

How Do You Start a Public Bank?

by Tom Sgouros

In a nation where the banking laws vary by state and local regulations and charter differences are substantial, it is simply not possible to create a public bank that will work equally well in every place. This is because we live in a nation where banking laws vary among the states. Local regulations and charter differences provide even more variation. Vast differences in local economic and political conditions create demand for certain services in some places but not in others.

There are questions of governance, capitalization, and political-will to address, not to mention coming up with a workable business plan. However, it is possible to break the process down into steps that make sense given your local conditions.

Step 1: Find a public policy problem where the solution is both possible and credit is an important component of that solution. Think strategically about a purpose that will mobilize whatever constituency you need to support the bank. If you need to get it through the legislature, think about what will appeal to a legislator. If you need to get it through a voter initiative, think about what will appeal to a voter. In one community, a bank designed to increase the supply of affordable housing could get traction, while in another, business lending or clean energy development might seem more important. In others, direct-to-consumer services like short-term credit or money transfers might be more important.

Don't worry if the purpose seems too narrow. The Bank of North Dakota was started to do agriculture lending, but has since grown to do much more. Start a bank to do one thing and if it is successful, it will find other things to do. This is what any successful organization does, not just banks.

Step 2: This step involves researching the legal and regulatory aspects, as well as the financial ones. Identify a source of the capital and deposits, and a target market to lend in. If you're going after affordable housing as a purpose, maybe this means coming up with a solution that will work through existing housing agencies. If you're after business lending, what is the local banking market like? To have the impact you want, do you need to corral all of your city or county deposits, or just some? Is this a need that crosses a county line? If so, can you come up with a governance structure that will appeal to counties or towns on both sides of that line?

Step 3: Develop the arguments you'll use to promote it. For example, a bank aimed at clean energy development might project for-

ward the increase in generating capacity it will produce five years from now. For a bank aimed at economic development lending, modeling improvements in gross economic output might be more useful. A bank aimed at self-finance for a county might show how it will reduce interest costs.

Ask yourself what arguments will be the most effective with your constituency, and focus on them. Will a bigger bank make a more effective argument? Will a smaller one? Is there a secondary function that will help? You may find yourself going back to Step 2 and adjusting your proposal to make a better case.

Step 4: Mobilize your constituency and move the ball forward. Extract the arguments from your research that will make the most headway, and get them out there. Identify key people and organizations that need persuading, and persuade them. Identify the unmovable people and organizations that will oppose you and work around them. Local banks are valuable potential allies; it is worth some effort to get some on board. At each step of your way, there is help to be found. I wrote a book that can help with some of it (<http://checkingthebanks.com>). You will need to enlist county executives, ex-bankers, lawyers and accountants. Remember, though, that a public bank hasn't been founded in the US in almost a century. No one alive has the experience to say with confidence how to do this, so everyone is just making it up as they go along. Just like you.

*Tom Sgouros is an engineer and freelance policy consultant specializing in budgeting, economics, and public finance. He has consulted with public banking initiatives in several states, and has written *Checking the Banks to help people understand how banks work.**

Local banks are valuable potential allies; it is worth some effort to get some on board.

