

# BANKING ON AMERICA:

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HOW MAIN STREET PARTNERSHIP BANKS  
CAN IMPROVE LOCAL ECONOMIES

Demos

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## ABOUT DĚMOS

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.

## ACKNOWLEDGEMENTS

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## EXECUTIVE SUMMARY

Across the country, states are considering proposals to move general revenue deposits out of the Wall Street banks that dominate the banking business today, and use them to capitalize a new local public structure with a mission to grow the local economy. A “Main Street Partnership Bank” would be modeled on the nearly 100-year-old public Bank of North Dakota (BND). This public policy innovation—also known as a Public Bank or State Bank—could contribute to the health of local community banks, state budgets and small business job growth in an era of rapid banking concentration, budget deficits and disinvestment on Main Street.

Partnership Banks can raise revenue for states without raising taxes, and increase loans to small businesses precisely when Wall Street banks have cut back on lending and raised public borrowing costs. A Partnership Bank would act as a “banker’s bank” to in-state community banks and provide the state government with both banking services at fair terms and an annual multi-million dollar dividend.

If modeled on the successful Bank of North Dakota, Partnership Banks in other states would:

- Create new jobs** and spur economic growth. Partnership Banks are participation lenders, meaning they partner—never compete—with local banks to drive lending through local banks to small businesses.<sup>1</sup> If Washington State had a fully-operational Partnership Bank capitalized at \$100 million during the Great Recession, it would have supported \$2.6 billion in new lending and helped to create 8,212 new small business jobs.<sup>2</sup> A proposed Oregon bank could help community banks expand lending by \$1.3 billion and help small business create 5,391 new Oregon jobs in its first three to five years.<sup>3</sup> All of this would be accomplished at a profit, which Partnership Banks should share with the state.

REVENUE POTENTIAL FOR STATES WITH PARTNERSHIP BANKS		
	PROJECTED NET 2009 REVENUE	PERCENTAGE OF 2011 DEFICIT
NORTH DAKOTA	\$30 m.	[in surplus]
HAWAII	\$61 m.	14.9%
MAINE	\$48 m.	11%
MARYLAND	\$263 m.	16.4%
MASSACHUSETTS	\$351 m.	19.5%
NEW HAMPSHIRE	\$58 m.	5.8%
NEW MEXICO	\$77 m.	18.8%
OREGON	\$155 m.	8.6%
WASHINGTON STATE	\$310 m.	10.7%

Sources: Center for State Innovation, Center on Budget and Policy Priorities<sup>4</sup>

- Generate new revenue for states** directly, through annual bank dividend payments, and indirectly by creating jobs and spurring local economic growth. The table above shows projected dividends for established Partnership Banks in the states considering such proposals, based on BND’s 2009 dividend payment to North Dakota’s General Fund.
- Lower debt costs** for local governments. Like the Bank of North Dakota, Partnership Banks can get access to low-cost funds from the regional Federal Home Loan Banks.<sup>5</sup> The banks can pass savings on to local governments when they buy debt for infrastructure investments. The banks can also provide Letters of Credit for tax-exempt bonds at lower interest rates.
- Strengthen local banks**, even out credit cycles, and preserve real competition in local credit markets. There have been no bank failures in North Dakota during the financial crisis. BND’s charter is clear that its goal is to “be helpful to and to assist in the development of [North Dakota banks]... and not, in any manner, to destroy or to be harmful to existing financial institutions.”<sup>6</sup> By purchasing local bank stock, partnering with them on large loans and providing other support, Partnership Banks would strengthen small banks in an era when federal policy encourages bank consolidation.
- Build up small business.** Surveys by the Main Street Alliance in Oregon and Washington show at least 75 percent support among small business owners.<sup>7</sup> In markets increasingly dominated by large corporations and the banks that fund them, Partnership Banks would increase lending capabilities at the smaller banks that provide the majority of small business loans in America.

## INTRODUCTION: LOCAL ECONOMIES NEED LOCAL FUNDING SOLUTIONS

Now more than ever, the future of our nation's middle class depends on the health of our local economies. These economies are made up of both private and public sectors that depend on one another: local businesses on the one hand and public services and structures (such as schools, transportation, planning and developments) on the other. Yet the Great Recession and its aftermath have left both sectors drained of the funding they need to thrive. As a result, there are still 29 million Americans who are either unemployed or underemployed nearly two years after the recession officially ended.<sup>8</sup>

**A Damaging Cycle.** When the financial crisis hit, small businesses suffered the sharpest fall-off in lending since 1942,<sup>9</sup> as the large banks that had come to dominate our credit markets pulled back. Without access to affordable credit, small businesses across the country laid off workers, stopped buying from suppliers, and went out of business. The crisis deepened as the shuttering doors on Main Streets pushed community banks' loan portfolios into distress and government budgets into deficit.<sup>10</sup> Falling tax receipts have forced 46 states to cut back on public services at the precise moment when their residents and local businesses need them most.<sup>11</sup> This damaging cycle has not yet abated, despite the recovery of the handful of Wall Street financial companies that set off the Great Recession.

When our local banks and credit unions are unable to lend... And when our small businesses are struggling to keep pace with a burgeoning recovery that's posting record profits for Wall Street<sup>12</sup> but leaving Main Street behind—we need to ask how we can get capital flowing again.

- Oregon Treasurer Ted Wheeler<sup>13</sup>

The financial crisis and its aftermath have exposed how little control communities have over their local economies. When economic disaster hit, policymakers had few tools at their disposal to stop the flight of money out of their local economies. States had no reliable way to keep money flowing to local banks, local businesses and local governments. All except one: North Dakota.

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

Only one state ran a large budget surplus in 2010 and cut both personal and business taxes during the recession.<sup>14</sup> It also has the lowest unemployment and foreclosure rates in the country, and weathered the financial crisis without losing a single bank.<sup>15</sup> How did North Dakota do it? With an influx of revenue for the state and liquidity for its credit markets from a local, nearly 100-year-old policy innovation: the public Bank of North Dakota (BND).

When North Dakotans pay their taxes, instead of being deposited into private commercial banks, the funds go to the Bank of North Dakota, which in turn reinvests in both sectors of the local economy: private and public. BND supports private banks and local business borrowers by offering “banker's bank” services to community banks<sup>16</sup> in ways that increase local lending. BND supports the public sector by saving local and state governments money through profit-sharing and financing for infrastructure projects.

The Bank of North Dakota's unique structure allows it to have three major economic impacts:

**Contributing to the Public Purse.** BND operates at a profit, about half of which it pays directly into North Dakota's General Fund each year. The Bank also issues Letters of Credit to local governments, helping them find buyers for their infrastructure debt. Community banks also use BND Letters of Credit to meet the capital cushion standards required for local government deposits, freeing up more bank capital for lending.

