

## THE PUBLIC BANK OF OAKLAND

Public banks are financial institutions owned by the people through their representative governments at city, county or state levels. Public banks differ from private banks in that they are mandated to serve the public interest. Unlike Wall Street banks that seek short-term profits for private shareholders by investing in stocks, derivatives and other speculative financial instruments such as [infamous credit default swaps](#), public banks primarily invest in their local economies: making loans to help small businesses, funding infrastructure, and improving the long-term health of their communities.

The [Bank of North Dakota](#) offers an example of an existing public bank in the U.S. Almost 100 years old, this publicly-owned institution holds revenues collected by the state of North Dakota as taxes and fees as well as federal program monies and recycles those funds as credit for local businesses and citizens. During the current economic collapse, North Dakota has escaped the credit crisis and maintained budget surpluses with zero public debt, has the lowest foreclosure and unemployment rates in the nation, the lowest credit card defaults, and no bank failures. These exceptional statistics are due in part to the stability of North Dakota's public bank and the willingness of that institution to provide funds through loans to keep the state economy functioning while credit has been frozen elsewhere.

Banking is, in essence, a simple operation: a bank uses a little of its own money (capital) and a lot of other people's money (deposits) to make loans that earn interest. The difference between what it takes in as interest and what it pays out in interest to depositors, less its operating costs, is profit. If Wall Street's banks had kept to this model the Great Recession would never have happened. Instead they gambled in derivatives markets, lost big, then got bailed out by the U.S. government, leaving the people to suffer both the consequences of their actions and to pick up the bill. Having learned no lesson and suffered no consequences, Wall Street banks are still at it. They are more consolidated and "too big to fail" than ever, and they continue to use other people's money - some of it Oakland's - to speculate.

The time has come for Oakland to divest itself from [Wall Street banks](#) by creating the Public Bank of Oakland. Such a bank will be:

- Created by a City Council ordinance or a ballot initiative;
- Established with a state charter stipulating that it exists to promote Oakland's best interests;
- Owned by the City;

- Overseen by an independent, accountable and transparent Board of Directors;
- Run by executives with solid banking experience.

It will use its profits to expand loan programs within Oakland and to contribute to the City of Oakland's general fund.

The Public Bank of Oakland will take time and effort to establish. But if the Bank of North Dakota is any guide, a public bank will benefit Oakland long into the future - at a time when our children's children are worrying about the economic well-being of their children.

## **Capital and Deposits, Loans and Profits.**

To exist, banks need capital, the ability to attract deposits, and loan opportunities.

Oakland can use liquid assets it owns as part of the capitalization base required to create the bank. Other funds necessary to get the bank up and running will come from the General Fund or a small bond levy, ultimately repaid many times over as Oakland prospers. A total of some \$20 million to \$30 million in capitalization will be required.

Oakland will deposit some or all of the over \$1 billion a year that flows into the City from taxes, fees, and State and Federal government grants into the Public Bank of Oakland.

The Bank will make various types of loans - described in part below - that are both financially sound and in the public interest. It may also provide certain services. Interest from these loans and reasonable fees for services will generate a flow of funds into the bank to pay for its operations, build its capital, and create its profit. This profit will not go to pay for million-dollar bonuses to already-wealthy executives as happens on Wall Street. (As of 2013, the President of the Bank of North Dakota, a civil servant, made [just over \\$200,000.](#)) Instead, because the City of Oakland will own the stock of the Public Bank of Oakland, the profit the bank makes will be returned to the City of Oakland as dividends or be re-deployed to make more publicly-beneficial loans.

## **How the Bank Will Benefit Oakland and Its People.**

Instead of creating increasing inequality by making New York's bankers richer and

Oakland's homeowners homeless, a public bank will decrease inequality by keeping money *in* Oakland, moving it between the Bank, the City, its businesses and its people. Oakland's monies will be invested and reinvested, privately and publicly, multiple times for the benefit of all, rather than being slowly siphoned from the City via private bank fees, illegal interest rate manipulations (e.g., [LIBOR fraud](#)) and [dubious credit swaps](#).

The Public Bank of Oakland:

- will create jobs and spur economic growth by providing affordable credit to small and medium-sized businesses. The Bank of North Dakota partners with local banks to provide loans that would otherwise be too big or too risky for a single community bank to handle. The Public Bank of Oakland will do the same, helping businesses start up, grow and mature.
- will reduce the cost of public projects such as road repair and school renovations because the Public Bank of Oakland will not charge the City high interest rates or levy finance fees to borrow for such endeavors. Oakland is in desperate need of infrastructure repair; the City [recently paid \\$3.2 million to a bicyclist seriously injured by a pothole that had been ignored for too long](#).
- will help Oakland go green by providing loans for energy conservation, such as modern furnaces, insulation and window replacement, and installation of solar power, for both City-owned and private properties. Imagine an Oakland “without PG&E” – that is, powered totally by renewable energy. A public bank can help realize that vision.
- can provide loans for public housing, for both new construction and capital improvements. We should explore [Community Land Trusts](#) as an alternative to private housing. These trusts will need initial financing, then stable and available credit to succeed.
- can provide loans for worker cooperatives. According to [a recent article in the New York Times](#), having such a financing option for co-ops will be particularly important:

*The biggest challenge co-ops face is lack of capital, which is why they are often labor-intensive businesses with low start-up costs. Banks can be hesitant to lend to co-ops, perhaps because they aren't familiar with the model. Meanwhile, credit unions — another form of cooperative — face stringent regulations on business lending.*

- will protect Oakland from budget cuts without increasing taxes, because a portion of the Bank's profits are returned to the public coffers, not shipped off to Wall Street. The Bank can also buffer Oakland during recessions, A public bank cannot make Oakland recession-proof, but it can smooth-out the ups and downs of the economy by providing loans [in times of disaster](#) or when, as the economy turns down, other banks are contracting their credit.
- can provide banking services for the [unbanked](#), many of whom are immigrants. One in four Americans do not have access to banking services. A public bank may be able to provide debit cards, check-cashing, and [reduced ATM fees for those using TANF EBT cards](#); as well as make short-term individual loans at reduced rates compared to those charged by private "pay-day" loan emporiums which [prey on those in need](#). Such services could benefit a significant portion of Oakland's residents.

As the bank grows and matures, it may provide additional financial services to the City, such as issuing [Tax Anticipation Notes](#) and [underwriting large bond measures](#), should Oakland decide it needs such financing.

Finally, the interest Oakland owes on the money it borrows to complete infrastructure and housing projects will go back to the Public Bank of Oakland and thus eventually back into the community as new loans are returned to the City as dividends.

## **Creation, Regulation and Operation.**

The mechanics of operating a public bank are not mysterious - the Bank of North Dakota has been running smoothly for 95 years, holding the State of North Dakota's monies, making loans and also helping local banks make loans. In doing so it has [returned \\$30,000,000 annually for the last ten years to the people of North Dakota](#) through their state government. In other words, once it is up and running, a public bank is a straightforward and productive institution.

Much of the difficulty in public banking actually lies in the *creation* of this new entity - politically, because of the unfamiliarity of the concept, and legally, attempting to conform with current banking statutes which have changed greatly in the 95 years since North Dakota created its bank.

Politically, in an era where privatization has been held up as the ideal for every

government service, the notion of taking a service which is currently completely in private hands and creating a public option may seem radical, and we can be sure that Wall Street will paint it this way when the political fight over establishing Oakland's public bank begins. Indeed, Wall Street and other critics will undoubtedly argue that a public bank will be vulnerable to the whims of corrupt politicians (as if they aren't). However, by creating an independent Public Bank of Oakland, with a carefully crafted charter that specifically forbids meddling by Oakland's politicians and stipulates that a significant percentage of profits generated by the bank be returned to the City of Oakland, concerns of political manipulation should be minimized. By demanding competent executives, perhaps drawing on bankers with experience at the Bank of North Dakota, and by incorporating citizens' oversight councils and other mechanisms of participation and transparency, fears of mismanagement and corruption should be put to rest.

While the private banking industry will try to spin public banking as a dangerously radical and fringe idea, we believe it is just common sense to put the power of financing, and the benefit of local economic stimulus that results from that power, back into the hands of the people. The creation of credit should be seen as a public utility belonging to the commons.

Legally, getting regulatory approval for a public bank in California, where none has ever existed, is a steep hurdle but one which can be cleared. Both the State of California, through the [Department of Business Oversight](#), and the Federal Government, through the FDIC, must assent before a full banking charter (a license to operate a bank which receives deposits and issues loans) can be granted. In addition, the bank may wish to become a member of the Federal Reserve. The steps involved, and the byzantine regulations that must be adhered to, are beyond the scope of this document. There are some, particularly at the [Public Banking Institute](#), who have devoted years of effort to studying how a municipal public bank could be created in California, talking to regulators, lawyers and scholars. They are confident that a clear path to getting regulatory approval exists. There is nothing in law that prevents a California [charter city](#) like Oakland from creating a public bank. The key is creating the political will and necessary public support while providing competent leadership and prospective bank management so that regulators see no reason to put up roadblocks.

## **The Power to Create.**

It is said that "The power to tax is the power to destroy." Conversely, the power to loan is, for better or worse, the power to create. In our world, credit is necessary to

buy homes and cars, build or repair roads, expand companies, protect the environment, install alternative energy systems, and build large-scale solar power generation facilities. Yet the power to loan now rests almost exclusively with Wall Street. The same Wall Street that caused a global economic collapse and caused millions in this country to lose their jobs and their retirement savings, here in Oakland, was responsible for the theft of thousands of homes due to fraudulent foreclosures, refused loan modifications, and the subsequent evictions of both owners and tenants.

By creating the Public Bank of Oakland, Oakland can begin to wrest this power away from those who misused it and will continue to misuse it.

Many countries have some flavor of public banking (e.g., [public banks in Germany](#) hold 40% of all bank assets there. San Francisco, Seattle, Santa Fe, Philadelphia and other municipalities around the country are looking at doing the same. Oakland can and should lead the way, becoming the first United States city to establish a municipal public bank.

There is no time like the present to begin.