Creating a Municipal Bank in New York: some issues for consideration

Karl Beitel
Visiting Fellow, Roosevelt Institute
Director, Public Bank Project
Figure 1: Overview of Basic Structure

City sources of capital and funding

- Public Pension Funds
- Cash Reserves (Comptroller)
- Deposit (shift from banks)
- Others - SRI, Foundations
- Other sources

Municipal Bank

- Loans to Housing Acquisitions
- Loans to Targeted Economic Development
- Loans to Participation Loans

Principal and interest
Figure 2: Hypothetical capitalization scenario

- Beginning in 2011 Public Pension allocated 1/10% of total funds; Comptroller distributes interest earned on reserves to fund initial capitalization of Municipal Bank

<table>
<thead>
<tr>
<th></th>
<th>FY 11</th>
<th>FY 12</th>
<th>FY 13</th>
<th>FY 14</th>
<th>FY 15*</th>
<th>Total, five year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>$125</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$125</td>
</tr>
<tr>
<td>Comptroller</td>
<td>$184</td>
<td>$350</td>
<td>$288</td>
<td>$264</td>
<td>$179</td>
<td>$1,265</td>
</tr>
</tbody>
</table>
Funding – deposits and liabilities

• Limits imposed by General Municipal Code cap amount of medium terms notes City can purchase to $250 million; Bankers acceptances a capped at $250 million
• Deposit transfer under above capitalization scenario would be limited to approximately $600 million
• Will require tapping other source of funding – Option include Pension Funds, Socially Responsible Investment funds, Foundations

Mockup balance sheet (in billions)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5 (US securities)</td>
<td>1.25 (tier 1 capital)</td>
</tr>
<tr>
<td>12.5 (loans and investments)</td>
<td>1.0 deposits</td>
</tr>
<tr>
<td></td>
<td>1.5 CDS</td>
</tr>
<tr>
<td></td>
<td>10 billion MTN</td>
</tr>
</tbody>
</table>

Significant portions funded through securities sold to ‘outside’ buyers
Figure 3: Sale of loans into secondary markets: formation of revolving loan funds

- Purchases bank liabilities – Pensions, SRIs, Foundations
- Municipal Bank
- Buyers – pension funds, SRIs, Foundations
- Borrowers – NYHDC, CDC

Secondary market provided by entities that purchase housing loans made to HDC, CDC

Revolving loan fund can significantly increase total amount of funding available