**Helping Small Businesses Add Jobs.** Alone among states, North Dakota had the wherewithal to keep credit moving to small businesses when they needed it most. BND's business lending actually *grew* from 2007 to 2009 (the tightest months of the credit crisis) by 35 percent.<sup>17</sup> BND accomplished this through participation loans, in which BND contributes to a community bank's loan, in order to free up the bank's capital for more lending. Other tools that boost bank lending power and lower interest rates include purchases of community bank stock and—together with the state's targeted economic development programs—interest rate buy-downs. As a result, loan amounts per capita for small banks in North Dakota are fully 175% higher than the U.S. average in the last five years, and its banks have stronger loan-to-asset ratios than comparable states like Wyoming, South Dakota and Montana.<sup>18</sup> Though it contributes to higher lending, BND lends prudently: strict standards guide its loan decisions, and its loan losses are lower than the national average for similarly-sized banks.

The State of North Dakota does not have any funding issues at all. We in fact are dealing with the largest surplus we've ever had... here we are completely countercyclical.

- Bank of North Dakota CEO  
Eric Hardmeyer in March 2009<sup>72</sup>

**Enabling a Diverse Local Lending Market.** Across the country, bank consolidation has led to fewer choices for borrowers and, during the financial crisis, a major shortage in small business lending as large banks cut back. Having a public “banker’s bank” or wholesale bank, however, has helped North Dakota buck the national trend. North Dakota has more community banks than Hawaii, Maine, and New Hampshire—states with six times as many residents—combined.<sup>19</sup> No bank in North Dakota has more than 10 percent of consumer deposits in the state, and the market shares of the two biggest out-of-state banks—Wells Fargo and U.S. Bank—have actually fallen since 2007.<sup>20</sup> BND has helped carve out

and protect a free and competitive market for community banks and borrowers that would otherwise have been lost to big banks.

Finally, BND’s charter states explicitly that BND is to support, not compete, with local banks, garnering it respect from the local Bankers’ Association. It is not a retail bank that competes with community banks for loans, checking, or credit card accounts—though it does offer low-rate, no-fee student loans.<sup>21</sup>

It is certainly true that North Dakota’s oil and gas reserves have helped spur the state’s growth in recent years, but they do not account for the underlying strength of its credit markets. A 2010 analysis from the non-partisan Center for State Innovation isolates the many factors contributing to North Dakota’s growth. The report concludes that by putting the state’s deposits to work expanding local credit markets, BND is a critical contributor to the state’s economic strength.<sup>22</sup>

## BANK OF NORTH DAKOTA KEEPS LENDING STRONG

While small business owners in most states struggled to get credit during the recession, owners and entrepreneurs in North Dakota continued to have access to the fair and reliable loans they've always been able to get from their local banks, with the help of the Bank of North Dakota. The following section describes how small businesses' experienced diverged in the crunch and how BND kept North Dakota Main Streets strong.

### SWAMPSCOTT, MASSACHUSETTS.

Carlo and Erin Bacci, owners of The Chocolate Truffle, wanted to open two more stores and buy more supplies in the lead-up to the holidays but couldn't get a loan so they had to sell their house to finance their expansion. "Lately, since the crisis, we've been cut off. Every time we pay down our card, our credit limit gets reduced."<sup>i</sup>

### BND: KEEPING LENDING UP IN DOWNTURNS.

When Dr. Bryan Vibeto approached his local bank seeking a loan to open an orthodontic clinic during the 2008 economic downturn, they were able to offer him financing through the Bank of North Dakota's Beginning Entrepreneur Guarantee Program which provided the bank an 85 percent guarantee on the loan. "Bank of North Dakota has a passion to aid small businesses by providing accessible and flexible small businesses loans," said Dr. Vibeto.<sup>ii</sup>

### NEWFIELDS, NEW HAMPSHIRE.

Mark Lane, owner of Coed Sportswear and Printer Matter, lost his business financing when his bank of five years was purchased by an out-of-state bank. It cut off his Line of Credit and told him to find a new bank for loans. He hasn't been able to find one and risks being unable to pay his vendors. "Due to the lack of credit, Coed Sportswear and Printer Matter have been cash strapped, making it difficult to pay vendors in a timely manner, making it difficult to make investments in our growth opportunities and soon will impact our ability to fulfill future orders."<sup>iii</sup>

### BND: SUPPORTING COMMUNITY BANKS.

Bank of North Dakota helps **Northland Financial**, a North Dakota bank with four branches in small communities, to offer programs that might not otherwise be possible for the bank. "We want to do everything we can to encourage and promote people who have big goals—like buying into the family farm," said Paul Bakkum, President of Northland Financial. "Our customers are successful using Bank of North Dakota programs because they are smartly devised and provide a real benefit which makes it easy for us to help our customers."<sup>iv</sup>

### CLINTON, MARYLAND.

Esteban Barragan, owner of 16 year-old Barragan Construction Corporation, wanted a loan to buy new equipment so they could expand and hire more workers. "I've been to a couple of banks, but it's the same thing. When they hear that I'm in construction, they don't want to hear anything else."<sup>v</sup>

### BND: HELPING SMALL BUSINESS GROW.

Kordel Korf wanted to acquire a second business to increase the capacity of his company, Do All Metal Fabricating. He received a loan for 60 percent of the purchase price from the Bank of North Dakota's Business Loan Participation Program with the **United Community Bank**. "Without [BND's] experienced help, we may not have been able to provide Do All with the funding needed to expand," said Ken Anderson, senior vice president of United Community Bank.<sup>vi</sup>

### CORBETT, OREGON.

Geoff Thompson, owner of the Viewpoint Inn, needed some support to get through the downturn that started in 2007. "We took care of the big guys, the auto companies and the banks [but for small businesses] the banks aren't lending. It's a tragedy. We need about \$600,000 to do some repairs—we really need a new roof and chimney—and to save 30 family-wage jobs in a rural area. The cold, hard reality is, for small-business owners like myself, we can't get it."<sup>vii</sup>

### BND: CREATING NEW JOBS

After five years of successfully selling made-from-scratch baked goods and gluten free products to their local community, Pam and Ken Wanner, owners of Twisted Bakery in Dickinson, ND, decided to expand their sales nationally. Baking without gluten requires special machinery and a larger-than-average staff, but with a loan from Dakota Community Bank and BND, the bakery was able to expand operations and hire new workers.<sup>viii</sup>

## BACKGROUND: HOW HIGH FINANCE HAS FAILED LOCAL ECONOMIES

The following section describes how dramatic changes to the national banking system have affected small business lending and public finance, heightening state policymakers' interests in developing Bank of North Dakota-style Main Street Partnership Banks.

