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TO THE HOUSE  
COMMITTEE ON FINANCE

THE TWENTY-SIXTH STATE LEGISLATURE  
REGULAR SESSION 2012

Wednesday, February 29, 2012  
11:30 a.m.

TESTIMONY ON H.B. 1840, H.D.2  
RELATING TO STATE-OWNED BANK

TO THE HONORABLE MARCUS OSHIRO, CHAIR,  
AND MEMBERS OF THE COMMITTEE:

My name is Iris Ikeda Catalani, Commissioner of Financial Institutions ("Commissioner"). I appreciate the opportunity to provide comments on behalf of the Division of Financial Institutions of the Department of Commerce and Consumer Affairs ("DFI") regarding H.B. 1840, H.D. 2.

The purpose of the Bill is to establish a task force to study the feasibility of establishing a state-owned bank in Hawaii. It is believed that a state-owned bank would promote agriculture, education, community development, economic development, housing and industry in the State by building a resource to help stabilize and grow the

State's economy; use the resources of the people of the State within the State; support the common good and public benefit of the State; and leverage the State's financial capital and resources.

This measure is similar in nature to H.B. 2103, Proposed HD2, which also establishes a task force of sorts to review relevant state laws to develop legislation to establish a state bank. The Division of Financial Institutions ("DFI") has done some preliminary research on the feasibility of a state bank. DFI has already completed a white paper on the feasibility of a state bank. In doing so, we gathered information from the Bank of North Dakota, and the studies from the Federal Reserve Bank of Boston and the Massachusetts Commission created by the Massachusetts legislature. This white paper is attached at the end of my testimony.

As part of establishing the task force under the bill, the Department believes it is important for the task force to take a broader look at many options that the State should consider. The state bank is one of the options that should be explored by the task force. For the state bank option, the task force would benefit from guidance from the legislature regarding the following items:

1. What does the legislature want the state bank's mission or focus to be? The state bank of North Dakota was established to provide loans to farmers who were not able to qualify for agricultural loans in the 1900's. Its lending

practices have not changed significantly since the establishment of the bank focusing on agricultural loans, and since 1967 adding student loans.

2. Whether the legislature wants the state bank to comply with the requirements that state funds deposited in banks be fully secured. Currently, all banks are required to maintain a minimum level of capital during the ongoing operations of the bank. In the alternative, whether the legislature wants to allow the state to float bonds to then invest as capital in the bank?
3. Where the capital to establish the state bank would come from and whether the state will put up the capital and be the 100% owner of the bank. The capital contribution would then not be considered state funds, but would be an investment of the state. Then, if the state also required that all state funds (e.g. general funds, special funds etc.) be deposited in the bank, then the question is whether the state will require that those funds be secured? In North Dakota, the original act of 1919 provided that all public funds were to be deposited with the Bank of North Dakota. An initiated measure in 1921 changed this by providing that all political subdivisions, with the exception of the state itself, make deposits either with private institutions or with the Bank of North Dakota.
4. Under what circumstances would the state bank be required to distribute dividends to the general funds? The State Bank of North Dakota did not

provide a dividend to the state until 1945, about 26 years after the establishment of the bank.

Other options to consider are:

1. The Boston Community Capital's SUN initiative (Stabilizing Urban Neighborhoods). We discuss this proposal in more detail in S.B. 2103, Proposed HD2.
2. The Small Business Administration, which offers loans and financial assistance to small businesses.
3. Until 2003, the state administered the Hawaii Capital Loan Program, which provided loans to eligible Hawaii businesses. During the 2011 session, S.B. No. 757 was introduced to reestablish the Hawaii Capitol Loan Program. Currently pending is a hearing to appropriate \$2 million dollars to the program.
4. Agricultural loan programs both at the federal and state levels.

Thank you for the opportunity to provide comments. I am available to answer any questions the committee might have.

Should Hawaii Establish a State Bank?  
By the Division of Financial Institutions  
Iris Ikeda Catalani, Commissioner  
January 2012

Department of Commerce and Consumer Affairs

With the recent economic downturn and lack of financing available for new businesses, discussions on the establishment of state banks have increased. The only state bank that currently exists was established in 1919 in North Dakota. Its primary functions are to promote agriculture, commerce and industry, and to stimulate economic development through several lending programs.<sup>1</sup>

In May 2011, the New England Public Policy Center of the Federal Reserve Bank of Boston published a research report entitled, "The Bank of North Dakota: A model for Massachusetts and other states?" (Research Report). The Research Report analyzed the Bank of North Dakota (BND) as a possible model for the state of Massachusetts. The Report did not find this to be a reasonable model for Massachusetts, concluding that:

- The willingness and capacity of a state-owned bank to offset a serious credit crunch has not been shown;
- With the possible exception of the Great Depression, BND contributions to stabilizing the state economy and finances appear to have been relatively minor;
- The potential costs of starting up a state-owned bank could be significant; and
- Massachusetts and other states should start any discussions of financial-sector reforms by identifying the problems that public policy needs to address.

