



Banking on NEW MEXICO

A Public Bank for Santa Fe

an initiative of WeArePeopleHere!
(a 501C3 organization)

Glossary of Public Banking Terms

Bankers' Bank: A bankers' bank is a financial institution that provides financial services to community banks in the United States of America. Bankers' banks are owned by investor banks and may provide services only to community banks. https://en.wikipedia.org/wiki/bankers'_bank

First Alternate Definition: A special type of bank that is created by a group of banks. Bankers' banks exist for the sole purpose of servicing the charter banks that founded them. These banks do not service the public in any fashion, but are designed to provide community banks that would usually only be available to national and international banking conglomerates.

<http://www.investopedia.com/terms/b/bankers-bank.asp>

Bond: In finance, a bond is an instrument of indebtedness of the bond issuer to the holders. It is a debt security, under which the issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay them interest (the coupon) and/or to repay the principal at a later date, termed the maturity date. Interest is usually payable at fixed intervals (semiannual, annual, sometimes monthly).

[https://en.wikipedia.org/wiki/Bond_\(finance\)](https://en.wikipedia.org/wiki/Bond_(finance))

First Alternate Definition: A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. The Federal government, states, cities, corporations, and many other types of institutions sell bonds. Generally, a bond is a promise to repay the principal along with interest (coupons) on a specified date (maturity). Some bonds do not pay interest, but all bonds require a repayment of principal. When an investor buys a bond, he/she becomes a creditor of the issuer.

However, the buyer does not gain any kind of ownership rights to the issuer, unlike in the case of equities. <http://www.investorwords.com/521/bond.html>

Bond – Callable Bond: A callable bond (also called redeemable bond) is a type of bond (debt security) that allows the issuer of the bond to retain the privilege of redeeming the bond at some point before the bond reaches its date of maturity. In other words, on the call date(s), the issuer has the right, but not the obligation, to buy back the bonds from the bond holders at a defined call price. Technically speaking, the bonds are not really bought and held by the issuer but are instead cancelled immediately.

https://en.wikipedia.org/wiki/Callable_bond

Bond Call Date: The date on which a bond can be redeemed before maturity. If the issuer feels there is a benefit to refinancing the issue, the bond may be redeemed on the call date at par or at a small premium to par. <http://www.investopedia.com/terms/c/calldate.asp>

Bond Date of Maturity: The date on which the issuer of a debt instrument must repay the principal in total. For example, a bond with a period of 10 years has a maturity date 10 years after its issue. The maturity date also indicates the period of time during which the lender or bondholder will receive interest payments. It is important to note that, despite the existence of a maturity date, many debt

securities are callable and the issuer may redeem them before the maturity date under some circumstances. <http://financial-dictionary.thefreedictionary.com/Maturity+date>

Bond Par Value: The face value of a bond. Par value is important for a bond or fixed-income instrument because it determines its maturity value as well as the dollar value of coupon payments. Par value for a bond is typically \$1,000 or \$100. The market price of a bond may be above or below par, depending on factors such as the level of interest rates and the bond's credit status.

<http://www.investopedia.com/terms/p/parvalue.asp>

Commercial Bank: A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet.

<http://www.investopedia.com/terms/c/commercialbank.asp>

Community Bank: A *community bank* is a depository institution that is typically locally owned and operated. *Community banks* tend to focus on the needs of the businesses and families where the *bank* holds branches and offices. Lending decisions are made by people who understand the local needs of families, businesses and farmers. https://en.wikipedia.org/wiki/Community_bank

Core Capital: A term used to describe the capital adequacy of a bank, includes equity capital and disclosed reserves. <http://www.investopedia.com/terms/c/core-capital.asp> Banking also refers to core capital as Tier I capital, based on standards set at Basel III. Basel III is a global, voluntary regulatory framework on bank capital adequacy, stress testing and market liquidity risk. It was agreed upon by the members of the Basel Committee on Banking Supervision in 2010–11.

https://en.wikipedia.org/wiki/Tier_1_capital

Credit Unions: In the United States, credit unions are not-for-profit organizations that exist to serve their members rather than to maximize corporate profits. Like banks, credit unions accept deposits, make loans, and provide a wide array of other financial services. But as member-owned institutions, credit unions focus on providing a safe place to save and borrow at reasonable rates. Unlike banks, credit unions return surplus income to their members in the form of dividends.