### WASHINGTON BETS ON BIG BANKS

Policymakers in Washington have fundamentally altered the landscape of banking in just over a decade, and the new landscape is clearly designed for the multinational Wall Street bank. Yet even after the excesses of our biggest banks produced the near-collapse of our financial system, federal officials doubled down on the “bigger, riskier” strategy. They guided the largest banks through mega-mergers—Wells Fargo’s absorption of Wachovia, JPMorgan Chase’s purchase of Bear Stearns and Washington Mutual, Bank of America’s deals for Merrill Lynch and Countrywide—then nurtured these fragile conglomerates with billions in taxpayer dollars.<sup>23</sup>

The result? The top five banks in the U.S. in 2010—Bank of America, Wells Fargo, JPMorgan Chase, Citigroup, and PNC—now control more deposits than the next largest 45 banks combined.<sup>24</sup> Their share of total deposits in the United States has more than doubled since 2000, to 40 percent.<sup>25</sup> Their share of assets is even greater—48 percent—up from 26 percent.<sup>26</sup> Today, just one percent of the country’s banks have more branches than all of the rest combined.<sup>27</sup>

For every big bank executive who has gained from this policy, it seems that hundreds of local banks—and the communities that depend on them—have lost out. Rapid consolidation has accelerated the decline of smaller, more locally-accountable banks and credit unions. There are now fewer than 6,600 community banks (those with assets less than \$10 billion), down from more than 10,400 in 1994.<sup>28</sup> This matters for small business lending and local job growth because community banks invest more of their capital in local economies than do Wall Street banks.<sup>29</sup>

### BIG BANKS STOP BETTING ON MAIN STREET

The public has offered \$7.8 trillion since 2008—from the Troubled Asset Relief Program (TARP), a wide-open Federal Reserve discount window, and other programs—to keep our biggest banks liquid through the financial crisis.<sup>30</sup> The primary selling point for bailing-out the financial sector was to keep credit flowing to individuals and businesses.<sup>31</sup>

#### AMERICAN BAILOUTS, OVERSEAS INVESTMENTS:

*TARP borrowing<sup>39</sup> and new non-U.S. investments by the largest banks, 2008-10:*

**Bank of America:** \$45 billion in TARP funds. Cut 32,000 U.S. jobs and bought a \$7 billion stake in China Construction Bank three weeks after receiving \$15 billion in TARP funds.<sup>40</sup> Bank of America’s Global Wealth President Sallie Krawcheck looked ahead: “In 2010, 70 cents of every dollar of new growth will come from emerging markets. Only 16 cents will come from the U.S.”<sup>41</sup>

**Citigroup:** \$45 billion in TARP funds. Cut 51,175 jobs, and has set up 427 subsidiaries in tax-haven countries to shelter earnings.<sup>42</sup> 60 percent of Citi revenue comes from overseas operations, and the bank announced plans in 2010 to expand commercial banking in Asia by at least 15 percent.<sup>43</sup>

**JPMorgan Chase:** \$25 billion in TARP funds. Cut 14,000 jobs and focused on expanding overseas investments with the purchases of a unit of the Royal Bank of Scotland, a Brazilian asset management firm, and First Capital Securities in China.<sup>44</sup>

**US Bank:** \$6.6 billion in TARP funds. Announced a new partnership in 2010 with Paris-based Societe Generale Securities Services to expand into Europe.<sup>45</sup>

Unfortunately for the real economy, the largest banks refused this responsibility, effectively abandoning the small business lending market. Instead they redirected public money into more immediately profitable areas, such as securities trading and overseas operations.<sup>32</sup> See feature, “American Bailouts, Overseas Investments” for more detail.

The four largest banks cut back on small business lending—as measured by the number of loans made through the Small Business Administration’s flagship 7(a) loan program—by 53 percent between 2007 and 2010.<sup>34</sup>

JPMorgan Chase and Wells Fargo have recently pulled their lending back up to 2007 levels, but the two banks that took the most from taxpayers—Bank of America and

Citigroup—are lending 94 percent and 64 percent less respectively to small businesses today than they did in the pre-crisis economy.<sup>35</sup>

Of the small businesses that were able to pry credit from big banks in the last three years, many were pushed from lower-rate loans like the SBA 7(a) to variable rate credit cards.<sup>36</sup> The average small business credit card interest rate is 16 percent, over twice as high as the average business loan. To make matters worse, business credit cards are not covered by the same basic protections now given to consumer cards by the 2009 CARD Act. Banks successfully lobbied to exempt small business credit cards from the bill.<sup>37</sup>

## RESULT: STATES DEMAND MORE LOCAL ECONOMIC CONTROL

State policymakers are recognizing that the following three trends could combine to make permanent the fall-off in small business lending and the jobs that follow it:

- Federal support for bank consolidation and implicit subsidization<sup>46</sup> of the “Too Big to Fail” Wall Street bank business model.
- Large bank willingness to shift activities away from small business lending.
- Elimination of more than a thousand community banks by takeover or failure in the last three years alone.<sup>47</sup>

Main Street Partnership Banks—based on the Bank of North Dakota—are offering state policymakers a way to recapture control over their local economies. Partnership Bank bills have been introduced in at least seven states over the past year. Diverse stakeholders have coalesced around proposals to move state tax dollars out of unaccountable Wall Street banks, and use them to capitalize a new public structure with a mandate to help the local economy grow. Recent estimates from the non-partisan Center for State Innovation show that states enacting Partnership Banks could create thousands of new local jobs, millions in new state revenue and billions in additional business lending.

	JOBS	LENDING	REVENUE
OREGON	5,391	\$1.3 billion	\$155 million
WASHINGTON	8,212	\$2.6 billion	\$310 million
HAWAII	2,840	\$1.7 billion	\$61 million

Source: Center for State Innovation

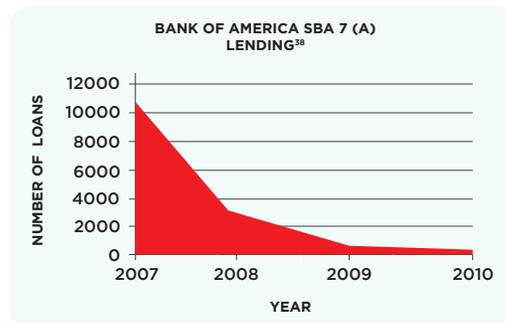
## PARTNERSHIP BANKS HELP SMALL BUSINESSES BY HELPING SMALL BANKS

Partnership Banks fulfill their local economy mandate by supporting the private community banks that our national banking policy has largely left behind. Even though they have less than one-third of banking assets, community banks account for more than half of small business lending.<sup>48</sup> Partnership Banks therefore help increase lending to small businesses, which have been responsible for two out of every three jobs created over the past 17 years.<sup>49</sup> Today, community banks are being asked to invest in America and help create local jobs without the advantages enjoyed by Wall Street banks (including a \$34 billion advantage in the credit markets due to the perception that they are “Too Big to Fail”).<sup>50</sup> A Main Street Partnership Bank can help even the playing field.