One of the factors the Research Report looked at was the difference in the banking environment in North Dakota which consists of numerous small commercial banks and that in Massachusetts which consists of a few comparatively large commercial banks. In addition, the Research Report noted that there is only one state bank in the entire country with no others with which to compare it.

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<sup>1</sup> Morton, Heather. Are State-Owned Banks a Viable Option? NCSL LegisBrief November/December 2011.

While it is difficult to provide a definitive conclusion based on analyses which are limited and complex, the following provides additional discussion on why the establishment of a state bank in Hawaii would be against sound fiscal policy at this time.

- **Bank of North Dakota**

Emphasizing safe and sound lending, BND has a largely favorable reputation in the state. It does not engage in risky activities such as community development funding and equity investments. Partnering with small community banks in North Dakota allows these small banks to make loans that exceed their legal or internal lending limits. The experience of BND is not comparable to Hawaii economic or banking environment as the two states are dramatically different. North Dakota is sparsely populated rural state with an agricultural base with numerous small, relatively isolated banks,<sup>2</sup> differing significantly from Hawaii which relies on tourism, is not predominantly rural, and has only eleven banks, which could not be considered isolated.

- **Access to credit by local businesses.**

During the financial crisis and recession of 2007-2009, credit availability in North Dakota for small businesses was unable to meet the demand. There is no evidence that BND helped to lower credit barriers during that time. However, there is "indirect evidence that BND viewed federal agencies as having the primary responsibility and capacity for providing the liquidity backstop."<sup>3</sup> While BND was able to assist North Dakota banks through "record loan growth, letters of credit for public deposits, and a record amount of fed funds borrowed," the Federal Home Loan Bank (FHLB) system was a major source of liquidity during this time. FHLB advanced funding to various financial institutions to support small business when other sources of capital are scarce.

In addition, two new federal programs were initiated to aid small businesses. The Small Business Lending Fund and the State Small Business Credit Initiative both provide mechanisms to increase credit availability for small businesses. In addition, several loan guarantee programs of the Small Business Administration have been expanded and the Small Business Jobs Act of 2010 relaxed various SBA loan eligibility requirements.

- **Augmenting the lending capacity of local banks.**

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<sup>2</sup> Kodrzycki, Yolanda K. and Tal Elmatad. New England Public Policy Center, Research Report 11-2, May 2011. The Bank of North Dakota: A model for Massachusetts and other states?

<sup>3</sup> Ibid

While a state bank and BND in particular are able to augment local banks' lending capacities, Hawaii's banking industry does not mirror that of the small banks in North Dakota. Even if it did, the Massachusetts Commission Report pointed to "private bankers' banks" owned by and providing services to member institutions as an alternative model to a state bank. This model could provide services to smaller banks while not being viewed as a competitor of larger banks.

- **Stabilization of state economy and finances.**

When the North Dakota economy is doing well, BND has been able to help balance the state budget when it experiences shortfalls in other financial sources. However, during a severe agricultural crisis and recession, the poor performance of BND made the crisis worse. When North Dakota's economic experience was compared to that of South Dakota, a state similar in geographic location, size, population, and industry mix, it was found that North Dakota did not consistently outperform South Dakota. The conclusion of the Research Report, reflected in the Massachusetts Commission Report, is that having a state bank did not measurably affect the economic health of the North Dakota.

- **Start-up costs and considerations.**

In addition to the cost of possible legal and regulatory hurdles, including the time delays, basic start-up costs would probably be considerable, involving a sizeable bond issue. In addition, if a state bank were to be established quickly, it would most likely disrupt the operations of existing banks. This is because the state deposits state funds into various financial institutions and withdrawal of such deposits would be disruptive, requiring these institutions to reduce their lending and investment portfolios. However, a gradual phase-in, while perhaps more palatable to existing banks, would delay the benefits of state-owned bank lending. The Massachusetts study estimated that, based on the startup costs for BND which consisted of an initial capitalization through a \$2 million bond issue in 1919, the startup cost for a Bank of Massachusetts today would be around \$3.6 billion. This extrapolation included adjustments for inflation and for growth in the size of the economy from 1919 to today - assuming a 13-fold expansion.

