



PUTTING MASSACHUSETTS MONEY TO WORK FOR MASSACHUSETTS: INTRODUCING THE MASSACHUSETTS PARTNERSHIP BANK

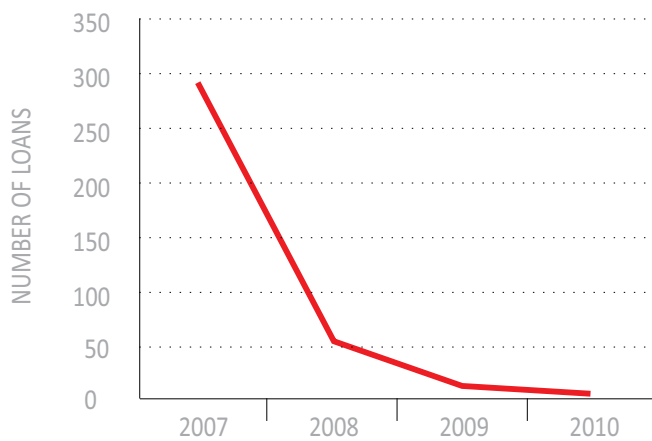
SUMMARY:

Massachusetts 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. Like the successful Bank of North Dakota, a Massachusetts Partnership Bank—under study now by a state commission—will generate new revenue for Massachusetts, save local governments money, and make our small businesses, farms and consumers less vulnerable to cutbacks in lending in our state.

Large Out-of-State Banks are Failing Massachusetts Small Businesses

Having lost more than **143,000 jobs**¹ since the financial industry set off the Great Recession in 2008, Massachusetts's economy and its middle class depend more than ever on the health of our small businesses. Yet the engine of a thriving small business economy—affordable credit—has stalled in our state. Although the largest banks have returned to profitability after taxpayer bailouts, many of these same global banks have refused to restore lending to Massachusetts small businesses to pre-crisis levels.²

FIGURE 1. BANK OF AMERICA SBA 7(A) LENDING IN MASSACHUSETTS



SOURCE: FOIA request to the Small Business Administration

These large banks have been costing us jobs in Massachusetts.

A recent New England Public Policy Center analysis of credit needs in Massachusetts argues that the state's small businesses can count on the biggest banks can to provide affordable credit, but a cursory look at the record of the state's biggest bank—Bank of America, with 22 percent of all deposits³—shows that the opposite is true.⁴

In 2010 Bank of America made just six Small Business Association 7(a) loans—the flagship program for small business lending—in Massachusetts.⁵ That was a **98% decline from the bank's 286 loans in 2007**, a drop that has pushed Massachusetts small businesses either out of business or onto higher-interest credit cards.⁶ 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 Massachusetts were on credit cards.**⁷

Large banks' lending cutbacks have had a disproportionate impact on the Massachusetts economy due to high bank consolidation in the state. Here, four of our five largest banks—Bank of America, Citizens/RBS, Sovereign/Santander and TD Bank/Toronto Dominion—are chartered out-of-state and control 45 percent of all Massachusetts deposits.⁹

“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.”

– Elizabeth Warren, Chair of the TARP Congressional Oversight Panel, May 2010⁸

A SOLUTION FROM THE HEARTLAND: WHAT NORTH DAKOTA KNOWS

While Massachusetts 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.**¹⁴

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 MASSACHUSETTS’S MONEY WORK FOR MASSACHUSETTS

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 Massachusetts businesses and local governments need most: access to the affordable capital they need to grow.

A Partnership Bank for Massachusetts 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 a similar proposal in Washington State by the non-partisan Center for State Innovation predicted that a Partnership Bank there—which has a state economy of comparable size to Massachusetts’s—will help the state’s community banks expand lending by \$2.6 billion and lead to 8,212 new small business jobs in the first three to five years. And do it at a profit.¹⁵
- **Strengthen local banks.** Primarily because of BND’s unwavering support for local banks, North Dakota has six times more community banks per capita than Massachusetts. 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.¹⁶
- **Serve vital Massachusetts public needs.** A Massachusetts 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.¹⁷ It can also provide bridges to our state when federal money—whether disaster relief or health care reimbursements—is slow in coming. Finally, a Massachusetts Partnership Bank could

STORIES FROM THE MASSACHUSETTS SMALL BUSINESS CREDIT CRUNCH

“We’ve got to free up some credit, and mortgage companies and banks have got to do a better job of allowing people to redo their mortgages... [A Partnership Bank] wouldn’t be in competition with our small community banks.”

- Massachusetts Senate President Therese Murray February 2010¹⁰

Rutland: Tim Burr, software company owner, was turned down for a \$35,000 loan at Bank of America and Citibank. “I thought, ‘I can’t believe this!’ These programs are supposed to help small business during tough times. They were no help whatsoever.”¹¹

Swampscott: 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.”¹²

Amherst: Nick Seamon, owner of a deli and catering company applied for an SBA loan at three or four banks over six months and was turned down by all of them. His business is 23 years old. “I hear a lot of talk about support for small businesses, but I don’t see a lot of results on the streets. It’s a lot of talk.”¹³

reproduce North Dakota’s new Children FIRST matched college-savings-from-birth program, which is funded by the BND.¹⁸

- **Generate new revenue for Massachusetts** with bank dividends. The annual dividend from a fully-operational Partnership Bank on the same scale as the Bank of North Dakota could mean as much as \$351 million a year for Massachusetts’s General Fund, and that doesn’t include the interest paid on state deposits.¹⁹ The Massachusetts Partnership Bank would also lead to higher tax receipts as in-state jobs are created and neighborhood small 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 Massachusetts 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.²⁰

WHO’S AFRAID OF INNOVATION?

