Cut spending, raise taxes, sell off public assets—these are the unsatisfactory solutions being proposed; but the states' budget crises did not arise from too much spending or too little taxation. It arose from a credit freeze on Wall Street. In the wake of the 2008 financial market collapse, banks curtailed their lending more sharply than in any year since 1942, driving massive unemployment, which caused local tax revenues to plummet.

Public Banking: A Better Solution

The logical solution is to restore credit to the local economy—but how? The Federal Reserve could provide the capital and liquidity necessary to create bank credit, in the same way that it provided $16 trillion in liquidity and short-term loans to the large money center banks. But the Fed will not do this—not because it would be too costly (the total deficit of all the states comes to less than 2% of the $16 trillion credit advanced for the bank bailout)—but because it is not part of the Fed's legal mandate.

So, state and local policymakers are considering a variety of reforms designed to increase bank lending, particularly to small businesses and local governments, the hardest hit by the credit squeeze. The measure drawing greatest interest is the creation of modeled on the Bank of North Dakota (BND), currently the only large public bank in the country. The BND has a 98-year history of safe, secure and highly profitable banking. North Dakota has the lowest unemployment rate and one of the lowest foreclosure rates in the country; and, after 2007, while every other state was floundering, it had record budget surpluses every year.

ROCKY MOUNTAIN
PUBLIC BANKING INSTITUTE
Banking on Colorado

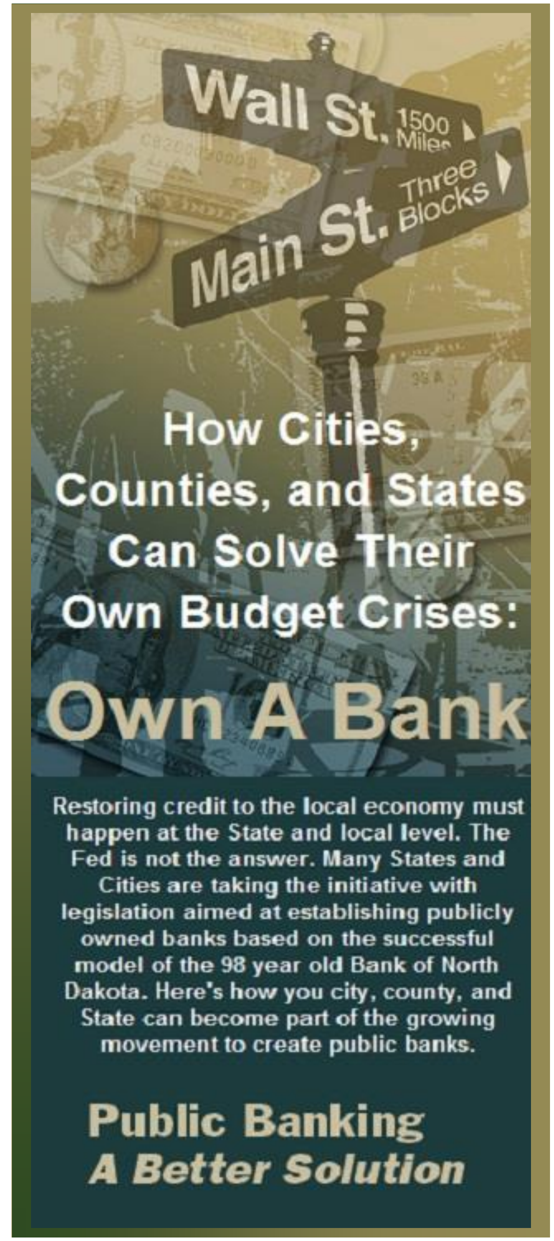
About RMPBI

Rocky Mountain Public Banking Institute is a non-profit, tax-exempt, 501(c)(3) educational and charitable organization dedicated to exploring and disseminating information to the public and public officials on the many advantages of publicly-owned banks, especially the creation of strong and stable economies. RMPBI also seeks to facilitate the establishment of public banks at all levels in Colorado---city, county, and state.

RMPBI's approach is grounded in the strong track record of public banks---in the American colonies, the U.S. and in other countries—-in fostering access to cheap and readily available credit for governments, businesses, and individuals, for productive purposes by creating new goods and services. RMPBI works in cooperation with the Public Banking Institute.