- **Review of public policy issues.**

The Research Report recommended that, instead of planning for the establishment of a state bank, the Commission:

- Identify the specific market failure it wishes to address and the degree to which a state-owned bank would address this failure; and

- Investigate ways to leverage the already existing network of quasi-public agencies to fulfill its objectives.<sup>4</sup>
- **Massachusetts state programs**  
Many public and quasi-public agencies and nonprofits already exist in Massachusetts that offer "various lending programs and services, including lending to help support infrastructure."<sup>5</sup>
- **Hawaii state programs**  
As in Massachusetts, a number of programs already exist to provide funding for various small businesses, etc. In addition, once the objectives for the creation of a state bank have been established, based on specific market failures, existing programs can be reevaluated and revised and new programs can be created, following the examples of other states.

Some of the programs already in existence in Hawaii include:

- Small Business
  - The federal Small Business Association in Hawaii offers services including helping small businesses find financing through loans, grants, and a variety of other methods, helping the business decide which method is best for each individual business. It does not provide loans but can help in filling out loan applications and provides numerous other services.<sup>6</sup> The Hawaii banks provide the SBA loans to the small businesses.<sup>7</sup>
  - The Department of Business Development and Tourism (DBEDT) has developed a number of resources on how to start and grow a business<sup>8</sup> and how to find financing.<sup>9</sup> In addition to the small business resources above, the sources of financing on the DBEDT website include commercial lenders, Hawaii Strategic Development Corporation venture capital, Small Business Innovation Grants, OHA business loans, and agricultural loan programs.

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<sup>4</sup> Report of the Commission to Study the Feasibility of Establishing a Bank Owned by the Commonwealth; August 8, 2011.

<sup>5</sup> Ibid

<sup>6</sup> <http://www.sba.gov/about-offices-content/2/3112>

<sup>7</sup> Hawaii banks that provide SBA loans are: American Savings Bank, Bank of Hawaii, Central Pacific Bank, First Hawaiian Bank, Hawaii National Bank, Ohana Pacific Bank, and Pacific Rim Bank.

<sup>8</sup> [http://hawaii.gov/dbedt/business/start\\_grow/](http://hawaii.gov/dbedt/business/start_grow/)

<sup>9</sup> [http://hawaii.gov/dbedt/business/find\\_financing/](http://hawaii.gov/dbedt/business/find_financing/)



- Hawaii Capital Loan Program

In 1963, the Hawaii Capital Loan Revolving Fund was created within the Hawaii Capital Loan Program (Program) to provide a variety of loans to aid certain businesses. In 2003, based on the downturn in the economy, the Fund was repealed as one of the funds which, according to Act 178, Session Laws of Hawaii 2003, no longer served the purpose for which it was created, was not an appropriate means of financing, or was not financially self-sustaining. According to DBEDT, in its 40 plus years of existence, the Program has assisted 561 borrowers providing financing of over \$96 million. Seventy-six loans were written off during that time totaling just under \$7.5 million.

In 2011, Senate Bill Number 757 (SB757) was introduced to appropriate funds for the Program. SB757 was amended to reestablish the Fund authorizing DBEDT to contract for servicing or administering loans from the Fund. The bill passed the Senate as SB757, Senate Draft 2, and passed out of the House Committee on Economic Revitalization and Business as SB757, House Draft 1. It has been referred to the Finance Committee. According to the committee reports for these two drafts, the only differences in the Senate and House versions are the effective dates, which were amended in both drafts to encourage further discussion. Neither bill provided the amount of the appropriation that would be attached to the Fund. However, House Bill 873 (HB873), also introduced in the 2011 session, reestablished the Fund and provided an appropriation of \$2,000,000. HB873 has not received a hearing.

Reestablishing this Fund would provide additional financial resources to small businesses that might otherwise be unable to find funding due to the recent downturn in the economy. Because the bill has passed the Senate and is in the final House committee, this could be accomplished reasonably quickly providing quick relief for small businesses that lack funding.