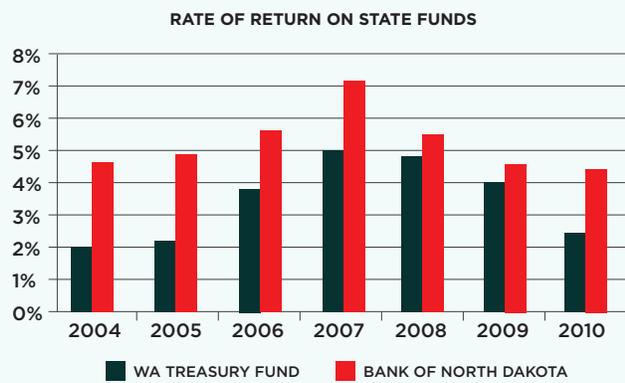
In order to compete with the biggest banks, community banks require a combination of more capital, higher loan-to-asset ratios, and a broader lending portfolio. Partnership Banks can provide all three. A Partnership Bank acts as a bank for other banks in order to make more credit available in a state. This “banker’s bank” function allows it to purchase local banks’ stock and team up with in-state banks for “participation loans” to major borrowers. In North Dakota, BND makes room for com-

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. If nothing changes, our economic playing field could wind up tilting against smaller businesses.”

-Chair of the TARP Congressional Oversight Panel<sup>33</sup>



Source: FOIA request by SEIU to SBA



Source: Center for State Innovation<sup>55</sup>

## WALL STREET BANKS GOUGE LOCAL COMMUNITIES

Auction rate securities and interest rate swaps were touted as sophisticated financial instruments—common on Wall Street but unknown on Main Street—that could save money for local governments or reduce their exposure to big swings in interest rates.

Neither worked as billed. The auction rate securities market tightened in the run-up to the financial crisis, and then collapsed. Governments watched the cost of their debt leap—in some cases their interest rates doubled—and Bank of America, JPMorgan Chase, Citigroup, and others were forced by Attorneys General to repurchase tens of billions of dollars worth of securities.<sup>57</sup>

Interest rate swap deals left banks to pay rates below 0.5 percent while local governments cut budgets to pay interest rates of three percent or more.<sup>58</sup> In its toughest budget year in decades, Oregon must send \$13.5 million per year to Bank of America, Morgan Stanley, and JPMorgan Chase in interest rate payments on swaps deals used to fund infrastructure projects.<sup>59</sup> Faced with a \$19 million annual payment to Wall Street, the Los Angeles City Council voted in 2010 to move nearly \$30 billion in city business away from any company that refused to renegotiate a swap deal.

Pennsylvania's Auditor General explains how so many public entities ended up on the losing end of these deals: "Elected officials are simply no match for the investment banker that's selling the deal."<sup>60</sup>

munity banks in credit markets that would otherwise fall to the biggest banks.

For example, in most states, for a local bank to lend to a business borrower or public project at an amount higher than its modest portfolio can support, the bank has to share this lucrative business with another bank, often a big bank competitor. Unfortunately, community bankers routinely complain that participation loan deals with, say, Wells Fargo or Bank of America, turn into lost business.<sup>51</sup> Banks can avoid this adverse outcome in participation deals with a Bank of North Dakota-style Partnership Bank, as Partnership Banks typically cannot compete with local banks to originate or service loans.

Instead of competing with community banks or 'crowding out' private funding, BND's support for local banks has a 'crowding in' effect. BND helped keep the state's banks liquid and lending when big banks were cutting off credit in much of the rest of the country.

## PARTNERSHIP BANKS HELP STATES RAISE REVENUE WITHOUT RAISING TAXES

In addition to diminishing cash flow at private businesses, recessions also create sharp and untimely fall-offs in tax receipts that governments depend on to maintain services and other investments in the local economy. The 2008 recession has led to the steepest fall in state tax receipts in history.<sup>52</sup> With all states but one required to balance their budgets each year, less state revenue leads to layoffs and cutbacks—and/or higher taxes—just when the local economy needs a public boost.

A public Main Street Partnership Bank could help states break this self-defeating cycle by providing a new source of revenue that is not dependent on taxes. In North Dakota, BND contributes to state fiscal health in four significant ways.

First, the bank contributes about \$30 million each year from its profits to the state. The BND dividend has totaled nearly \$350 million over the last decade, which the state has put toward stronger public services and lower tax rates.

Second, the bank is able to provide an immediate bridge to the state government when federal money—for disaster relief, stimulus payments or Medicaid reimbursements—is slow in coming. North Dakota is not forced into the bond market to cover these emergency costs, potentially saving the state millions of dollars in underwriting fees and interest costs.

Third, BND pays the state treasury a market-average rate for its deposits. In FY 2010, North Dakota gained an estimated \$23.4 million from the interest on state deposits

held at BND and \$63.2 million in FY 2009-2010 BND profits, a total of \$5.28 cents per dollar deposited.<sup>53</sup> Compare that to the \$2.53 cents per dollar that Washington State's Treasurer received in 2009-2010 from its depository banks.<sup>54</sup>

BND's structure allows it to maintain a robust and reliable return for the state, a fact that is most evident when the market falls.

Finally, Partnership Banks can save local governments from paying volatile Wall Street prices for infrastructure projects. There is wide agreement that public infrastructure spending during an economic downturn is smart counter-cyclical economic policy, as it puts local businesses and residents to work immediately while also paving the way for long-term growth. There is also wide agreement that the U.S. suffers from an infrastructure deficit. Unfortunately, too many states and localities are stuck with high interest payments to Wall Street banks.

