

Putting Vermont Money to Work for Vermont: Introducing the Vermont Partnership Bank

Vermont 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. The proposed state bank study (S. 204, H. 542) will help Vermont design an institution—like the successful Bank of North Dakota—that generates new revenue for Vermont, saves local governments money, and makes our small businesses, farms and consumers less vulnerable to cutbacks in lending in our state.

LARGE OUT-OF-STATE BANKS ARE FAILING VERMONT SMALL BUSINESSES

The future of Vermont'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 the number of unemployed in Vermont has leapt 32 percent over the last four years¹, the largest banks have returned to profitability after taxpayer bailouts. Many of these same giant banks have refused to restore lending to small businesses and consumers to pre-crisis levels.²

These large banks have grown more powerful in Vermont's economy as a result of consolidation—People's purchase of Vermont's largest bank, Chittenden Bank—and the financial crisis. Vermont's dependence on Wall Street and large out-of-state banks is growing.³

TD Bank—home to more than 22 percent of all Vermont deposits, and more than half of state government's short-term deposits⁴—made just \$416,800 in Small Business Association loans to Vermont small businesses under the agency's flagship 7(a) in 2010.⁵ That was a **90% decline from the bank's \$4.29 million in 7(a) loans in 2008**, a drop that has pushed Vermont small businesses to forgo expansion and new jobs, forced them out of business, or driven them to credit cards.⁶ The average business card interest rate is 16 percent, but quality SBA 7(a) loans average seven to nine percent.

MORE LENDING, BUT NOT TO SMALL BUSINESSES

“Ah, business lending, then, is back! Well, not so fast. Yes, top-line commercial lending is up, but a closer look shows one segment of loans that did not increase: those to small businesses. According to the F.D.I.C., while the nation's total commercial and industrial loan portfolio grew by \$34 billion, or almost 3 percent, total outstanding loans to small businesses actually fell by \$2.5 billion.”

—*New York Times*, August 2011⁷

Large banks' lending cutbacks have had a disproportionate impact on the Vermont economy due to high bank consolidation in the state. Here, four of our five largest banks—TD Bank/Toronto Dominion, Peoples Bank, RBS/Citizens, and KeyBank—are chartered out-of-state and control more than 57 percent of all Vermont deposits.⁸

A SOLUTION FROM THE HEARTLAND: WHAT NORTH DAKOTA KNOWS

While Vermont 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.

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.**¹⁰

That's the essence of countercyclical economic policy.

In broad terms, BND has helped keep North Dakota's Main Street banks serving local business borrowers in tough times. BND levels the playing field for community banks in markets that would otherwise be dominated by large out-of-state banks. The Bank of North Dakota supports local banks with the participation loans, bank-stock purchases, and interest rate buy-downs that enable small banks to make productive loans they would not otherwise have the capital or liquidity to make.

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 VERMONT'S MONEY WORK FOR VERMONT

Elected leaders serious about crafting policies that produce new jobs and new revenue know that a modern and flexible version of North Dakota's Partnership Bank is one of very few good options. These leaders want to put public money to work leveraging what Vermont businesses and local governments need most: access to the affordable capital they need to grow.

A Partnership Bank for Vermont will partner with local banks to keep public money at home, where it will:

- **Create new jobs** and spur broader economic growth. A recent study of in Maine by the non-partisan Center for State Innovation predicted that a Partnership Bank in Maine—which has a state economy of comparable size and character to Vermont's—will help Maine community banks expand lending by \$1.1 billion and lead to 3,500 new small business jobs as the new bank reaches maturity.¹¹ And do it at a profit.

“For over three and a half years, Vermonters and people throughout this country have experienced the worst economic crisis since the Great Depression... Small businesses have been unable to get the credit they need to expand their businesses, and credit is still extremely tight.”

—U.S. Senator Bernie Sanders,
July 2011⁹

- **Strengthen local banks.** Primarily because of BND’s unwavering support for local banks, **North Dakota has four times more community banks per capita than Vermont.**¹² 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.¹³

“It is possible that the survival of the 94 small banks in North Dakota may be due to the support of BND. Vermont has only 14 local banks with 7 more out of state banks that operate in Vermont.”¹⁴

—Vermont Legislative Joint Fiscal Office’s 2010 Preliminary Review

- **Serve vital Vermont public needs.** A Vermont Partnership Bank can offer the state and local governments a more affordable alternative to volatile Wall Street prices with lending and Letters of Credit for infrastructure projects.¹⁵ It can also provide bridges to our state when federal money—whether disaster relief or health care reimbursements—is slow in coming. Finally, a Vermont Partnership Bank could reproduce innovations like North Dakota’s new Children FIRST matched college-savings-from-birth program, which is funded by the BND.¹⁶

- **Generate new revenue for Vermont.** The annual dividend from a fully-operational Partnership Bank in nearby Maine and capitalized at \$100 m. could generate dividends for the state’s General Fund starting in its third year, and—conservatively run—could pay total accumulated dividends to the state’s general fund of \$39 m. after 10 years, \$126 m. after 20 years, \$346 m. after 30 years.¹⁷ A Vermont Partnership Bank would also lead to higher tax receipts as in-state jobs are created and neighborhood business markets improve.

- **Make public funds count.** The strategic re-organization of the state’s economic development programs plus the leverage of a Partnership Bank would allow Vermont to pull ahead of rival states in job creation. Oregon is showing the way with a 2011 bill supported by that state’s Treasurer, to consolidate economic development funds and participate in loans with community banks to Oregon’s small businesses.¹⁸

“Combining VSAC, VEDA, and possibly other [economic development programs], into a state bank could create efficiencies and economies of scale.”

—Vermont Legislative Joint Fiscal Office’s 2010 Preliminary Review

WHO’S AFRAID OF INNOVATION?

The proposed Vermont bank study commission gives the Commonwealth the opportunity to design a modern, scalable institution that drives job growth even when the big banks that dominate Vermont’s credit markets are pulling back. We can put Vermont money to work here, supporting the entrepreneurs and community banks that make Vermont go.

Jason Judd is a consultant to Dēmos, and President of Cashbox Partners, a Maryland-based small business.

Heather McGhee is Washington office Director of Dēmos and co-author of “Six Principles for True Systemic Risk Reform.”

ENDNOTES

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DĒMOS

220 Fifth Avenue, 2nd Floor
New York, New York 10001
Phone: (212) 633-1405
Fax: (212) 633-2015
info@demos.org

MEDIA CONTACT

Lauren Strayer
Associate Director of
Communications
lstrayer@Demos.org
(212) 389-1413