Finally, in 2010, the Massachusetts legislature passed legislation for a commission to study the establishment of a state bank. In August 2011, after six meetings and three public hearings, and considering many of the factors outlined above, the commission recommended against a state bank for Massachusetts because:

- There was no justification found for the initial capital costs;
- The BND did not offer adequate guidance because of the "vast" differences in the North Dakota and Massachusetts banking industries and economies;

- Public funds deposited into a state bank would be exposed to an unacceptably high risk when used for risky gap financing;
- Massachusetts infrastructure investment is substantially more established than that of North Dakota; and
- Massachusetts already has a network of public agencies, quasi-public agencies, and non-profits which offer lending programs and services.

### **Conclusion**

Whether a state bank should be created in Hawaii needs careful consideration prior to outlining how this would be accomplished. Of the many factors to consider, the determination of what the state bank would accomplish for the state is critical. Once these factors are outlined, perhaps another avenue of financial assistance could be found that would better accomplish the state's goal. Only once it is clear that a state bank is necessary and is the best method to accomplish one or more of these goals should the concept of a state bank be fully discussed and methods to create it are worked out. In addition, the drawbacks of the establishment of a state bank must be thoroughly discussed and solutions to those found unless they are an acceptable cost of the creation of the state bank.

Appendix A

	Hawaii	North Dakota
Economic Driver	Tourism	Agriculture, oil
Population	1,360,301 in 2010 - quadruple that of N.D. when the Bank of N.D. was established and over twice the current N.D. population	approx. 673,000 in 2010 - Just over 300,000 when the state bank was established
Number of banks	11 with 175 branches	95 banks with 442 branches <a href="http://www.moneyaisle.com/bank-browser/states/north-dakota/">http://www.moneyaisle.com/bank-browser/states/north-dakota/</a>
Cost of start up	undetermined	\$325 million (estimated startup cost in today's dollars)
Community classification	Urban	Rural
Size in square miles	6,459	70,704
Unemployment rates <sup>10</sup>	12 <sup>th</sup> (6.5%) <sup>11</sup>	1 <sup>st</sup> (3.4%) <sup>12</sup>
Mortgage foreclosure rate <sup>13</sup>	14th	49th
Nearest neighboring state	California - 2500 miles across the Pacific	South Dakota, Montana, Minnesota (on the border)
Climate	Warm, balmy	Cold

<sup>10</sup> U.S. Department of Labor, Bureau of Labor Statistics

<sup>11</sup> Same for November 2011

<sup>12</sup> Same for November 2011

<sup>13</sup> RealtyTrac, 2008 third quarter.

Charlotte A. Carter-Yamauchi  
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Written Testimony

**HB1840, HD2**  
**RELATING TO STATE-OWNED BANK**

Testimony by the Legislative Reference Bureau  
Charlotte A. Carter-Yamauchi, Acting Director

Presented to the House Committee on Finance

Wednesday, February 29, 2012,  
Conference Room 308

Chair Oshiro and Members of the Committee:

I am Charlotte Carter-Yamauchi, Acting Director of the Legislative Reference Bureau.

Thank you for this opportunity to provide written comments on H.B. No. 1840, H.D. 2, which establishes a task force to study the feasibility of establishing a state-owned bank in Hawaii.

The Bureau takes no position either for or against the measure but submits the following comments and concerns.

Section 3 of the bill requires the Bureau to assist the task force in preparing its findings, recommendations, and proposed legislation.

To allow us to manage our workload effectively and minimize interference with our ability to draft bills for legislators during the busy period prior to the start of session, we would request that the task force be directed to transmit a draft of recommendations and any proposed legislation to the Bureau no later than November 1, 2013. This would allow sufficient time for review by the Task Force of a draft of the report and necessary edits and still enable timely completion of the report



**Hawaii Farm Bureau**  
F E D E R A T I O N

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February 29, 2012

HEARING BEFORE THE  
HOUSE COMMITTEE ON FINANCE

TESTIMONY ON HB 1840, HD2  
RELATING TO STATE-OWNED BANK

Room 308  
11:30 AM

Chair Oshiro, Vice Chair Lee, and Members of the Committee:

I am Brian Miyamoto, Chief Operating Officer and Government Affairs Liaison for the Hawaii Farm Bureau Federation (HFBF). Organized since 1948, the HFBF is comprised of 1,800 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interest of our diverse agricultural community.

