



Banking on NEW MEXICO

A Public Bank for Santa Fe

an initiative of WeArePeopleHere!
(a 501C3 organization)

A Public Bank for Santa Fe. What's it all about? THE CASE STATEMENT

1. What is a Public Bank?

- a) A Public Bank is owned by the people through their representative government: a Tribe, City, County, State or Federal Government. It can receive deposits of public funds (taxes, fees fines and interest earned) from, and make loans to, the representative government that owns it.
- b) A Public Bank is operated in the public's interest, profits returned to its representative government to be used for public purposes. It is not like an incorporated bank owned by stockholders who reap the profits as dividends from their stocks.
- c) A Public Bank for Santa Fe can be founded and owned by the City of Santa Fe which holds it in trust for the people of Santa Fe. [Banking On New Mexico](#) has received a definitive legal opinion from David Buchholz of the Rodey Law Firm, among New Mexico's oldest and most respected firms, that New Mexico Constitutional and Civil Law and financial regulations do not prohibit the establishment of a Public Bank.
- d) The Public Bank for Santa Fe will be chartered by the State of New Mexico, like other local community banks, but the Public Bank's mission will be to receive, hold and invest substantial deposits from the City of Santa Fe. Deposits will include city income from taxes, fees and fines and any interest earned. The Public Bank will likely open with only one depositor, the City of Santa Fe.
- e) Because the proposed Public Bank will not be set up for private bank accounts, it will not incur the expense of providing retail banking services and products. This will make the Public Bank more efficient to manage, with less paperwork, fewer expenses and a very small professional banking staff.
- f) A Public Bank might pay the City higher interest on its deposits than is paid by national/global banks currently, because a Public Bank doesn't return profits to individual stockholders or pay exorbitant salaries to high level employees.
- g) A Public Bank can lend money to the City of Santa Fe at lower interest rates than the City presently pays to national/global banks and bonding agencies for the money it borrows. This occurs because global banks and bonding agencies pay profits to their owners and stockholders, and this will not be true of a Public Bank.
- h) A Public Bank for Santa Fe CAN and WILL make a profit as a result of its lower operating costs and smaller management team. And a Public Bank can return that profit to its owner, the City of Santa Fe, or use some of the profit to increase the bank's size and lending ability.

- i) A Public Bank will keep our community's money right here at home in Santa Fe. Interest paid here and profits earned here stay here, circulating in our economy.
- j) At first our Public Bank would primarily invest in needed public services and projects in Santa Fe, because those investments are low risk and clearly benefit the public as a whole.
- k) When our Public Bank has more experience, it could partner with local community banks, credit unions, and community development fund institutions (CDFIs) to guarantee or share in local lending. This would make it easier for those institutions to make loans that expand our economy, create jobs and invest in projects that enhance our community.
- l) Under the right circumstances, chartered depository banks can put their financial resources to work twice. First, they can issue bank credit (loans) for up to 90% of their qualifying deposits. Second, those same financial resources are held safely in a bank account earning a little interest. A Public Bank has many of the same privileges as stockholder-owned incorporated, chartered banks. For example a Public Bank can use the fractional reserve system to multiply the value of its deposits through the credit it creates with the loans it makes.

Successful Public Banks in the US and Abroad

There are successful management and policy models for Public Banks throughout the world. Here is a small sampling:

BANK OF NORTH DAKOTA (BND) "Promoting Agriculture, Commerce and Industry" in North Dakota since 1919 is the only state-owned bank in the nation. It was started by desperately poor farmers who launched the Nonpartisan league who sought a local alternative to being at the mercy of out-of-state economic powers. Funded initially with a two million dollar investment, it has grown to a seven billion dollar economic powerhouse.

BND has been the major factor in the creation of North Dakota's strong, resilient economy over the past forty plus years (long before the recent oil and gas boom). Because North Dakota's public funds were deposited in BND and invested locally, the people of North Dakota sailed through the great 2008 recession unscathed.

BND works as funding resource in partnership with over one hundred local financial institutions, economic development groups and guaranty agencies. Local financial institutions are thriving because they have an excellent, secure source of credit from BND. There are more community banks per capita in North Dakota than in any other state.

Its partnership with those community banks has increased their capacity to make loans to businesses. Those same businesses have grown good jobs for the people of North Dakota.

The people of North Dakota have very good financial terms when it comes time for them to buy or renovate an existing home. Farmers and ranchers have a good friend in the BND. When they need a loan to build a home or barn or to invest in their farm or ranch, BND sees this as a priority.

BND is able to respond quickly when natural disasters strike so that rebuilding can begin quickly. In 1997 the Red River flood created tremendous damage to homes, businesses and farms in North Dakota and Minnesota. With the help of BND, North Dakotans were able to quickly rebuild and recover from their losses while those on the Minnesota side lacked the support they needed to recover.