Banks like JP Morgan Chase and Goldman Sachs aggressively—and often fraudulently—marketed interest rate swaps and auction rate securities during the boom, offering projections of big savings for public entities should interest rates rise. When these same firms' speculation triggered a financial meltdown, the Federal Reserve actually slashed interest rates, providing a windfall for banks. While no total accounting of public payments on these deals exists, one study identified over \$1.25 billion in payments from school districts and local governments to Wall Street banks in 2010 alone.<sup>56</sup>

Big banks now require many governments to refinance their debt every two or three years using Letters of Credit—essentially, a letter co-signing or guaranteeing payment of the loan. Banks have built into these deals an opportunity to charge higher rates and new fees. The State of New Jersey, for one, is cutting economic development investments because the costs for Letters of Credit are skyrocketing.<sup>61</sup>

The *Wall Street Journal* reports that \$53 billion in Letters of Credit will expire in 2011: “For banks, this is a potentially lucrative business... The loans could prove something of a time bomb for borrowers...”<sup>62</sup>

Partnership Banks could help governments find credit at more affordable terms than Wall Street deals. The Bank of North Dakota provides Letters of Credit to state and local governments as they seek bond market financing for projects. The BND role has made finding buyers for local government debt easier and saved taxpayer dollars.<sup>63</sup>

Partnership Banks could also access low-cost funds from the regional Federal Home Loan Banks, enabling them to pass those savings on to government borrowers.

## CAMPAIGNS ACROSS THE STATES WIN BROAD POLITICAL SUPPORT

Bills to create Partnership Banks or study their feasibility are being taken up in 2011 and 2012 sessions in Oregon, Washington, Hawaii, New Mexico, Maryland, New Hampshire, and Maine.

Here's how Oregon Treasurer Ted Wheeler described the proposed Virtual State Bank in a February 2011 op-ed:

“One of the frequently cited reasons for Oregon's sluggish recovery has been a shortage of bank financing. We also frequently hear that our tools for economic development need sharpening...

“[We must] be creative and bold in our approach to unlock additional lending capacity, in partnership with existing local institutions.

“If this effort succeeds, we will put more Oregon public funds to work for Oregon families, businesses and communities.”<sup>66</sup>

Surveys by the Main Street Alliance in Oregon<sup>67</sup> and Washington<sup>68</sup> show at least 75 percent support among small business owners for Partnership Banks. Taxpayers of all political stripes who have been polled on the issue strongly support the proposed banks. Sixty-seven percent of Maryland voters, for example, favored a Maryland Partnership Bank in a 2010 poll.<sup>69</sup> Oregon Republican voters in a traditionally conservative legislative district support the proposed Oregon bank—55 percent in support and 22 percent opposed.<sup>70</sup> Independents and third-party voters in Oregon support the proposed bank 62 to 11 percent.<sup>71</sup>

The campaigns to create Partnership Banks have pulled together uncommon coalitions that include small business leaders, practical progressives, community bankers, fiscal conservatives, unions, and farmers.

As in Congress, state banking lobbies have lobbied in the name of community bankers against a policy that could mean lost business for the largest banks. But the experience of community banks and small business in this economic crisis has changed the calculus in many states, and many individual community bank owners have become active in state bank coalitions. This issue is helping to forge long-overdue alliances that put ideology aside in favor of smart economic policies that deliver long-term job growth.

## PARTNERSHIP BANKS OFFER A POTENTIALLY BI-PARTISAN SOLUTION

The Bank of North Dakota is a public structure that makes the credit markets work for the state's economy. It is also a rare example of a bi-partisan economic policy approach. In one of the nation's most conservative states—every elected state official in North Dakota can safely be described as a conservative Republican—it is a government solution with broad support. In fact, Republican U.S. Senator and former North Dakota governor John Hoeven rose to prominence as President of the Bank of North Dakota in the 1990s. And the Bank is strongly supported by the North Dakota Bankers Association because of the central role it plays in North Dakota's diverse banking sector.

Part of the formula for BND's bi-partisan success in the state is its prudent, non-controversial success as an institution. BND is conservatively run, reliably profitable, and—even as the rest of the financial industry has been dramatically up-ended—very, very boring. To keep it that way, BND has safeguards in place to manage risk. BND operates like an independent financial institution rather than a state agency.<sup>64</sup> These safeguards include:

- Independent audits. The bank is audited annually by an outside firm, and biennially by the North Dakota Department of Financial Institutions. The independent auditor publicly presents its review of the bank's financial condition—a level of transparency unknown to Wall Street.
- Risk management. BND does not carry below-market rate or above-average risk loans. Funds to undertake slightly riskier interest rate buy-downs, for example, come from legislative economic development appropriations. These loans are administered by BND but are not part of its loan portfolio.
- Loan loss reserves. No loan portfolio is immune to loan failures, and BND's loan-loss allowance was 1.79 percent in mid-2010, compared to the 2.03 percent average at similarly-sized banks. BND's Asset Liability committee constantly monitors loan-loss ratios.<sup>65</sup>
- Capital standards. BND maintains its capital ratio at eight to 10 percent for all levels of capital, higher than the Federal Reserve's standard.
- Loan reviews, lending limits, underwriting standards. All loan decisions are reviewed by committee and senior management. Larger loans are reviewed by the Advisory Board of community bank professionals, and by the Industrial Commission, the bank's governing board. Like all financial institutions, the bank adheres to legal lending limits and underwriting standards.
- Credit review. An internal independent department reports directly to the bank president and Advisory Board on risk ratings.

## CONCLUSION

Main Street Partnership Banks could provide states a way to put local tax dollars to work supporting the local economy—providing an innovative solution to a rising problem. As finance has grown more concentrated, speculative and globally-focused over the past decade, it has also grown less accountable to the real economy, particularly at the local level. Governors and Treasurers across the country are beginning to realize that they can no longer wait for Wall Street to reinvest in their communities, or to provide fairer terms for their investment and banking services. After operating in relative obscurity for nearly 100 years, the Bank of North Dakota is now serving as a bi-partisan model for public finance and sustainable local lending in the 21<sup>st</sup> century.

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## KEY QUESTIONS AND ANSWERS ABOUT MAIN STREET PARTNERSHIP BANKS

### Q: HOW DOES A PARTNERSHIP BANK WORK?

#### A: Participation loans

A Partnership Bank (also sometimes referred to as a public bank, development bank, or state bank) primarily interacts with the banking community through participation loans made with community banks to small businesses. These loans help increase a private bank's lending power and small businesses' job creating power. A Partnership Bank can also purchase part or all of a loan after it has been issued, to help a private bank stay within its capital adequacy and portfolio balance requirements.

#### Direct bank stock lending

A Partnership Bank can also provide capital to private banks through bank stock loans for mergers and acquisitions, capital refinancing, or capital expansion.

#### Infrastructure funding

Partnership Banks can be a source of funding for local governments when they buy debt for infrastructure investments. Access to low cost funds from the regional Federal Home Loan Banks, along with low overhead and an emphasis on public-purpose lending, allow the bank to lend its own assets, often at lower rates than private sources.<sup>1</sup> The banks can also provide reliable Letters of Credit for tax-exempt bonds at lower interest rates.

