

Protecting Your Financial Interests



Government of the District of Columbia
Department of Insurance, Securities and Banking

What is a Public Bank?



ABOUT US

Who We Are

The Government of the District of Columbia Department of Insurance, Securities and Banking (DISB) regulates financial-service businesses in the District by administering DC's insurance, securities and banking laws, rules and regulations.

Our Mission

- Protect consumers by providing equitable, thorough, efficient, and prompt regulatory supervision of the financial services companies, firms, and individuals operating in the District of Columbia;
- Develop and improve market conditions to attract and retain financial services firms to the District of Columbia.



What is a Public Bank?

A public bank is a chartered depository bank in which public funds are deposited. It is owned and operated by a government unit such as a state, county or city.

- In contrast to conventional banks, a public bank is likely to have a mandate for serving a public mission which reflects the values and needs of the public that it represents.
- The Bank of North Dakota (BND) is the only active public bank in the contiguous United States, formed in 1919 following a crisis in the agricultural sector and a constriction on credit available to local businesses. Please visit <https://bnd.nd.gov>

The District is interested in establishing a public bank, if feasible, as it could have the potential for enhancing the District's fiscal management, improving returns on District funds, and providing a more robust lending climate in the District.

DISB is presently conducting a feasibility study for establishing a public bank in the District of Columbia.

The Public Banking Feasibility Study Report will include;

- Functions of a Public Bank
- Governance Considerations
- Implementation Plan
- Operational & Policy Considerations
- Financial & Economic Impacts