<http://www.mycreditunion.gov/about-credit-unions/pages/how-is-a-credit-union-different-than-a-bank.aspx>

Derivatives: In finance, a derivative is a contract that *derives* its value from the performance of an underlying entity. This underlying entity can be an asset, index, or interest rate, and is often called the "underlying".^{[1][2]} Derivatives can be used for a number of purposes, including insuring against price movements (hedging), increasing exposure to price movements for speculation or getting access to otherwise hard-to-trade assets or markets.^[3] Some of the more common derivatives include forwards, futures, options, swaps, and variations of these such as synthetic collateralized debt obligations and credit default swaps. Most derivatives are traded over-the-counter (off-exchange) or on an exchange such as the Chicago Mercantile Exchange, while most insurance contracts have developed into a separate industry. Derivatives are one of the three main categories of financial instruments, the other two being stocks (i.e., equities or shares) and debt (i.e., bonds and mortgages).

https://en.wikipedia.org/wiki/Derivative_%28finance%29

Federal Deposit Insurance Corporation (FDIC): The U.S. corporation insuring deposits in the U.S. against bank failure. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices. The FDIC will insure deposits of up to US\$250,000 per institution as long as the bank is a member firm.

<http://www.investopedia.com/terms/f/fdic.asp>

Federal Reserve Bank: A Federal Reserve Bank is a regional bank of the Federal Reserve System, the central banking system of the United States. There are twelve in total, one for each of the twelve Federal Reserve Districts that were created by the Federal Reserve Act of 1913.^[1] The banks are jointly responsible for implementing the monetary policy set forth by the Federal Open Market Committee.

<https://www.google.com/#q=federal+reserve+bank+definition&start=10>

Federally Chartered Bank: Financial institution authorized and regulated by the federal government rather than the state government. They have the word “national” in their name, or the initials “N.A.” at the end. Supervision is by the Office of the Comptroller of the Currency (OCC) at www.occ.treas.gov.

<http://financial-dictionary.thefreedictionary.com/federally+chartered+banks>

Fractional Reserve Banking: A banking system in which only a fraction of bank deposits are backed by actual cash-on-hand and are available for withdrawal. This is done to expand the economy by freeing up capital that can be loaned out to other parties. Most countries operate under this type of system.

<http://www.investopedia.com/terms/f/fractionalreservebanking.asp>

First Alternate Definition: Fractional-reserve banking is the practice whereby a bank accepts deposits, and holds reserves that are a fraction of the amount of its deposit liabilities. Reserves are held at the bank as currency, or as deposits in the bank's accounts at the central bank. Fractional-reserve banking is the current form of banking practiced in most countries worldwide.

https://en.wikipedia.org/wiki/Fractional-reserve_banking

Investment Banking: Investment banking is a specific division of banking related to the creation of capital for other companies, governments and other entities. Investment banks underwrite new debt and equity securities for all types of corporations, aid in the sale of securities, and help to facilitate mergers and acquisitions, reorganizations and broker trades for both institutions and private investors. Investment banks also provide guidance to issuers regarding the issue and placement of stock.

<http://www.investopedia.com/terms/i/investment-banking.asp>

Investment Bank: A financial intermediary that performs a variety of services. Investment banks specialize in large and complex financial transactions such as underwriting, acting as an intermediary between a securities issuer and the investing public, facilitating mergers and other corporate reorganizations, and acting as a broker and/or financial adviser for institutional clients. Major investment banks include Barclays, BofA Merrill Lynch, Warburgs, Goldman Sachs, Deutsche Bank, JP Morgan, Morgan Stanley, Salomon Brothers, UBS, Credit Suisse, Citibank and Lazard. Some investment banks specialize in particular industry sectors. Many investment banks also have retail operations that serve small, individual customers. <http://www.investopedia.com/terms/i/investmentbank.asp>

Mutual Bank: Most often Mutual Savings Banks; a savings and loan association that has no stockholders and, as a result, reinvests all profits in itself. Most mutual savings banks are owned by their depositors and borrowers. Because there are no stockholders to please, mutual savings banks are often very conservative with how they invest deposits. As a result, they tend to survive periods of financial distress

relatively well. This was especially true during the Great Depression. In the United States, most mutual savings banks are in the Northeast. <http://financial-dictionary.thefreedictionary.com/Mutual+bank>

First Alternate Definition: A mutual savings bank is a financial institution chartered by a central or regional government, without capital stock, that is owned by its members who subscribe to a common fund. From this fund claims, loans, etc., are paid. Profits after deductions are shared between the members. The institution is intended to provide a safe place for individual members to save and to invest those savings in mortgages, loans, stocks, bonds and other securities and to share in any profits or losses that result. The members own the business. https://en.wikipedia.org/wiki/Mutual_savings_bank

Private Bank: Private banks are banks owned by either an individual or a general partner(s) with limited partner(s). Private banks are not incorporated. In any such case, the creditors can look to both the "entirety of the bank's assets" as well as the entirety of the sole-proprietor's/general-partners' assets. The term "private bank" can also refer to the financial institution specializing in financial advice and services for high-net-worth individuals (private banking). https://en.wikipedia.org/wiki/Private_bank