BND manages a major student loan program for its college students. The student loans are at lower interest and more favorable terms than through other programs and help to reduce the amount of debt students will have to repay after graduation from college. BND's student loans are paving the way for a well-educated workforce for its state.

TRIBALLY OWNED Bank2, while not officially designated a public bank, Bank2 is a wholly owned subsidiary of the Chickasaw Nation, “committed to helping people build better lives” and has set the stage for other indigenous peoples to establish their own banks with the mission to serve Native peoples. Bank2 was established in 2002 with 7.5 million in assets and by 2014 it had grown to more than \$100 million in assets. Bank2’s specific purpose is to serve Native American small businesses and individuals not only across Oklahoma but the entire country. Its special focus is in the Oklahoma City area and the 13-county jurisdictional area of the Chickasaw Nation in south central Oklahoma. It provides banking services to a population that might be unbanked or underbanked. Many of Bank2’s clients are minorities; about 53 percent of its clients are Native Americans. A total of 15 percent of Bank2 clients have a household income at or below 80 percent of the area median income. Since its inception Bank2 has significantly impacted small business and has made homeownership a reality for many who would not have been able to secure a mortgage elsewhere. The bank has made hundreds of small business loans totaling \$10s of millions. In the area of housing, Bank2 has financed over 1,000 housing units and has developed or rehabbed 500 single-family homes. These efforts have benefited the lives of thousands of clients.

THE GERMAN SAVINGS BANKS (Sparkassen Banks) serve as a highly successful example of Public Banks working independently and cooperatively. There is a Sparkassen (Savings Bank) in nearly every town and village in Germany. Sparkassen banks were established over 200 years ago to ensure that everyone, including the very poor, had access to banking services. Sparkassen banks hold and manage its communities’ public funds. Profits from the bank are invested back into that community. They are part of a cooperative model. Each little bank is managed legally and financially independent, but is also part of a supportive network of other Sparkassen banks that work together to ensure the success of each bank. Savings Banks operate according to commercial principles, but without the aim of profit maximization. This process of investing back into the community and working together has helped create the resilient, stable economy that Germany is well known for.

2. Where Does the Money in a Public Bank Come from and What Does a Public Bank Do with It?

- a) When all the legal steps to establish a Public Bank have been completed, a Public Bank for Santa Fe could be created with an original deposit by the City. Sufficient City funds to establish a Public Bank are presently on deposit in two Banks that are not locally owned, Wells Fargo and First National Bank of Santa Fe.
- b) As a part of the Bank Charter application, the bank would state the amount of capital to be invested by the City to establish the bank.
- c) Santa Fe (unlike some other NM towns, cities and counties) is only allowed to deposit public funds in banks that will guarantee the safety of those funds by locking up an equal amount, plus 2% of the bank’s own money. That means that, for every \$1000 deposited in a bank, the bank must lock up \$1020 of its own dollars. This City requirement for 102% collateralization of its deposits can be changed by City Council and that change will not only make a Public Bank possible, but will make it possible to deposit more public money in community-owned banks.
- d) As a part of the Bank Charter application, the bank would discuss the kinds of investments /loans that the bank anticipates making. Some loans or investments are riskier than others, and these are taken into account in the lending equation and the evaluation of the business plan.
 - i. It is probable that at first, loans will mostly be made to the City for public infrastructure or services, because that is something the City already

borrowers for. They are low risk loans and clearly something that benefits the public as a whole.

- ii. Later as the bankers gain more experience with the local market, they may financially back local banks, credit unions, community development fund institutions (CDFI) to help them increase access to credit in our community for affordable housing, small businesses, etc.
- e) As a part of the Bank Charter application, the bank would demonstrate its anticipated profits and losses. Most new banks expect to take a few years before they turn a profit. This might not be the case for a Public Bank for Santa Fe because sufficient initial deposits from the City will make it possible to make substantial loans to the City.

What Does a Public Bank Do with the Public's Money?