#### Banker's bank functions

The Bank of North Dakota (BND) acts as a mini-reserve bank for the state's banking industry and serves the functions of a bankers' bank—a 'wholesale' bank providing core services including participations to smaller banks. There are only 22 bankers' banks in the country and a Partnership Bank could help provide community banks with lower cost, higher quality services.<sup>2</sup> Banks are free to continue working with private bankers' banks—a Partnership Bank is simply another option for community banks to use.<sup>3</sup>

### Q: HOW MUCH CAPITAL IS NEEDED TO START A PARTNERSHIP BANK? WHERE WOULD IT COME FROM?

A: There is no set minimum for start-up capital. Of course, a Partnership Bank would need to sustain its capital adequacy, so depending on the size of state deposits that will be held at the Partnership Bank, this could drive the capital needs. It seems likely that there will be a transition stage where the Partnership Bank's participation loan portfolio grows and there are arguments for growing the capital at a similar rate.

Ultimately, a Partnership Bank can be thought of as an economic engine that will be greatly impacted by the inflow of state deposits and reinvestment of profits into Partnership Bank capital. Center for State Innovation analysis shows that even after accounting for debt service obligations due to start-up capital, Partnership Banks in Oregon, Washington State, Hawaii, and other states would be profitable in about two to three years with an actual return on equity of about seven to 10 percent per year, and could be scaled up to full operation within five years.<sup>4</sup>

The likely sources of Partnership Bank start-up capital are the state General Fund, General Obligation Bonds, or other dedicated state funds.

### Q: DOES A PARTNERSHIP BANK COMPETE WITH COMMUNITY BANKS?

A: No. In fact, as 'participation lenders,' Partnership Banks are designed to complement community banks, not compete with them. Partnership Banks are primarily banker's banks and do not have branches. They generally do not originate business loans, take in deposits from businesses or individuals, or offer consumer banking products.

The BND Charter states explicitly that the bank is “[t]o be helpful to and to assist in the development of state and national banks... and not in any manner to destroy or to be harmful to existing financial institutions.”<sup>5</sup> The North Dakota Bankers Association and its member banks strongly support the Bank of North Dakota.

### **Not competing over loans**

A Partnership Bank has no interest in competing for the origination or refinance of private loans, so private banks need not fear that allowing participation will lead to a loss of customers.

### **Not competing for deposits**

A Partnership Bank can be prohibited from taking private deposits,<sup>6</sup> as well as local government deposits. In fact, the bank can help community banks secure local government deposits less expensively through Letters of Credit.

Under some proposed Partnership Bank legislation, private banks would no longer receive, or would receive fewer, short-term state deposits. But most community banks receive little or none of this money at present as states currently require 100 percent collateral or higher for these funds.

### **Overall competitiveness of the banking market**

Due in part to BND’s supportive role, North Dakota has one of the lowest Herfindahl-Hirschman Indexes (HHI) for banks—a measure of market concentration—in the U.S., much lower than the HHIs of similar states such as Montana, South Dakota, and Wyoming.<sup>7</sup> Despite being one of the least-populous states, North Dakota has more community banks than Hawaii, Maine, and New Hampshire combined.

No North Dakota bank has more than 10 percent of total deposits, and the two biggest out-of-state banks—Wells Fargo and U.S. Bank—actually lost market share there in the last three years.<sup>8</sup>

## **Q: DOES A PARTNERSHIP BANK HAVE TO TAKE IN ALL STATE DEPOSITS?**

A: No, a Partnership Bank is not required to take in all state deposits. In fact, a new bank cannot put all of a state’s deposits to work right away in productive investments, and needs a ramp-up and capital-development period of several years.

The Bank of North Dakota grew into its role over several decades. First capitalized with a General Obligation bond of \$2 million—worth \$23.9 million in 2011 dollars—the bank now has assets of more than \$4 billion.<sup>9</sup> Roughly half of BND profits are plowed back into the bank’s capital to expand its lending capacity.

## **Q: WE’VE SEEN THAT BANKING CAN BE VERY RISKY. WHAT ARE THE RISKS FOR A STATE IN CREATING A PARTNERSHIP BANK?**

A: The Bank of North Dakota has stringent safeguards in place to protect taxpayers. As a result, BND has never suffered major losses from loans and has always turned a profit for taxpayers, even when losses from loans are included.

- Independent audits. The bank is audited annually by an outside firm, and biennially by the North Dakota Department of Financial Institutions. Partnership Banks operate like independent financial institutions rather than state agencies. However, BND’s outside auditor publicly presents its review of the bank’s financial condition—perhaps the only public review in the country.
- Legislative oversight. The bank is required to present its audit annually and its budget biannually to the legislative committees of the North Dakota House and Senate.
- Loan loss reserves. No loan portfolio is immune to individual loan failures, and as with other banks around the world, a Partnership Bank would have a loan loss provision and would follow prudent banking practices. Thus, even if some loans held by the Partnership Bank fail, it could not only cover its deposits, but continue to provide a profit to both the bank and the state. In 2010, BND’s loan-loss allowance was 1.79 percent, less than the 2.03 percent average at similarly-sized banks. BND’s Asset Liability committee constantly monitors loan-loss ratios.<sup>10</sup>
- Capital standards. BND maintains its capital ratio at eight to 10 percent for all levels of capital, higher than the Federal Reserve’s standard.

- Lending limits, underwriting standards. All loan decisions are reviewed by committee, senior management, and even the bank's Advisory Board and governing board.
- Credit review. An internal independent department reports directly to the bank president and Advisory Board on risk ratings.

In addition to being monitored by state regulators, a Partnership Bank would be required to meet external safety and soundness standards such as S&P ratings in order to maintain access to its own liquidity.

Thus even if some loans held by a Partnership Bank fail, the Bank could not only cover its deposits but provide a profit to both the bank and the state through state dividend payments. In 2009, BND showed a profit of \$58 million, including loan defaults.<sup>11</sup> Over the past decade, BND has returned an average of \$30 million per year to the state general fund.<sup>12</sup> Analysis suggests this would be the case in other states as well.

In North Dakota, it is the bank that has helped the state manage its risk. During the recession that followed the bursting of the dot-com bubble, BND was able to pay a special one-time dividend that helped North Dakota close a \$40 million budget deficit.<sup>13</sup> And the role of the bank in providing capital and partnering with community banks helped stabilize the state's banking industry and lower the risk of bank failures in the financial crisis that began in 2008. In fact, no banks in North Dakota failed as a result of the recent banking industry collapse.

**Q. WOULDN'T POLITICAL INTERESTS END UP FORCING THE PARTNERSHIP BANK TO MAKE BAD LOANS?**

A: No. In addition to the safeguards outlined above, the Bank of North Dakota is run by a professional banking staff, not an economic development agency, and a Partnership Bank would be run based on prudent financial policies, not high risk practices. The primary assets of a Partnership Bank are participation loans in which the loan originator is a private bank. This public-private partnership provides market-driven checks against manipulation by political actors.

