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TO THE
HOUSE COMMITTEE ON
ECONOMIC REVITALIZATION & BUSINESS
THE TWENTY-SIXTH STATE LEGISLATURE
REGULAR SESSION OF 2011

Tuesday, March 29, 2011
8:45 a.m.

**TESTIMONY ON H.R. NO. 139 - CREATING THE TASK FORCE ON ESTABLISHING
THE BANK OF THE STATE OF HAWAII**

**THE HONORABLE ANGUS L.K. MCKELVEY, CHAIR,
AND MEMBERS OF THE COMMITTEE:**

My name is Iris Ikeda Catalani, Commissioner of Financial Institutions ("Commissioner"), testifying on behalf of the Department of Commerce and Consumer Affairs ("Department"). We appreciate the opportunity to testify on House Resolution No. 139. The Department supports this resolution with requested changes.

This resolution would create a task force to study the feasibility of establishing a bank of the State of Hawaii. In broad terms, its mandate would include conducting a review and investigation of an existing state-owned bank, namely the Bank of North

Dakota, and to recommend such laws as may be required to establish such a bank in this State and to create an implementation plan for the bank.

More specifically, the specific responsibilities of the task force, as enumerated in the resolution, include, but are not necessarily limited to a review and evaluation of the following:

- (1) The bank of North Dakota, its enabling statutes, its governing structure, and its programs;
- (2) The feasibility of Hawaii creating a state-owned bank similar to that of the bank of North Dakota;
- (3) The effectiveness and usefulness of an existing state bank, specifically the economic impact of having a state bank;
- (4) The laws, statutes, rules, and regulations applicable to establishing a state-owned bank;
- (5) The capital requirements of a state-owned bank;
- (6) Initial capitalization options for a state-owned bank;
- (7) The cash management and banking needs of the State;
- (8) An estimation of the short-term operating costs and projected revenues of a bank of the State of Hawaii;
- (9) The long-term broad economic impact and long-term job creation and state revenue impacts of having a bank of the State of Hawaii;
- (10) Any impacts to existing banks and financial institutions in the State;
- (11) Sound underwriting practices necessary for a state-owned bank;
- (12) Standards to ensure that loans result in the outcomes described in the approved loan applications;

- (13) Ethics and conflict of interest requirements for the board, offices, and employees of a state-owned bank;
- (14) Transparency requirements for the operations of a state-owned bank; and
- (15) Any necessary legislation to establish a state-owned bank.

The task force that is envisaged is to be comprised of ten individuals, with the standing or qualifications specified in the resolution. It is to submit an interim report to the legislature no later than twenty days prior to 2012 regular session, and a final report to the legislature no later than twenty days prior to the 2013 regular session. The task force would be assisted with research and organization support services provided by the Legislative Reference Bureau.

While the concept of a state-owned bank has reportedly been successful in North Dakota it should be noted that the banking and financial services landscape in that state is far different than that which prevails in Hawaii. Whereas Hawaii has a relatively small number of comparatively large commercial banks, North Dakota, by contrast, has a greater number of small commercial banks. The Bank of North Dakota serves as a "central bank" for these smaller organizations, providing clearing and payment services, settlement programs and other correspondent banking services, which the larger Hawaii banks either do not need or which they already obtain elsewhere. Additionally, most government deposits are placed with the Bank of North Dakota, as opposed to being distributed among the local banks, a concentration issue which needs careful consideration before implementation.

Without prejudging, in any manner, the merits and desirability of establishing such a State-owned bank in Hawaii, the Department notes, and wishes to emphasize, that this task force, if established, does not solely have a mandate to recommend how a State-

owned bank, along the model of the Bank of North Dakota, can be expeditiously organized in Hawaii. As we understand the mandate of the proposed task force, it would also include studying whether a State-owned bank would be a financially feasible, appropriate, useful, and beneficial enterprise for the State of Hawaii to undertake. Consequently, should the task force interim report determine and recommend that a State-owned bank would not be feasible, appropriate, useful, or beneficial for the State of Hawaii to undertake, the task force, at that juncture, would presumably require the Legislature's further instructions as to whether any further efforts by the task force to develop legislation and finalize cost estimates to capitalize a State-owned bank should proceed, in light of the interim report recommendations, should they be adverse to the concept of establishing a State-owned bank. In my opinion, the task force vehicle, as proposed by this resolution, does not appear to have considered and does not make adequate provision for such an outcome.

Given the potential outcome that the task force could thus find itself using the valuable time of numerous, busy State officials and business leaders in serving out its second year with no remaining viable purpose, should the task force's interim report be adverse to the concept of establishing a State-owned bank in Hawaii, and given, as well, the clear and significant disparities between the banking landscape in North Dakota and Hawaii that I have noted, I respectfully propose the following alternative for your consideration.

