Public Banking Promotes Fiscal Responsibility

New Economy Project | PUBLIC BANK NYC | NYS COMMUNITY EQUITY AGENDA

The proposed New York Public Banking Act (NYPBA) establishes a safe and appropriate regulatory framework for local public banks, created by governments and chartered to serve the public interest. Public banks would hold government funds currently on deposit at commercial banks and reinvest in sustainable community economic development in low-income and historically-redlined Black and brown communities.

SAFE, SOUND, AND EQUITABLE BANKING

Public banks are established to serve a public purpose – not to maximize profits for private shareholders. Under the NYPBA, local public banks would engage in equitable and responsible lending, following strict financial principles that ensure safety and soundness. By leveraging public money to fund affordable housing, small businesses, renewable energy and other projects, public banks will build diverse loan portfolios that generate reliable returns, minimize risk, and maximize local economic impact. Successful public banks exist around the world, and studies show they frequently outperform private banks in terms of safety, accountability, and profitability.[1] For example, here in the U.S., the century-old public Bank of North Dakota helped the state weather the 2008 financial crisis better than others.[2]

STRONG REGULATORY OVERSIGHT AND ACCOUNTABILITY

Under the NYPBA, New York cities, counties, and regions will be eligible to apply to NYS Department of Financial Services (DFS) for a special purpose public banking charter. Local governments must demonstrate in their applications to DFS that the public bank will have adequate reserves and liquidity, robust internal audits and controls, and sufficient capital. DFS will regulate all public banks chartered under the NYPBA, ensuring that they adhere to strict financial management standards.

LED BY QUALIFIED, INDEPENDENT PROFESSIONALS

The daily operations of public banks will be run by independent banking professionals. Public banks will be governed by an accountable board of directors that includes community leaders representing historically-redlined neighborhoods, individuals with community banking experience, and other stakeholders with relevant expertise. The NYPBA requires that a majority of public bank board members be independent of the local government, shielding the bank from political interference while promoting meaningful community representation and accountability.

RESPONSIBLE LENDING FOR PUBLIC GOOD

Public banks would operate similarly to, and in partnership with, mission-driven Community Development Financial Institutions (CDFIs). CDFIs deploy flexible and patient capital to underserved communities, creating "a virtuous cycle of community improvement and social return, even in the toughest economic conditions."[3] In fact, CDFIs' patience, sound underwriting, and social commitment "enabled them to dramatically outperform regulated commercial banks during the [Great] [R]ecession."[4]

[1] https://www.eurodad.org/public_development_banks_towards_a_better_model
[2] https://www.motherjones.com/politics/2009/03/how-nations-only-state-owned-bank-became-envy-wall-street/
[3] https://www.frbsf.org/community-development/blog/financial-institution-loan-funds-as-economic-shock-absorbers/
[4] Ibid.

For more information, please contact Tousif Ahsan: tousif@neweconomynyc.org