

PUTTING WASHINGTON MONEY TO WORK FOR WASHINGTON: INTRODUCING THE WASHINGTON INVESTMENT TRUST



SUMMARY:

Washington can put deposits of state tax revenue to use in ways that tilt the economic playing field back toward Main Street businesses and our community banks, local infrastructure investments and long-term job growth. A Washington Investment Trust—like the successful Bank of North Dakota—will generate new revenue for Washington, save local governments money, and make our businesses less dependent on the Wall Street banks that have cut back on lending to small businesses and consumers in our state.

BIG OUT-OF-STATE BANKS ARE FAILING WASHINGTON SMALL BUSINESSES

Now more than ever, the future of Washington’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 Washington has lost **180,000 jobs¹** and **200,000 acres of family farmland²**, the largest banks have returned to profitability after taxpayer bailouts. Many of these same banks have refused to restore lending for credit-worthy businesses to pre-crisis levels.³

These banks have been costing us jobs in Washington.

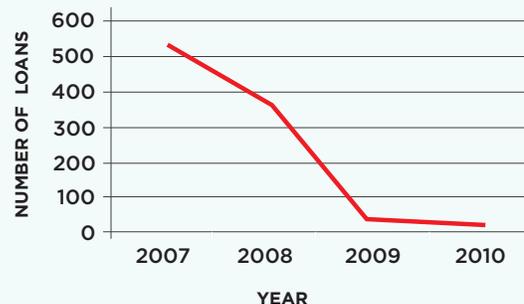
For example, in 2010 Bank of America made just 10 Small Business Association 7(a) loans—the flagship program for small business lending—in Washington.⁴ That was a **98% decline from the bank’s 555 loans in 2007**, a drop that has pushed Washington small businesses either out of business or onto higher-interest credit cards.⁵ 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 Washington were on credit cards.**⁶

Lending cutbacks by the big banks have had a disproportionate impact on the Washington economy due to high bank consolidation in the state. Here, five large out-of-state banks—Bank of America, Wells Fargo, US Bank, JP Morgan Chase and Key Bank—currently **control 56 percent of all deposits**, up from 45 percent before the crisis.⁸ None is chartered or based in Washington.

“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 2010⁷

BANK OF AMERICA SBA 7 (A)
LENDING IN WASHINGTON



A FULLY OPERATIONAL BND- STYLE BANK IN WASHINGTON CAN HELP GENERATE:

- 8,212 new small business and farm jobs
- \$2.6 billion in new lending
- \$310 million in General Fund revenue each year

Source: Center for State Innovation

AN INVESTMENT TRUST FOR WASHINGTON 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 by the non-partisan Center for State Innovation estimates that a Washington Investment Trust will help our 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 for Washington.¹²
- **Serve vital Washington public needs.** An Investment Trust can tap low-cost funds—public deposits or Federal Home Loan funds, for example—to save local governments from paying volatile Wall Street prices for infrastructure projects and stretch our infrastructure dollars. The Trust can also provide Washington with a bridge when federal money—whether disaster relief or health care reimbursements—is slow in coming.
- **Generate new revenue for Washington** with bank dividends. The annual dividend from a fully-operational Investment Trust would mean **\$310 million for Washington's General Fund.**¹³ Over the past decade, BND's dividend to the state has been worth more than \$300 million.¹⁴ The Trust 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 **ten times more community banks per capita than Washington.**¹⁵ 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
- **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 that public funds for economic development are creating good Washington jobs. This includes requirements that both the state and borrowers track the numbers of jobs created and the wages paid, and disclose their methodologies.

A SOLUTION FROM THE HEARTLAND: WHAT NORTH DAKOTA KNOWS

While Washington 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 **business lending with local banks actually grew by 35 percent.**¹¹

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

In broad terms, BND has helped North Dakota keep Main Street banks serving credit-worthy business borrowers in tough times. BND levels the playing field for community banks 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—with the state's economic development programs—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 WASHINGTON'S MONEY WORK FOR WASHINGTON

Elected leaders serious about crafting policies that produce new jobs and new revenue know that a BND-style Investment Trust is one of a very few good options. They want to put public money to work leveraging what Washington's economy needs most: access to the affordable capital that helps small businesses grow, and new infrastructure investments for local governments.

STORIES FROM THE WASHINGTON SMALL BUSINESS CREDIT CRUNCH

Long Beach: Tiffany Turner owns an inn which has been prevented from reaching its full potential by the credit crisis. “We are ready to expand,” says Turner. “We’ve grown close to 10 percent. But our bank is saying, ‘We can’t loan to your sector right now.’ They are unwilling to take the risk.”⁹

Vancouver: When the bank Don Orange used failed in 2009, his auto shop lost its line of credit, which Orange had been using to make mortgage payments on a new building. He ended up having to take a loan out against his home. Now, Orange says, “It appears the economy is improving. We want to hire another technician and buy equipment.” Unfortunately he won’t be able to if he can only get loans on credit cards.¹⁰

WHO’S AFRAID OF A STUDY?

Washington has every reason to study this successful model closely. A Washington Investment Trust has the opportunity to put Washington money to work right here, supporting the entrepreneurs and community banks that make Washington go.

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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.

ABOUT MAIN STREET ALLIANCE OF WASHINGTON

The Main Street Alliance of Washington works strategically to provide small businesses a voice on the most pressing public policy issues of our time. Our advocacy promotes vibrant businesses and healthy communities, and fosters leadership development of socially responsible business leaders.

ENDNOTES

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