

I. STATE BANK

Current Action on State Banks

Citing the finance sector's near crippling of the nation's economy, Oregonians for a State Bank (OFSB) has artfully articulated the need for an institution that will leverage funds for the benefit of Oregon residents. The idea of a bank that can stimulate local economies and generate revenue for the state has also resonated with activists in Washington, Hawaii, Michigan, Maryland, Pennsylvania, New Hampshire, Vermont, Minnesota, Iowa, New Mexico, and Massachusetts, all of which are bringing the fight for state banks to their respective jurisdictions.

State Banks, General

Capitalized by state money the SBNY would serve as a repository for all state deposits. It would be publicly governed and return a negotiated portion of bank profits to the state. A state bank would operate much like any other private bank, however deposits would be guaranteed by the state rather than by the FDIC.

Why Build A State Bank?

In the wake of the financial market collapse of 2009, banks sharply curtailed their lending. According to FDIC data, bank lending in 2009 declined more sharply than in any year since 1942. This drop-off was particularly pronounced for the largest Wall Street banks. This decline in lending has been a driver of current massive and continued unemployment. Small businesses--which account for 99.7% of private sector firms in New York--have been the hardest hit by tightening credit standards.¹

The SBNY can end this depressed lending cycle by providing the capital needed to stimulate the economy, promote job creation, and eventually generate revenue for the state. An SBNY will strengthen and support the lending community banks prioritize. This model of localized lending will have a ripple effect throughout New York, and bring profits directly into the state's economy. Like the Bank of North Dakota, SBNY will benefit small businesses that require capital to expand their businesses, small farmers who require funding for the inputs needed for growing and harvesting, home owners in need of low interest mortgages, students who are without the resources to pay for higher education, and New York residents eager to see the Empire State return to greatness.

II. BENEFITS OF A STATE BANK

Small Business

¹ New York State Comptroller. September 2010. *The Role of Small Business in New York State's Economy*. Retrieved from <http://www.osc.state.ny.us/reports/other/smallbusinessreport091510.pdf>

“The availability of credit is one of the most fundamental issues facing a small business.”² The largest lending institutions, those with domestic assets in excess of \$10 billion, made 65 percent of total business loans in June 2007.³ These large lending institutions made the strategic decision to promote business credit cards for small business owners as opposed to issuing traditional business loans. As a result, a nationwide market for small business credit cards has emerged, with a dozen national lenders promoting business credit cards to small firms through extensive mail solicitation. Aside from offering teaser rates, most card issuers do not compete by offering competitive rates.

SBNY would help to change this dynamic for small businesses in New York, by providing capital to the community banks that will in turn provide loans to them at competitive rates. Small business owners no longer subjugated by high interest rate credit cards will be free to reinvest the money saved, further stimulating the state’s economy. The SBNY will further service community banks by buying loans off of their books. This would allow community banks to make more loans.

Farmers

New York’s small and medium sized farmers have had a difficult time accessing the capital needed to finance their businesses. Limited USDA-Farm Service Agency budgets and consolidation of lending institutions have resulted in fewer lenders with agricultural expertise or mandates. Community development finance institutions (CDFI) finance many small businesses, but were created to address urban issues and typically have little or no agricultural expertise.⁴ Historically large banks do not lend to farmers, rather it is the small community banks with established relationships in a farming community that does the majority of lending. However, the loans that small farmers need—and community banks specialize in—are more costly to originate and monitor. Unfortunately, community banks do not have the capital to provide or monitor the loans farmers need.

By infusing capital directly into the community banks that traditionally fund them, SBNY would provide support for farmers. The SBNY would also supply a funding and delivery mechanism for specific economic development tools that supply the inputs needed for seasonal growing.

Home Owners

As of October 2010, 1 out of every 2,087 housing units in New York received a

² Rebel Cole for the U.S. Small Business Administration (SBA), Office of Advocacy. June 2010. *Bank Credit, Trade Credit or No Credit: Evidence from the Surveys of Small Business Finances*. Retrieved from <http://www.sba.gov/advo/research/rs365tot.pdf>.

³ Office of Advocacy of the U.S. Small Business Administration (SBA). July 2009. *Small Business in Focus: Finance*. Retrieved from <http://www.sba.gov/advo/research/09finfocus.pdf>.

⁴ The Carrot Project. *Small Farm Financing in the Northeast*. 2008. Retrieved from <http://www.thecarrotproject.org>.

foreclosure notice.⁵ The structure of SBNY would allow financial institutions that do not have FHA approval, to access FHA backed funds, from the SBNY, to make mortgage loans. This would increase the likelihood of small community banks working with local residential home loan borrowers. SBNY could provide a secondary single family mortgage market for local financial institutions offering the people of New York the opportunity of keeping their mortgage loan servicing in New York.

Students

SBNY would also serve as an important resource for students who are who are unable to obtain adequate funds through federal student aid programs. SBNY's portfolio would allow for an alternative loan that provides low interest rate options (fixed or variable) and pays the administrative fees associated with the loan program for all New York residents attending school in-state.

New Yorkers

SBNY provides a mechanism to leverage funds for the benefit of New Yorkers without the inherent dangers associated with the too big to fail banks. For every one dollar deposited into the SBNY, ten dollars may be given out in the form of loans. Our communities benefit when local entrepreneurs get the support they need. SBNY would have a vested interest in the success of the community banks it funds; those community banks are in turn tied to the success of local small businesses it provides loans to. This model serves New York better than large private financial institutions that are unaccountable to New York residents.

⁵ RealtyTrac, *New York Real Estate Trends*. (n.d). Retrieved from <http://www.realtytrac.com/trendcenter/ny-trend.html>