HFBF supports HB 1840, HD2, which would create a task force to study the feasibility of establishing a state-owned bank in Hawaii. A lack of sufficient capital for agribusiness ventures is one of the many impediments to the expansion of agriculture and aquaculture in Hawaii. HB 1840, HD2 lists agriculture as one of the areas that the proposed bank would support, and any additional funding it could provide would certainly be welcome. We sincerely appreciate that the Committee on Economic Revitalization and Business recognized agriculture as a stakeholder in this effort by amending the task force proposed by HB 1840 to include the Chair of the Board of Agriculture or the Chair's designee.

We recognize that the establishment of a state-owned bank will have a major impact not only on the funding available for agriculture, but on many other areas of Hawaii's economy as well as on the State's own financial resources. The study of the feasibility of a state-owned bank for Massachusetts, cited in testimony by DCCA's Division of Financial Institutions, brings up a number of questions and potential risks that must be addressed before the process of actually establishing a bank is begun. We therefore support the task force study proposed by HB 1840 HD2, and ask that the bill be passed by your Committee.

I can be reached at (808) 848-2074 if you have any questions. Thank you for the opportunity to testify.



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Executive Director

**The Honorable Marcus R. Oshiro, Chair**  
**The Honorable Marilyn B. Lee, Vice Chair**  
**House Committee on Finance**

**Hearing :      Wednesday, February 29, 2012, 11:30 a.m.**  
**State Capitol, Conference Room 308**

**In Support of Intent of HB 1840, HD2 Relating to State-Owned Bank;**

**Chair and Members of the Committee:**

My name is Madeleine Young, representing the Legal Aid Society of Hawai'i ("Legal Aid"). I am advocating for our clients who include the working poor, seniors, citizens with English as a second language, disabled, and other low and moderate income families who are consumers and families facing default and foreclosure on their homes. I provide bankruptcy services as a staff attorney in Legal Aid's Consumer Unit. Specifically, I teach a clinic to show individual consumer debtors how to prepare and file their own petition for chapter 7 bankruptcy relief, as well as provide full representation to Legal Aid clients in bankruptcy matters. I give counsel and advice to clients on protected income sources, exempt assets, and settlement options regarding their consumer debts. I also provide legal services to clients regarding mortgage default and foreclosure matters, wage garnishment avoidance, fair debt collection practices, debt collection defense, as well as student loan, tax debt, and other consumer debt problems.

We support the intent of HB 1840, HD2, as it would establish a task force to study the feasibility of establishing a state-owned bank in Hawai'i, whose purpose would be to promote economic development, agriculture, education, community development, housing, and industry in Hawai'i. Legal Aid respectfully suggests that the legislature also require sufficient consumer representation on the task force, to ensure that the interests of Hawai'i's consumers (including homeowners, elders, and low-income persons) are adequately represented.

**Conclusion:** The Legal Aid Society of Hawai'i supports the general intent of HB 1840, HD1 and its efforts to strengthen protections for the consumers in the State of Hawai'i. Thank you for the opportunity to testify.



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**TESTIMONY ON HOUSE BILL 1840, HOUSE DRAFT 2 RELATING TO STATE-OWNED BANK**

**House Committee on Finance  
Hon. Marcus R. Oshiro, Chair  
Hon. Marilyn B. Lee, Vice Chair**

**Wednesday, February 29, 2012, 11:30 AM  
State Capitol, Conference Room 308**

Honorable Chair Oshiro and committee members:

I am Kris Coffield, representing the IMUAlliance, a nonpartisan political advocacy organization that currently boasts over 150 local members. On behalf of our members, we offer this testimony in support of HB 1840, HD 2, creating the task force on establishing the Bank of the State of Hawaii, with consideration for amendments.

Beginning in 2007, the American economy began slipping into a sharp recession, a result of, among other things, profligate speculation on risky derivatives by Wall Street bankers and plummeting property values. As the credit crisis deepened, national unemployment rates soared, eventually surpassing 10 percent. The coupling of high unemployment with a decimated housing market led to extreme budget shortfalls for most states, finally culminating in monoline bond insurers, like Moody's, reducing many states' credit ratings. Hawaii was not spared, as its outlook on \$4.7 billion of general-obligation bonds fell to "negative" from "stable," in 2010, on the basis of budget reserve depletion prompted by decreased tax collections.