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

Jason Judd is President of Cashbox Partners, a Maryland-based small business, former director of SEIU’s banking campaign, and a consultant to Dēmos.

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

Research Assistance by Sarah Babbage, Dēmos.

ENDNOTES

1. Megan Woolhouse, "Mass. Unemployment rate remains at 8.3 percent," *Boston Globe*, March 3, 2011 (accessed March 29, 2011) http://www.boston.com/business/ticker/2011/03/mass_unemployeme_36.html
2. Michael R. Crittenden and Marshall Eckblad, "Lending Falls at Epic Pace," *Wall Street Journal*, February 24, 2010, (accessed April 18, 2011) <http://online.wsj.com/article/SB1000142405274870418810457508332005461558.html?KEYWORDS=percent22lending+falls+at+epic+pace+percent22>
3. Deposit Market Share report, Federal Deposit Insurance Corporation (accessed June 14, 2011) <http://www2.fdic.gov/sod/sodMarketBank.asp?barItem=2><http://www2.fdic.gov/sod/sodMarketRpt.asp?barItem=2>
4. Federal Reserve Bank of Boston, "The Bank of North Dakota: A Model for Massachusetts and Other States?" May 2011 <http://www.bos.frb.org/economic/neppc/researchreports/2011/tr1102.htm>
5. FOIA Request to Federal Financial Institutions Examination Council by the Service Employees International Union.
6. Ibid.
7. Federal Financial Institutions Examination Council, Community Reinvestment Act disclosure reports, <http://www.ffiec.gov/craadweb/DisRptMain.aspx>
8. Chair of the TARP Congressional Oversight Panel, May 13, 2010 video introduction of COP "Small Business Credit Crunch" report, <http://www.youtube.com/watch?v=l6sulQs7Wx0>
9. Deposit Market Share report, Federal Deposit Insurance Corporation (accessed April 20, 2011) <http://www2.fdic.gov/sod/sodMarketBank.asp?barItem=2>
10. Jim O'Sullivan, "State Senate plan would cut agencies, boost economic development," *MetroWest Daily News*, February 8, 2010 (accessed June 14, 2011) <http://www.metrowestdailynews.com/archive/x1522835233/State-Senate-plan-would-cut-agencies-boost-economic-development#ixzz1OsuUiEop>
11. Megan Woolhouse, "Billions in aid to banks not reaching many seeking loans," *Boston Globe*, November 2, 2009 (accessed June 14, 2011) http://www.boston.com/business/articles/2009/11/02/billions_in_aid_to_banks_not_reaching_many_seeking_loans/
12. Chris Arnold, "Small businesses squeezed as banks limit lending," NPR, October 15, 2009 (accessed June 14, 2011) <http://www.wbur.org/npr/113816657/small-businesses-squeezed-as-banks-limit-lending>
13. Kristin Palpini, "Rescue loans pass many by," *New Hampshire Gazette*, February 16, 2010 (accessed June 14, 2011) <http://www.gazettenet.com/2010/02/16/rescue-loans-pass-many-by>
14. Annual Report 2009, Bank of North Dakota http://www.banknd.nd.gov/financials_and_compliance/pdfs/annualreport09.pdf
15. 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>
16. 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>
17. Michael Corkery, "New hit to strapped states. Borrowing costs up as bond flops; refinancing crunch nears," *Wall Street Journal*, January 14, 2011 (accessed April 18, 2011) <http://online.wsj.com/article/SB10001424052748704307404576080322679942138.html>
Nick Smith, "Legislature OKs water project," *Williston Herald*, April 27, 2011 (accessed June 14, 2011), <http://www.willistonherald.com/articles/2011/04/27/news/doc4db83c3544d25905833394.txt>
18. Industrial Commission of North Dakota, "North Dakota Newborns to Receive \$100 in College Savings" May 18, 2011 (accessed June 17, 2011) http://www.banknd.nd.gov/about_BND/press_releases/pdfs/bnd-newborns-receive-100-dollars-college-savings.pdf
19. Center for State Innovation, "Building State Banks," October 2010 (accessed March 30, 2011) <http://www.stateinnovation.org/State-Banks-Materials/Building-state-development-banks-SEIU-0910.aspx>
20. Ted Wheeler, "Why creating a 'virtual' state bank is a better idea" #e Oregonian, February 9, 2011 (accessed March 18, 2011) http://www.oregonlive.com/opinion/index.ssf/2011/02/hy_creating_a_virtual_state_ba.html

CONTACT

Demos.org

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

DĒMOS MEDIA
Tim Rusch,
Communications Director
trusch@demos.org
(212)-389-1407