Comment: In the conversation about Public Banks, the term "private banks" is sometimes used to describe stockholder owned, incorporated banks which earn profits and with those profits, pay dividends to their stockholders. https://en.wikipedia.org/wiki/Mutual_savings_bank

Prior Redemption: A clause in some loans allowing the borrower to pay off the debt prior to its due date without incurring a penalty. This is an advantage for a borrower when interest rates are falling, since he/she can pay off the existing loan and then refinance at a more favorable rate. http://www.investorwords.com/3849/prior_redemption_privilege.html

Public Bank: A bank operated in the public interest, through institutions owned by the people through their representative governments. Public banks can exist at all levels, from local to state to national or even international. Any governmental body which can meet local banking requirements may, theoretically, create such a financial institution. http://www.publicbankinginstitute.org/intro_to_public_banking

Public Funds: Money that is collected by government, most often as taxes and fees, that will be used to provide goods and services to the general public. <http://www.businessdictionary.com/definition/public-funds.html>

Restructured Loan: Creating a new loan that replaces the outstanding balance on an older loan, and is paid over a longer period, usually with a lower installment amount. (Business Dictionary)
First alternate Definition: A new loan for which the parties have agreed to alter the terms, usually to make them more favorable to the borrower. For example, the borrower may restructure a loan to receive a lower interest rate or monthly payment. <http://www.businessdictionary.com/definition/restructured-loan.html>

Retail Banking: Typical mass-market *banking* in which individual customers use local branches of larger commercial *banks*. Services offered include savings and checking accounts, mortgages, personal loans, debit/credit cards and certificates of deposit (CDs). <http://www.investopedia.com/terms/r/retailbanking.asp>

Required Collateralization, State of New Mexico: To qualify to be a depository bank for the state you must provide a letter from the financial institution requesting to become a depository bank, provide

copy of federal deposit insurance corporation (FDIC) certification or the national credit union administration certification, and provide financial reports for the preceding four quarters; newly chartered financial institutions must provide their most recent financial report.

Three levels of collateral are used: 50%, 75% and 102% based on quarterly risk assessments. The 50% level is reserved for banks that exceed the stringent benchmarks set by the collateral policy. The 75% level is reserved for banks that exceed benchmarks that are not as stringent as the 50% benchmarks. The 102% pledge level is usually reserved for banks that are having trouble meeting the benchmarks set by the board. http://www.nmsto.gov/media/files/collateral/bank_collateral_faq.pdf

Required Collateralization, City of Santa Fe: Collateralization will be required on all repurchase agreements and bank/credit union deposits in excess of amounts insured by the Federal Deposit Insurance Corporation or the National Credit Union Association. The collateralization level will be one hundred two percent (102%) of the market value of principal. For repurchase agreements, accrued interest must also be collateralized at one hundred two percent (102%). Collateral is to consist of securities of the United States, its agencies or instrumentalities; securities of the state of New Mexico, its agencies, instrumentalities, counties, municipalities or other subdivisions; or, letters of credit issued by a federal home loan bank (New Mexico Statute 6-1 0-16). (City of Santa Fe Finance Department Manual, Policy 10.1, Revision Date 4, 30, 2014; Paragraph 6:11, pages 6 & 7 of 10) http://www.santafenm.gov/media/archive_center/21_14_CD5.pdf

Required Reserves: Requirements regarding the amount of funds that banks must hold in reserve, against deposits made by their customers. This money must be in the bank's vaults or at the closest Federal Reserve Bank. <http://www.investopedia.com/terms/r/requiredreserves.asp>

First Alternate Definition: Reserve requirements are the amount of funds that a depository institution must hold in reserve against specified deposit liabilities. Within limits specified by law, the Board of Governors has sole authority over changes in reserve requirements. Depository institutions must hold reserves in the form of vault cash or deposits with Federal Reserve Banks. <http://www.federalreserve.gov/monetarypolicy/reservereq.htm>

Second Alternate Definition: Minimum amount of cash or cash-equivalents (computed as a percentage of deposits) that banks and other depository institutions (credit unions, insurance companies) are required by law to keep on hand, and which may not be used for lending or investing. Reserve requirements serve as (1) a safeguard against a sudden and inordinate demand for withdrawals (as in a run on a bank), and (2) as a control mechanism for injecting cash (liquidity) into, or withdrawing it from, an economy. <http://www.businessdictionary.com/definition/reserve-requirements.html>

State Chartered Bank: A financial institution that, after a review of its application to the Financial Institutions Division of the New Mexico Department of Regulation and Licensing, meets the legal requirements to conduct banking operations in the State of New Mexico and is granted a Charter to do so. <http://www.rld.state.nm.us/financialinstitutions/>