- a) A Public Bank for Santa Fe can keep more of our public funds working here in Santa Fe rather than being invested elsewhere in the country and the world, as is now the case.
- b) It can provide a new source of credit the City needs so it doesn't have to borrow or bond outside New Mexico as it does now.
- c) The interest the City pays on its borrowing could then stay here in Santa Fe— reversing the stream of interest payments now flowing outside the City and state.
- d) A Public Bank for Santa Fe can protect our community funds from losses associated with being deposited in global banks that employ risky investment practices.
- e) A Public Bank for Santa Fe can expand access to local credit by employing the credit creation practices that are available only to chartered banks, permitting them to issue credit, i.e. loans, up to 90% of what they hold on deposit.
- f) A Public Bank chartered by the State of New Mexico can reduce the City's expenses and debt burden by making loans to the City for local, public works projects at lower rates than the City is presently paying to global banks or bonding agencies.
- g) A Public Bank has the potential to pay higher interest to the City for its deposits because the Public Bank does not pay dividends or earnings to stockholders.
- h) Its profits can be paid to the City annually to increase City non-taxed base revenues and eventually make it possible for the City to reduce or hold-the-line on taxes. Profits can also be reinvested back into the public bank so that its capacity for investing back into Santa Fe increase.
- i) By reducing City expenses and increasing City revenue a Public Bank could also help Santa Fe fund public services for families and children, the elderly, public transportation and social services programming.
- j) A Public Bank can also be a Partnership Bank by guaranteeing or financially backing portions of loans made by community banks, credit unions and community development fund institutions that support efforts that benefit Santa Fe and its economy like affordable housing, local business development and job creation.

3. The Steps to Form a Public Bank for Santa Fe and How a Public Bank Would be Governed.

Establishing a Public Bank

- a) **The first step** in this process should be an opportunity for full public participation in establishing the mission statement for our Public Bank. [Banking on New Mexico](#) firmly believes that because the Public Bank's mission will be to serve the public (not private investors), there must be opportunity for full public participation in establishing the mission statement of a Public Bank for Santa Fe.
- b) **The second step** should be to establish a governance process to ensure that the mission or purpose of our Public Bank is carried out faithfully. The public wants to know that favoritism and political influence will play no role in how the bank invests our community's funds. Issues pertaining to bank governance are detailed below.
- c) **The third step** will be to put in place enabling legislation, if needed, to amend existing ordinances to provide for the creation of a Public Bank or a public vote to establish a Public Bank for Santa Fe.
- d) **The fourth step** will be for the City of Santa Fe to complete the initial application for a bank charter with the New Mexico Department of Licensing and Regulations, Financial Services Division. The application process can take one or two years to complete and includes multiple requirements and steps.
- e) **The Application Process**

A FIVE-YEAR BUSINESS PLAN is a required part of the application process. The plan must convince licensing and regulators that the bank has a solid chance of success. It includes:

- Mission Statement
- Governance Process
- The amount of capital that will be invested by the City to establish the bank.
- Amount of anticipated deposits. Deposits are a part of the lending equation.
- The kinds of investments / loans that the bank anticipates making, as reviewed earlier.
- Demonstration of profits or loss anticipated, as reviewed earlier.

There are more elements to the Charter application but these are the basic steps.

Governing a Public Bank

- a) A Public Bank for Santa Fe will require governance that ensures that the mission or purpose of our Public Bank is carried out faithfully. The governance of the bank must include a way for the public to periodically review and revise the Public Bank's mission.
- b) [Banking on New Mexico](#) believes that if our bank is to serve the public interest (instead of private investors) the public must be involved in establishing the governance steps that will ensure transparency and accountability in how the bank manages and invests the public's money.
- c) A Public Bank of Santa Fe would operate under the same regulations that apply to all New Mexico chartered banks. State chartered banks are regularly inspected, reviewed, audited and governed by New Mexico Statutes and the New Mexico Administrative Code.

- d)** An oversight board would ensure that the investment practices remain true to the public mission of the Public Bank, and that financial management of the Bank is sound. To begin, those appointed to the board must be residents of Santa Fe, have clearly demonstrated personal and professional integrity and impartiality, have sound financial experience and be very familiar with the needs of our community as a whole.
- e)** The Public Bank of Santa Fe regulations would prohibit the Bank from investing outside of Santa Fe or in speculations in risky derivatives, questionable loan practices and the kind of investments that have destabilized the global banking system.
- f)** Bank management structure: The Public Bank would be staffed by banking professionals who are public servants, eliminating the excessive salaries and bonuses paid in the national and global banking system.
- g)** The management of the Public Bank would be independent from City elected officials and appointed staff, with a firewall that prevents political involvement or tampering by non-bank officials.
- h)** Bank policies and quarterly public reporting requirements assure compliance and transparency for how public funds are managed.
- i)** There are several highly successful bank governance models that we think might be helpful for the public to review as part of the public participation process to establish governance structure, such as the Bank of North Dakota, the little Sparkassen Banks all over Germany and our own local credit unions and CDFI's.
- j)** There are also a number of extra-governmental or super-governmental agencies or corporations, in and beyond New Mexico, that can provide models for how a Public Bank can be responsive to the citizens' priorities and wishes while remaining protected from political involvement or tampering.