It is important to note that the Bank of North Dakota has enjoyed the support of both Democratic and Republican administrations and legislators. U.S. Sen. John Hoeven—also a Republican former Governor of North Dakota—was President of the Bank of North Dakota earlier in his career.

**Q: WON'T THIS JUST INCREASE REGULATIONS ON PRIVATE BANKS IN THE STATE?**

A: No. A Partnership Bank does not add any regulatory burden for private banks, nor is it a financial bailout to private banks, like the federal government's Troubled Asset Relief Program. A Partnership Bank is not pushed into risky lending instruments by stockholder-driven profit-maximization and can act as a stabilizing, market-driven force in the states' credit markets.

**Q: DON'T STATES ALREADY HAVE ECONOMIC DEVELOPMENT PROGRAMS THAT DO THESE THINGS?**

A: A Partnership Bank is not an economic development program, and does not replace current state economic development efforts. A Partnership Bank can be a source of liquidity to help organize funding for deals designed by the state's economic development agency that meet the Bank's strict lending criteria. BND works closely with North Dakota's economic development agency—they are housed together.<sup>14</sup>

Unlike revolving loan funds, a Partnership Bank has the power to leverage funds—ten-to-one as a rule of thumb—and can therefore increase the state's ability to fund economic development.

The creation of a Partnership Bank may also be an opportunity, as Oregon Treasurer Ted Wheeler argues in his January 2011 letter to Oregon legislators, to “consolidate [the state]’s existing economic development funds and programs under a single roof... to better align these efforts with our objectives.”<sup>15</sup>

**Q: THE STATE'S TREASURER ALREADY GETS A GOOD RETURN ON THE INVESTMENT POOLS WE USE. WHY CHANGE THAT?**

A: A Partnership Bank is not a substitute for an investment manager, and we would expect that the Treasurer would retain these functions. For example, in North Dakota, BND does not manage the state pension fund investments.

Also note that deposit income does not suffer. A Partnership Bank pays the state Treasury a market-average rate for its deposits. In fact, in FY 2009-2010, that added up to an estimated \$23.4 million from the interest on state deposits held at BND (along with \$63.2 million in FY 2009-2010 BND profits, a total of 5.28 cents per dollar deposited).<sup>16</sup> Compare that to the 2.53 cents per dollar that Washington State's Treasurer received in 2009-2010 from its depository banks.<sup>17</sup>

**Q: HOW CAN A PARTNERSHIP BANK ACT AS THE STATE'S FISCAL AGENT OR CONCENTRATION BANK? WOULD IT BE COST-PROHIBITIVE TO SET UP THAT OPERATION?**

A: The Bank of North Dakota handles the functions of a fiscal agent for North Dakota and remains profitable. Partnership Banks tend to have much lower overhead than comparable private banks due to the lack of costs like branches, ATMs and marketing. Over the last 15 years (1995-2009) the Bank of North Dakota averaged an efficiency ratio of about 28 percent, while small- and medium-sized banks in North Dakota averaged about 62 percent.<sup>18</sup>

Once up and running, the bank costs the state nothing to operate and in fact returns money to the state. The primary difference is that while a concentration bank such as Bank of America is the only bank to benefit from state deposits, a Partnership Bank would spread the benefit to small- and medium-sized banks throughout the state through participation loans.

**Q: WOULD A PARTNERSHIP BANK IMPAIR LIQUIDITY IN STATE DEPOSITS?**

A: No. Like any private bank, a Partnership Bank has to carefully manage liquidity day-to-day in order to be able to meet all its operational needs. State deposits in a private financial institution are managed so that funds are available to the state to withdraw to meet payroll and other obligations as necessary. A Partnership Bank would be no different, and the Bank of North Dakota has demonstrated over the past 92 years that it can do so capably—and still turn a profit.

**Q: ISN'T SETTING UP A PARTNERSHIP BANK JUST TOO COMPLEX?**

A: There are thousands of banks in operation in the U.S. and new private banks are formed every year. In many ways, a Partnership Bank is more straightforward to set up than a private bank. As a 'wholesale' bank, it would have one location, no marketing, very little or no direct lending and a single source of deposits—the state government. A focus on participation loans also reduces the need for bank loan officers and loan brokers.

**Q: ISN'T THE REASON THAT BANKS ARE LENDING LESS NOW DUE TO A DECREASE IN LOAN DEMAND OR GOOD LOANS?**

A: No, it is just one of several factors. While a reduction in lending during an economic downturn is in part a reflection of decreased demand for new loans—businesses holding off on expansion—much of the loan demand curve is tied directly to the cost of debt. As lenders tighten their underwriting standards and increase the interest cost to borrowers, demand for new loans naturally drops. Center for State Innovation analysis shows that banks in North Dakota reduced lending 33 to 45 percent less than comparable states, and we believe that this is in no small part due to the stabilizing effects of its Partnership Bank.<sup>19</sup>

**Q: ISN'T NORTH DAKOTA'S ECONOMY STRONG NOT BECAUSE OF THE STATE BANK BUT BECAUSE IT RECENTLY FOUND LARGE NATURAL GAS AND OIL DEPOSITS?**

A: Yes, in part. But a booming energy economy does not explain the underlying strength of North Dakota's lending markets.

The Center for State Innovation analyses compare North Dakota's lending market against those in states with simi-

lar populations and economies: Montana, South Dakota, and Wyoming. All four states also have benefited from a boom in energy prices—in fact, Montana and Wyoming have extracted much more gas than North Dakota—but North Dakota ranks ahead on the measures that BND influences: loan-to-asset ratios, average loans per capita, quality of bank assets, HHI, and numbers of banks per capita.<sup>20</sup>

The analysis attempts to tease apart the economy-lending linkage a little—though obviously the two are quite intertwined—and has found that BND’s support of North Dakota’s small- and medium-sized bank lending market has helped keep that market strong, independent of other major components of the state’s economic health such as the housing market and the oil and gas industries.

It is also worth noting that oil and gas production and extraction tax revenues provided \$71 million to the state general fund over the 2007-2009 biennium (the statutory cap), while the Bank of North Dakota returned \$60 million; thus the bank’s direct impact on the state budget surplus, anyway, has been almost as great as that of the oil and gas industries.<sup>21</sup>

In sum, the above suggests that while oil and gas revenues are certainly important to the state’s economy and fiscal health, they are not the only factor driving it, and that the state’s Partnership Bank plays some role as well.