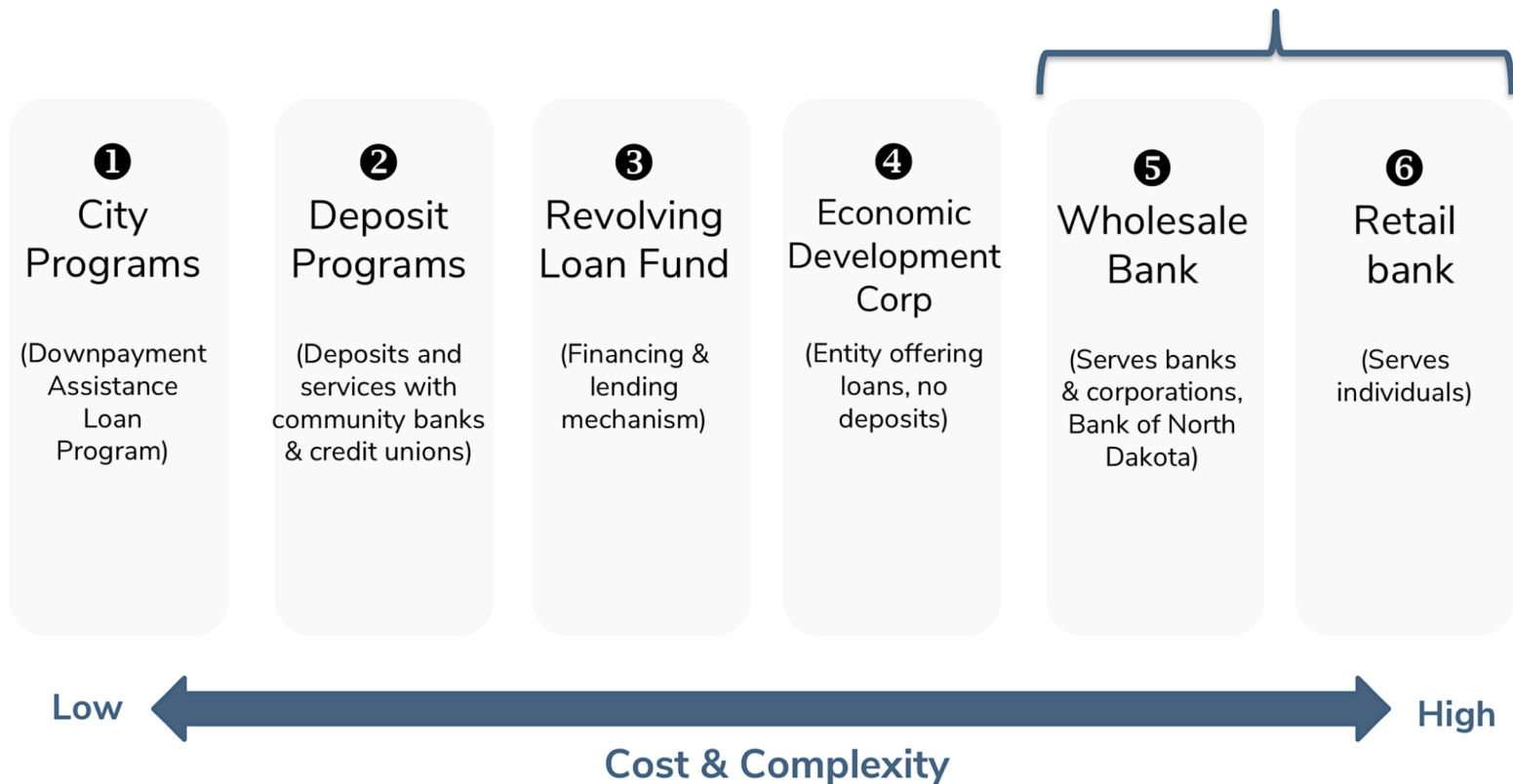
Public Banking in a U.S. Territory

Territorial Bank of American Samoa (TBAS) is a full service bank, owned and operated by a local government.

- Obtained Federal Reserve approval in the 2nd quarter of 2018
- TBAS focuses on providing business loans in the Territory.
 - There had not been any commercial lending five years prior to approval
- Capital for infrastructure modernization and recovery efforts from Cyclone Gita was a driving factor.

Please visit <https://www.mytbas.com>





Public Banking & Real Estate Lending



Private Banks Role in the Local Economy

- Banks pool savings from consumers, businesses, and governments to lend for productive investments.
- Banks serve as “financial intermediaries”; i.e. they direct savings to productive investment
- Private banks are businesses, therefore they must be profitable.



Non-bank – Institutions which provide banking services such as lending and credit card operations, but do not have the legal status of a bank or accept deposits.

Non-banks continue to dominate the home lending market, reporting 56% of all originations

- Quicken Loans now leads Wells Fargo as the largest loan originator, with Quicken making 396k loans compared to 312k by Wells Fargo.
- The three largest banks in the U.S., Wells Fargo, JPMorgan Chase, and Bank of America, reported just 15% of their lending went to LMI borrowers.
- Conventional banks have almost completely abandoned FHA/VA loans. Virtually all of their mortgages are conventional loans.
 - About half of LMI borrowers use FHA/VA loans to buy their homes. Black and Hispanic borrowers use FHA/VA 65% and 55% of the time, respectively.
 - Non-bank lenders in the top 25 all report 20% to 50% of the home purchase loans were FHA/VA.

Source: National Community Reinvestment Coalition, 2017 Home Mortgage Disclosure Act Report

FHA Mortgage Insurance Premiums

Among homebuyers, FHA increased its market share from 4.5 percent of purchase loans in 2006 to 33 percent in 2009. This dramatic increase following the crisis, combined with an economic recession, placed extraordinary pressure on the FHA Mutual Mortgage Insurance Fund (MMI) Fund.

- FHA increased Mortgage Insurance Premium (MIP) to shore up the program's reserves –raising premiums 145%
- In early 2015, FHA reduced the premium that borrowers pay for mortgage insurance, providing an annual savings of \$900 for nearly two million FHA homeowners
- On January 27, 2017, FHA was to reduce the premium that borrowers pay for mortgage insurance closer to historical norms, as the MMI Fund met the congressionally mandated capital reserves needed to pay claims on defaulted mortgages.

The Trump Administration decided to halt all plans for further MIP reductions

- Large banks have significantly reduced their share of mortgage lending to low and moderate-income (LMI)
- Non-banks/ FinTech (Quicken) represent 56% of all home loan originations and 20-50% of their loans (FHA/VA)
 - FHA Mortgage Interest Premiums can be prohibitive for LMI borrowers
- Non-Bank loans which are not underwritten by the FHA/VA often require higher down payments and have more stringent credit score requirements



Bank of North Dakota Home Loans

The Bank of North Dakota's role in providing home loans is to assist local lenders provide the best service possible to their customers.

- Local lenders are able to originate a home loan with the borrower and sell it to BND, who will service the loan right here in ND
- A local lender may also refer borrower to BND to originate the loan

In the case of the BND, a shared risk model appears to be equally beneficial to the borrower, the BND and local lenders alike. This is possible because local lenders tend to have more flexible lending criteria than Wall Street banks.