Given the interest and importance felt by the legislature in finding revenue generating operations, we believe the legislature would like results in a more timely manner. Consequently, rather than embark on a lengthy task force project that is certain to occupy a significant amount of the time and resources of nearly a dozen State and business leaders over the next two years, without any certainty that the North Dakota

model is even conceptually appropriate for this State, I propose and recommend that in lieu of creating a task force of that size and scope, the Legislature instead appropriate adequate funding for a one-year study to be conducted by my office to thoroughly evaluate the costs and benefits of establishing a State-owned bank in Hawaii, based on the Bank of North Dakota model. DFI would study the feasibility of the evaluation points of the resolution. The Division of Financial Institutions would submit its report to the Legislature, with findings and recommendations, no later than twenty days prior to the 2012 regular session. I estimate that a thorough study and final report to be prepared by my office would require a legislative appropriation of \$100,000, inclusive of all costs, including any necessary travel-related expenses and the cost of hiring a research specialist. We believe that this approach will actually save time and money as well as freeing the various State officials and business leaders who would otherwise be called upon to serve on a task force from responsibilities that my office is fully capable of undertaking by itself with the requisite subject matter expertise.

Thank you for the opportunity to testify. I would be happy to respond to any questions you may have.



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Presentation to the Committees on Economic Revitalization & Business
Tuesday, March 29, 2011, at 8:45 a.m.
Testimony on HR 139 & HCR 159

In Opposition

TO: The Honorable Chair Angus McKelvey
The Honorable Vice Chair Isaac Choy
Members of the Committees

My name is Gary Y. Fujitani, Executive Director of the Hawaii Bankers Association (HBA), testifying in opposition to HR 139 & HCR 159, which establishes a task force to review, evaluate, and create an implementation for the creation of the Bank of the State of Hawaii.

We oppose a policy of putting public deposits meant to pay for current operating expenses/capital items into long term loans that run the risk of not being repaid. Further, an appropriation would be required for an undetermined amount of capital to start up and operate a bank for a period of time without any offsetting revenues. There would be no guarantee that the bank would make money in a reasonable period of time, if ever.

To our knowledge the Bank of North Dakota (BND), started in 1919, is touted as the model to follow. One has to question why in 92 years, no other state has set up a state-owned bank?

The State of North Dakota is very unique in that it has a population of less than 670,000 residents and yet almost 100 banks operate in the state (Hawaii has 11 FDIC insured banks). BND acts as a bankers' bank or a wholesale bank. So BND provides services to banks, whether it's check clearing, liquidity, bond accounting safekeeping or loan participations. Hawaii banks either do it themselves or already obtain these services elsewhere.

Being a bankers' bank, does not serve the needs of consumers and since any state funds placed with the bank are self insured, the State loses the benefit of collateralization of state deposits. Additionally, deposits at BND are insured by the State of North Dakota and not by the FDIC. So the State is liable in the unforeseen event of the bank's failure.

A quote from the 2009 Bank of North Dakota (BND) Annual Report follows:

“BND’s 90-year evolution as the only state-owned bank in the nation had humble beginnings with a \$2 million bond issuance in 1919, the rough equivalent of \$25 million today.”

“The State of North Dakota began using bank profits in 1945 when money was first transferred into the General Fund.”

So it took 25 years before the State of North Dakota reaped any profits from the bank and a bond issuance was necessary to provide the capital to start the bank. Federal capital guidelines of 8% to 9% of total assets to start a new (de novo) bank would mean that \$1 billion in public deposits would require \$80 to \$90 million in capital that must be appropriated. So while the Bank of North Dakota may be a successful model to following, it took many years to develop before it produced a return.

Additionally, in 2010 BND had a return on average assets of 1.49%. It is our understanding that the Hawaii’s return on its investment of state funds was equal to or greater than BND’s yield. So the State was able to earn a higher return without tremendous risks to Hawaii’s taxpayers and without saddling the State with significant, unwarranted costs to replicate a highly competitive, regulated and federally-insured banking system that exists throughout our islands.

It has been eluded that BND is one of the reasons for North Dakota’s budget surplus. However, a quote from an interview of Eric Hardmeyer, Chief Executive Officer of BND, follows:

“Hardmeyer says he’s received “tons” of inquiries about the banks’ working... North Dakota has the nation’s lowest unemployment rate..., soaring oil production and robust state surplus- Hardmeyer says the bank isn’t responsible for the prosperity.”

A USA Today article attributes the North Dakota surplus to the following:

“North Dakota is enjoying an oil boom in the western part of the state, drawing workers from across the country. Williston, in oil country, grew 17.6% to 14,716. The oil windfall has created a \$1 billion state budget surplus.

Agriculture — 90% of the state’s area is used for farms and ranches — is productive and profitable, making the state a top exporter of wheat and other crops. Federal agriculture subsidies add nearly \$1 billion a year.”

A state owned bank could face public pressure to make loans to consumers or businesses that do not meet traditional bank credit qualifications. Thus the state would make riskier loans, which increases the risk of these loans not being repaid as agreed. For example this current legislative session, lawmakers are looking for ways to help

homeowners facing foreclosure. Would lawmakers look to the state owned bank to make loans to these troubled borrowers?

