

# ADVANTAGES AND BENEFITS OF PUBLIC BANKING BILL AB 857

AB 857 is a 2019 session bill co-authored by Assemblymembers David Chiu (San Francisco) and Miguel Santiago (Los Angeles) which will allow local governments to apply for a banking charter from the Department of Business Oversight to create state-chartered banks. AB 857 defines public banks as banks that are wholly-owned by a local government, or a group of local governments. AB 857 does not create a bank; rather, it creates a pathway for cities, counties, and regions to form their own banks.

## 1 AB 857 PUBLIC BANKS ARE SAFER THAN THE ALTERNATIVE.

- Banks created by AB 857 will face increased oversight compared to a local government's current bank options because public banks will be regulated by the Federal Deposit Insurance Corporation and the California Department of Business Oversight (DBO).
- Public banks are separate corporations from their local government owners. All debts and liabilities remain with the bank, not with its owner.
- Public deposits in public banks will be collateralized to the same extent as private deposits. Further, as public entities they will be subject to good government laws.

## 2 PUBLIC BANKS ARE ACCOUNTABLE TO TAXPAYERS, NOT PRIVATE SHAREHOLDERS.

- Prior to receiving a charter, AB 857 are required to conduct a viability study showing how they will serve the community and local government's needs, such as achieving cost savings for the local government. This study needs to be approved by the local government prior to the formation of a public bank.
- AB 857 public banks will face increased oversight compared to current depositories because as public entities they will be subject to state sunshine laws and closer regulation by DBO. Public deposits will be FDIC insured and collateralized.

## 3 PUBLIC BANKS ADDRESS LOCAL ISSUES.

- Public banks leverage their deposit base and lending power to benefit the public. This allows public banks to focus on pressing local needs, like affordable housing, small business loans, and public infrastructure projects such as rebuilding after wildfires.

## 4 PUBLIC BANKS ARE MANAGED BY BANKING PROFESSIONALS.

- Prior to submitting a bank application, AB 857 requires public banks to specifically address good governance and how the bank will be free from undue influence or conflicts of interest from elected officials.

## 5 PUBLIC BANKS WILL PARTNER WITH, NOT COMPETE WITH, LOCAL BANKS.

- AB 857 restricts public banks from consumer and commercial markets where local banks already adequately serve constituents. Public banks will partner with local banks and non-profit credit institutions to extend credit to communities and expand services to the underbanked.

## 6 PUBLIC BANKS WILL STRENGTHEN LOCAL LENDING FOR CREDIT UNIONS AND COMMUNITY BANKS.

- Public banks will provide an opportunity for credit unions and community banks to participate in locally-determined financing opportunities such as: rebuilding after natural disasters, local infrastructure including roads, parks, schools and renewable energy projects, affordable housing projects, and small business lending.

## 7 PUBLIC BANKS PROVIDE A MECHANISM FOR DIVESTMENT.

- Mega-banks profit from financing fossil fuels, private prisons, destruction of communities, and other reprehensible activities that our communities actively fight against. Public banks can be a much-needed alternative to the big banks and help counteract the risky trend towards bank consolidation, and serve as a source of strength for local economies.

## 8 BANK OF NORTH DAKOTA, THE NATION'S ONLY PUBLIC BANK IS A SUCCESSFUL MODEL WORTH EMULATING.

- The Bank of North Dakota (BND) recorded its 15th consecutive year of record profits in 2018.
- Since 2000, BND has returned \$464 million dollars to the state general fund.
- BND, in partnership with local banks and credit unions, promotes economic development within the state and has been profitable for many years. Recently, several states and cities across the nation have started exploring the feasibility of creating public banks.