Rocky Mountain Public Banking Institute

1873 S. Bellaire St. Suite 1401
Denver, CO 80222
Phone: (303) 229-2834
http://BankingOnColorado.org
Facebook: www.facebook.com/rmpbi



Since 2010, in 30 states and cities efforts to do feasibility studies or to form public banks are underway. Publicly-owned banks are a win-win for everyone. Objections are usually based on misconceptions or lack of information. Proponents stress that public banks on the BND model will:

1. Generate new revenues for cities, counties, and states, directly through annual bank dividend payments, and in-directly by creating jobs and spurring strong, stable, economies.

2. Lowers debt costs for local governments. Like private banks, public banks will create new money that did not exist before when they make loans, and can lend to their government at no interest or can forgive the interest on loans to their own government, and the interest on loans to others comes back to the public bank and community rather than going to Wall Street officers and shareholders. Public banks can get access to low-cost funds from the regional Federal Home Loan Banks. The banks can pass savings on to local governments when they buy debt for infrastructure investments. A public bank can buy bonds already issued and traded on the bond market, with interest payments simply diverted to the public bank.

3. Build up small businesses. In markets increasingly dominated by large corporations and the banks that fund them, public banks would increase lending capabilities at the smaller banks that provide the majority of small and medium business loans in Colorado.

4. Not compete with community banks. Rather, they partner with and support them in making loans. The BND does not solicit private depositors, unlike the big private banks. The BND serves the role of a mini-Fed, providing banking services to virtually every bank in North Dakota, including a Federal Funds program with daily volume of $330 million, check clearing, cash management services, and automated clearing house services.

5. The North Dakota Bankers' Association endorses the BND because of these practices, as a result of which North Dakota has the most local banks per capita, the lowest default rate of any state, and is the only state with no bank failures in the last 15 years.

6. Enable Communities to Avoid TABOR Restrictions. Because it is self-sustaining, a public bank could qualify as a "TABOR Enterprise", which the TABOR Amendment expressly exempts from its limits on revenue and expenses, provided it gets less than 10% of its revenue each from state and local government, and is authorized to issue revenue bonds.

7. Remain independent of private banking interests. Although the BND is an online member of the Minneapolis Federal Reserve Bank, it is insured by the "full faith and credit" of North Dakota, not the FDIC. This helps avoid risk and unnecessary expense, since the BND's chief depositor is the state, and the state has much more on deposit than $250,000, the maximum covered by FDIC insurance. FDIC insurance is not only expensive, but subjects the state to unnecessary and costly controls by this semi-private organization. FDIC insurance has also become relatively worthless because derivatives have first priority in bankruptcy, likely leaving governments with nothing. Also, Dodd-Frank authorizes a bail-in in the event of insolvency.

8. Provide accountability, transparency and prudent risk management and operate according to a charter that promotes the public interest. By partnering with local banks, the BND actually shields itself from risk, since the local bank determines the creditworthiness of the borrower and takes the initial loss in the event of default. A public bank is run by professional bankers who are public employees, operating transparently, audited publicly by state regulators, and not incentivized to speculate in derivatives and risky subprime loans.

9. Create new jobs and spur economic growth. According to studies by the Center for State Innovation, if Washington State had a fully-operational publicly owned 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. Likewise, it found that a proposed Oregon bank would 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. Colorado would fall about in the middle between Washington and Oregon.

10. Be Self-funding and self-sustaining. The BND keeps federally-guaranteed funds in the state and uses the profits on these to build a capital surplus from which loans are made to local businesses, farmers, and local governments. The BND has had an average return on equity of 19% and has contributed over $400 million to the state (its only shareholder) in the past 15 years—a notable achievement for a state with a population of about 756,000.

11. Partner with community banks by leveraging state funds into credit for local purposes, funds that would otherwise leave the state via Wall Street banks and be leveraged abroad, drawing away jobs from locals. Further, infrastructure projects can be funded through a public bank at substantially less cost, since the city, county, or state owns the bank and gets the interest back. Studies show that interest comprises 35-50% or more of public infrastructure projects. Thus, the cost of infrastructure projects is cut by up to 50% by having a public bank.

12. Strengthen local community banks, even out credit cycles, and preserve real competition in local credit markets. By partnering with local community banks on large loans and providing other support, public banks would strengthen small banks in an era when federal policy encourages bank consolidation.

Publicly-owned banks are a win-win for everyone.