

## **Forming and Operating a Public Municipal Bank**

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### **What is a Public Bank?**

A public bank is a fully-fledged, state-licensed banking institution established to provide depository services to local governments, and to make loans to promote policy objectives such as affordable housing preservation and development, infrastructure investment, and fostering local economic development.

The bank would not maintain extensive retail branches. Most of its lending would be for larger-scale housing and infrastructure initiatives. Lending to small businesses would be done through participation loans made in partnership with local credit unions and CDFIs. The City would be a primary owner of the bank, with exclusive control over the nomination and election of the bank's Board of Directors.

### **Why create the municipal bank?**

Seattle has significant financial resources in the form of deposits in commercial banking institutions and investments in the money and capital markets that could be recaptured by a municipal bank and redirected to progressive public purposes. A municipal bank would offer significant tools to local governments to preserve and development affordable housing, or addressing income disparities and for spurring targeted neighborhood development initiatives.

### **How can the City guarantee the bank will fulfill its founding objectives?**

The Bank would have explicit statements of social policy goals and public purposes set forth in its founding documents (Articles of Incorporation, Bylaws, and Charter Amendment). The founding documents would specify rules pertaining to areas such as ownership and governance, mechanisms to insure accountability to the public, and allowable types of loans and investments.

### **How would the Bank be owned and governed?**

The City could own the municipal bank either outright, or exercise control through a subsidiary organization. The Bank would be incorporated as an independent, state-chartered corporate banking entity, with an independent Board of Directors. The municipality would own and exercise all voting shares.

### **Where does the capital come from to start the bank?**

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There are a variety of options for capitalizing a bank. The public could vote on an initiative to fund the bank. Establishing the bank could also occur through a Council ordinance. Initial capitalization would occur either through a one-time appropriation out of the General Fund, or through the transfer of surpluses from the investment pool, or both. The Bank could also raise capital from other investors.

### **How would the Bank be managed?**

The Board would hire an experienced management team responsible for all aspects of ongoing business operations.

### **Does the bank create a financial liability for the City?**

No. The nature of the bank's corporate organization ensures strict legal and fiscal indemnification. Moreover, once established, a municipal bank would not require any further General Fund allocations, as it would be a self-supporting business operation set up to carry out specific types of targeted lending.

### **How would loans be funded?**

Loan origination would be funded through deposits from local government entities, deposits of nonprofits, unions, and pension funds; through short-term debt such as CDs and banker's acceptances; and through the sale of liabilities of various durations to the City and other entities such as pension funds, social investment funds, and foundations. These funds would then be used to make a variety of locally targeted loans and investments.

What types of loans would the bank make?

Options include:

- Lending for affordable housing development
- Participation loans in partnership with local credit unions
- Supporting economic development initiatives directed toward low-income neighborhoods
- Financing and refunding general obligation bonds

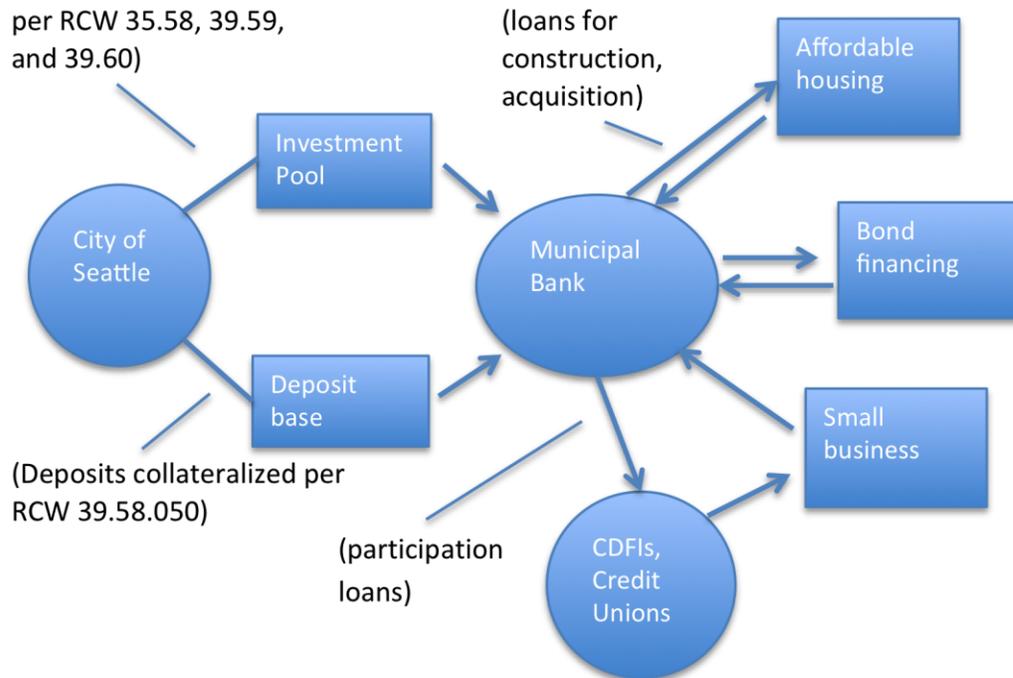
The bank would be able to offer lower rates on certain loans, given the lack of profit maximizing incentives, provided that rates on loans cover the bank's funding costs. The major way the bank could have significant impacts on local development is through the ability to recapture funds currently flowing from the City to outside investors in the City's general obligation and revenue bonds, and recapture of principal and interest

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earned on the profits made by banks from re-lending the City's current deposit base. This is shown in the diagram below.

### Municipal Bank as financial intermediary

(investment of surplus, excess deposits per RCW 35.58, 39.59, and 39.60)



Payments of principal and interest received by the Bank are rechanneled back into local investment

### What about the potential for conflicts of interest?

Legal incorporation as a state-chartered banking entity, coupled with the fact that the Bank will have an independent Board of Directors and full operational autonomy, would bar elected officials from using the Bank to fund “pet projects” as a form of political patronage.

### Additional Information

The Public Bank Project has prepared a series of more in-depth memos discussing the legal and financial issues involved in the constitution of a bank in Seattle. To request this information please contact:

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