- In three distinct underwriting regimes and subsequent housing market environments – (2002-2004), (2005-2007) and (2011-2013), Fannie Mae discovered that loan performance improved as a borrower's income relative to area median income increased.
 - Loan default rates of low and moderate income loans are higher as relative income declines
- Low and moderate income loans typically have higher LTVs, lower FICOs and higher debt-to-income ratios.
- **Eligibility standards** are extremely important for sustainable lending to low and moderate income borrowers.”

Who's Exploring Public Banking

State/ Municipality	Action	Status	Source(s)
State of Alaska	The Alaska State Bank Act HB 376. House Bill passed to stablish a state bank; relating to insurance, mortgage lending, securities, 02 and permanent fund dividends; and providing for an effective date.	Referred to finance committee. Act to take effect July, 1 2019	http://www.akleg.gov/basis/Journal/Pages/30?Chamber=H&Bill=HB%20376&Page=03316#3316
City of Los Angeles	Los Angeles City Council introduces motion to conduct a public banking study . The study is to evaluate the requirements, legislative barrier and relevant aspects of creating a state-chartered public bank named the “Bank of Los Angeles” . It will determine the feasibility of providing banking services for community reinvestment projects primarily through the acquisition, construction, and rehabilitation of affordable and workforce housing by utilizing deposits. It also will evaluate the feasibility of providing financial services and products to local businesses, including the cannabis industry.	On February 26, 2018 the City of Los Angeles, Office of the Chief Legal Analyst, presented a report which concludes the City should conduct a more detailed cost-benefit analysis and banking formation study	http://clkrep.lacity.org/online/docs/2017/17-0831_mot_07-26-2017.pdf https://publicbankla.com/images/PBLA-Letter-to-City-Council-3.22.pdf http://sftreasurer.org/sites/default/files/3-20_Municipal%20Bank%20TF%20Prep%20Materials.pdf

Who's Exploring Public Banking

State/ Municipality	Action	Status	Source
City of San Francisco	City and County of San Francisco Treasurer José Cisneros convened a Municipal Bank Feasibility Task Force. The task force is investigating the potential costs and benefits of a municipal bank as well as other opportunities to leverage the City's banking and investment practices to support community objectives.	Task force presented report providing banking operations models & cost estimates on April 19, 2018	http://sftreasurer.org/sites/default/files/Public%20Banking%20Lit%20Review_for%20TF%20Members.pdf http://sftreasurer.org/sites/default/files/4-19_Municipal%20Bank%20TF%20Presentation%20Materials.pdf
State of Michigan	State of Michigan Legislature introduces HB No. 5432 . The State proposes to regulate the disposition of surplus state funds, inclusive of authorizing the state to lend surplus funds pursuant to loan agreements secured by certain commercial, agricultural, or industrial real and personal property. It also authorizes the use of surplus funds for loans to certain municipalities and agencies.	Bill pending in committee	http://www.legislature.mi.gov/(S(0kudvhgtgigse2iff1paq4pd))/mileg.aspx?page=GetObject&objectname=2018-HB-5432

Who's Exploring Public Banking

State/ Municipality	Action	Status	Source
State of New Jersey	NJ State Senate introduces the State Bank of New Jersey Act No. 885. The Bill authorizes the creation of a board of directors to oversee the bank. It also authorizes the State Treasurer to deposit State moneys in the bank. The mission of the State Bank of New Jersey is to promote small businesses, fair educational lending, housing, infrastructure improvements, community development, economic development, commerce, and industry in New Jersey. In this role, the bank shall act as a funding resource in partnership with other financial institutions, economic development groups, and guaranty agencies.	Referred to Senate Commerce Committee	http://www.njleg.state.nj.us/2018/Bills/1000/885_11.PDF
State of New York	NY State Senate introduces Bill No. S3172 Establishes the New York State Commission on Establishing a Bank Owned by New York State. The Commission is to conduct a study to evaluate the feasibility of forming a public bank owned by the State of New York. The Governor shall designate one of his or her appointees as the chair of the Commission.	In committee	https://www.nysenate.gov/legislation/bills/2017/s3172/amendment/original

Thank You for attending this public meeting.

For more information regarding the District's Public Banking initiatives please visit

<https://disb.dc.gov/page/public-banking-district>