORS

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## ABOUT DĒMOS

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world. Dēmos was founded in 2000. In 2010, Dēmos entered into a publishing partnership with The American Prospect, one of the nation's premier magazines focusing on policy analysis, investigative journalism, and forward-looking solutions for the nation's greatest challenges.

## ABOUT OPPORTUNITY MAINE

Opportunity Maine is a leader in organizing grassroots initiatives that address Maine's educational, economic and energy challenges. Founded in 2006, Opportunity Maine promotes economic security and sustainable development through innovative investments in Maine's people, communities and economy. Whether through universal expansions of educational opportunity such as the Opportunity Maine Program, or through tailored but comprehensive sector-based approaches such as our New Energy Jobs Initiative, we strive to make investments in human capital and strong communities a central focus of Maine's economic development strategy.

## ENDNOTES

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