## ENDNOTES

1. Oversight of Federal Home Loan Bank System (S. Hrg. 108-834), 108<sup>th</sup> Congress (2003) <http://www.access.gpo.gov/congress/senate/pdf/108hr/21384.pdf>  
Federal Home Loan Bank of Dallas, Economic Development Program guidelines and application, February 2011 (accessed April 18, 2011) [https://www.fhfb.com/community/data/EDP\\_CommLending\\_5-09.pdf](https://www.fhfb.com/community/data/EDP_CommLending_5-09.pdf)
2. Center for State Innovation, Demos, Progressive Maryland and the Public Banking Institute, “Rebuttal to Opposition Testimony on HB 1066/SB789: A bill to study the creation of a State Bank of Maryland,” March 2011 (accessed April 18, 2011) <http://www.stateinnovation.org/State-Banks-Materials/Response-to-MBA-Opposition-Testimony-HB-1066,-SB-7.aspx>
3. There is room for both a healthy Partnership Bank and healthy bankers’ banks in most markets. North Dakota is an excellent example: it has both a large, healthy, and long-running Partnership Bank and a private bankers’ bank operating in the state’s credit market. In fact, the Minnesota-based United Bankers’ Bank works with community banks in North Dakota and is even a member of the North Dakota Bankers Association which is very supportive of the Bank of North Dakota. Over the last seven years, United Bankers’ Bank has more than doubled its assets and deposit base and has averaged about \$2.5 million in net income while sharing markets with the Bank of North Dakota. Fargo-based Partnership Bank and Trust is another example. The bank provides correspondent lending services to community banks in North Dakota. Over the last seven years, Partnership Bank and Trust’s assets have grown by over 70 percent to over \$2 billion, and profits average about \$13 million per year.
4. Center for State Innovation, “Oregon State Bank Analysis,” February 2011 (accessed April 14, 2011) <http://www.stateinnovation.org/State-Banks-Materials/CSI-Oregon-State-Bank-Analysis-020411.aspx> Center for State Innovation, “Washington State Bank Analysis,” December 2010 (accessed March 31, 2011) <http://www.stateinnovation.org/Home/CSI-Washington-State-Bank-Analysis-020411.aspx>
5. Bank of North Dakota, Policy of the Bank, 1920 (accessed April 18, 2011) <http://www.stateinnovation.org/Services-for-State-Executives/Initiatives/State-Banking-Reform/State-Banks/BND-Policy.aspx>
6. Less than two percent of the Bank of North Dakota’s deposits come from private individuals.
7. Center for State Innovation, “Oregon State Bank Analysis,” February 2011 (accessed April 14, 2011) <http://www.stateinnovation.org/State-Banks-Materials/CSI-Oregon-State-Bank-Analysis-020411.aspx>
8. Federal Deposit Insurance Corporation, Deposit Market Share Report (accessed April 5, 2011) <http://www2.fdic.gov/sod/sodMarketBank.asp?barItem=2>. Contrast these numbers with those of Vermont, another predominantly rural state with similar demographics: two out-of-state banks control 42.8 percent of deposits, and the state had only 23 institutions in 2010, compared to 100 in North Dakota.
9. North Dakota’s Gross State Product in 2009 was \$31.87 billion. Bureau of Economic Analysis, “Economic Downturn Widespread Among States in 2009” U.S. Department of Commerce, November 18, 2010 (accessed April 18, 2011) [http://www.bea.gov/newsreleases/regional/gdp\\_state/2010/pdf/gsp1110.pdf](http://www.bea.gov/newsreleases/regional/gdp_state/2010/pdf/gsp1110.pdf)
10. FDIC insurance is unnecessary and costly for a bank that holds state deposits and has no private depositors. The FDIC’s \$250,000 cap covers a tiny portion of any state’s deposits. A Partnership Bank would be closely regulated by state regulators.
11. Bank of North Dakota, 2009 Annual Report (accessed April 18, 2011) [http://www.banknd.nd.gov/financials\\_and\\_compliance/pdfs/annual-report09.pdf](http://www.banknd.nd.gov/financials_and_compliance/pdfs/annual-report09.pdf)
12. Center for State Innovation, Demos, Progressive Maryland and the Public Banking Institute, “Rebuttal to Opposition Testimony on HB 1066/SB789: A bill to study the creation of a State Bank of Maryland,” March 2011 (accessed April 18, 2011) <http://www.stateinnovation.org/State-Banks-Materials/Response-to-MBA-Opposition-Testimony-HB-1066,-SB-7.aspx>
13. Josh Harkinson, “How the Nation’s Only State-Owned Bank Became the Envy of Wall Street,” *Mother Jones*, March 27, 2010 (accessed April 18,

- 2011) <http://motherjones.com/mojo/2009/03/how-nation%E2%80%99s-only-state-owned-bank-became-envy-wall-street>
14. Progressive States Network/Center for State Innovation phone conference with North Dakota state Sen. Tim Mathern, January 11, 2011.
  15. Oregon State Treasurer Ted Wheeler, letter to Oregon legislature, January 13, 2011.
  16. Center for State Innovation calculations, March 2011. All numbers are for the fiscal year beginning July 1, 2009 and ending June 30, 2010.
  17. Ibid.
  18. Center for State Innovation, "Washington State Bank Analysis," December 2010 (accessed March 31, 2011) <http://www.stateinnovation.org/Home/CSI-Washington-State-Bank-Analysis-020411.aspx>
  19. Center for State Innovation, Demos, Progressive Maryland and the Public Banking Institute, "Rebuttal to Opposition Testimony on HB 1066/SB789: A bill to study the creation of a State Bank of Maryland," March 2011 (accessed April 18, 2011) <http://www.stateinnovation.org/State-Banks-Materials/Response-to-MBA-Opposition-Testimony-HB-1066,-SB-7.aspx>
  20. Center for State Innovation, "Washington State Bank Analysis," December 2010 (accessed March 31, 2011) <http://www.stateinnovation.org/Home/CSI-Washington-State-Bank-Analysis-020411.aspx>
  21. North Dakota Office of State Tax Commissioner, 49<sup>th</sup> Biennial Report, December 1, 2009 (accessed April 18, 2011) <http://www.nd.gov/tax/genpubs/49thbiennialreport.pdf>

## ABOUT DĚMOS

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.

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Working with a national network of experts on state government — think tanks, universities, former state officials, technical assistance providers, and others — the Center for State Innovation (CSI) offers state executives turnkey access to the best policy, messaging, and technical assistance in the country. Through its research, publications and individual and multi-state policy briefings, CSI provides support for a wide range of state policy areas. CSI believes that every state can achieve shared prosperity, environmental sustainability, and efficient democratic government and offers evidence-based, outcome-measured, fiscally prudent strategies for doing so.

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