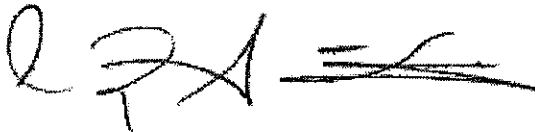
Obviously, a State-Owned Bank would have an unfair advantage over Hawaii financial institutions that have been serving Hawaii since 1858. Hawaii banks are an integral part of the engine that drives Hawaii's economy and the setting up of this unfair competition could have unintended consequences.

Over our long history Hawaii's banks have meet the needs of our community by providing loans, deposit accounts and innovative services to the public and businesses. Banks are very supportive of non-profit human services organizations and other charities by providing monetary assistance and volunteers to help these charities fulfill their missions.

To place public funds meant to pay for current state operations is a risky policy decision to make in these troubling economy times.

Thank you for allowing us to testify on this bill and ask that this bill be held.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gary Y. Fujitani', followed by a horizontal line.

Gary Y. Fujitani
Executive Director

HACBED

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Tuesday, March 29, 2011 at 8:45 a.m.
House Committee on Economic Revitalization & Business
Testimony for HCR 159 & HR 139
Relating to Task Force to Establish a State Bank Of Hawaii

Dear Chair McKelvey and Committee Members:

The Hawai'i Alliance for Community Based Economic Development (HACBED) **supports HCR 159 and HR 139** to create a task force to evaluate the creation of a state Bank of Hawaii based on the model of the Bank of North Dakota.

The creation of a state bank has the potential to build a unique asset base for the state and the evaluation of this model is an appropriate step. HACBED stands to support the taskforce in any capacity should this effort go forward.

Thank you for the opportunity to submit testimony.

Sincerely,

Brent Dillabaugh
Asset Policy Coordinator



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Your Partner For Success

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Testimony to the House Committee on Economic Revitalization and Business
Tuesday, March 29, 2011 at 8:45 a.m.

Testimony in opposition to HCR 159 / HR 139 – Creating the Task Force on Establishing the
Bank of the State of Hawaii

To: The Honorable Angus McKelvey, Chair
The Honorable Isaac Choy, Vice-Chair
Members of the Committee on Economic Revitalization and Business

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League, the local trade association for 85 Hawaii credit unions, representing approximately 810,000 credit union members across the state.

We are in opposition to HCR 159 / HR 139. Our main concern is simply that public funds being deposited into a state bank would be insured by the state itself. Without the benefit of being insured by a separate entity like the National Credit Union Administration (which insures and oversees all credit unions in the State of Hawaii), the state would be in an extremely precarious situation in the event of any financial difficulty within the bank. While we not necessarily oppose the convening of a task force, we do oppose the creation of a state bank. However, if a task force is convened, we will request that more representatives from the financial institutions industry be invited to participate.

Thank you for the opportunity to testify.

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, March 26, 2011 10:44 PM
To: ERBtestimony
Cc: web@cartoonistforchrist.org
Subject: Testimony for HR139 on 3/29/2011 8:45:00 AM

Testimony for ERB 3/29/2011 8:45:00 AM HR139

Conference room: 312
Testifier position: oppose
Testifier will be present: No
Submitted by: Lee McIntosh
Organization: Individual
Address:
Phone:
E-mail: web@cartoonistforchrist.org
Submitted on: 3/26/2011

Comments:

Mr. Chair and Members of the Committee on Economic Revitalization and Business:

Aloha, my name is Lee McIntosh. I live in Kau on the Big Island. I am not in favor of HR 139, which creates a task force to investigate how to establish a state bank. Hawaii does not need a state bank, so there is not a need to dedicate time and resources to research that could instead be used towards solving the deficit by implementing fiscally accountable solutions. Thank you for the opportunity to testify on HR 139.

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 28, 2011 2:24 PM
To: ERBtestimony
Cc: KimHarman@FACEHawaii.org
Subject: Testimony for HR139 on 3/29/2011 8:45:00 AM

Testimony for ERB 3/29/2011 8:45:00 AM HR139

Conference room: 312
Testifier position: support
Testifier will be present: No
Submitted by: Kim Harman
Organization: Individual
Address:
Phone:
E-mail: KimHarman@FACEHawaii.org
Submitted on: 3/28/2011

Comments:

As Policy Director for Faith Action for Community Equity (FACE), I fully support establishing a Task Force to explore the benefits and role a state bank could play in Hawaii.

All of our islands have suffered from the loss of capital and equity to offshore banks, companies and other institutions. We need to full explore any solutions that other states have found that keep capital in the state for economic revitalization and job creation. North Dakota's state bank has been very successful both keeping capital in their state and directing funds to job creation. Several other states have introduced bills to establish state banks this year, including Washington, Oregon and Maine.

FACE will be releasing a report on the potential benefits of state bank in Hawaii later this week. I am sorry it is not ready for distribution for your hearing Tuesday, but I will make sure we deliver a copy of the report to each of your offices as soon as it is available.

Thank you for the opportunity to testify today.