While the federal stimulus program and Troubled Asset Relief Program helped stem the hemorrhaging of jobs into unemployment lines, they failed to resolve the credit crunch or spur lending to states, businesses, and individuals. What's more, financial firms receiving bailout funds have worked to undermine regulatory mechanisms put in place to protect investors and have disbursed huge bonuses to the some of the same executives that sanctioned the trading schemes underlying the recession. As Hawaii grapples with a \$1.3 billion deficit and billions more in unfunded liabilities, it's clear that something has to be done. Exploring the notion of a state-owned public bank, via the enactment of HB 1840 is exactly the kind of innovative solution needed to offset future losses.

By consolidating state assets under a single fiduciary umbrella, a public bank would allow the state to leverage its own resources to finance operations free of interest, since the State of Hawaii would own the Bank of the State of Hawaii and return excess earnings to the state's general fund. Moreover, a public bank would not be beholden to the profit-based agendas of private banks, thereby permitting the Bank of the State of Hawaii to leverage capital on a fractional basis without consideration for shareholder earnings or market expectations. The capital reserves of private banks, today, are tainted with so-called "toxic" assets and subject to quarterly earnings statements. Because neither of these

limitations would apply to a public bank, however, the Bank of the State of Hawaii would be able to better engage in long-term planning based on available deposits and revenue forecasts.

Perhaps the best argument in favor of establishing a task force to study the feasibility of creating a public bank resides not in Hawaii, but North Dakota. Currently, North Dakota is the only state in the country with a public bank, called the Bank of North Dakota. Tasked with maintaining the vitality of local government businesses through collective leveraging and management of state assets, the BND has helped North Dakota escape the economic downturn and, instead, enter recent calendar years with a *\$1 billion surplus*. Granted, North Dakota is home to myriad small banking institutions (unlike Hawaii, whose fiscal landscape boasts a small number of comparatively large institutions). The BND's 25 percent return on equity and \$60 million dividend payment to the state, in 2009, cannot be easily dismissed, though, particularly when contextualized by the roughly \$300 million that the bank has injected into North Dakota's general fund coffers over the last decade, according to the Public Banking Institute.

Nevertheless, the IMUAlliance believes this resolution can be strengthened through the adoption of several amendments. First, we believe that the enumerated members of the proposed task force contained in section 2, subsection (a) should be revised to include a representative from the Department of Business, Economic Development and Tourism, the agency responsible for providing the statistical and financial expertise that guides the state's economic development efforts, in the form of the director of DBEDT or the director's designee. Second, we submit that section 2, subsection (b) of the proposal should stipulate that the director of or director's designee from the Department of Budget and Finance shall service as the task force's vice-chairperson. Third and finally, we feel that the list of considerations recommended for review by the task force, as enumerated in section 2, subsection (e), should be modified to encourage investigation of the possibility of creating a centrally computerized bank function (as opposed to a bricks and mortar building). Thus, we suggest that the committee add the following to the list of possible subjects for evaluation: **"The findings from Oregon studies in creating a virtual state bank, including *Putting Oregon's Money to Work for Oregon: Introducing the Virtual State Bank*."**

As Ellen Brown, president of the Public Banking Institute, has indicated, the projected collective state budget deficit for 2011 stood at \$140 billion, a total that pales in comparison to the \$12.3 trillion in liquidity and short-term loans extended, by the Federal Reserve, to bail out Wall Street. Yet, Fed Chairman Ben Bernanke announced, in January, that a bailout for local and state governments had been taken off the table. States, then, must act to protect their own interests, and passage of this measure would be a smart first step. Mahalo for the opportunity to testify in support of this bill.

Sincerely,  
Kris Coffield  
*Legislative Director*  
IMUAlliance



**Written Testimony of  
Mike Krauss, President and Chair of the Pennsylvania Project, Inc.  
Before the House Committee on Finance of the  
Hawaii State Legislature  
Regarding HB 1840 HD 2  
"Establishes a task force to review, investigate, and study the feasibility and  
cost of establishing a state-owned bank"  
On February 28, 2012  
Testimony Transmitted by Email.**

Mr. Chairman Oshiro and members of the committee, thank you for this opportunity to testify. My name is Mike Krauss and I submit testimony today on behalf of the Pennsylvania Project, of which I am President and Chair.

Today, the legislature and people of the State of Hawaii join those in seventeen other states of the Union to take steps to realize the benefits of public banking: a sustainable supply of locally generated and locally directed affordable credit and liquidity for Main Street, to spur economic and social development and jobs creation; and create a significant and new source of non tax revenue for the purposes of the people of the state, which can grow steadily and continue into perpetuity.

The Pennsylvania Project, Inc. is a not-partisan and non-profit public policy advocacy organization chartered in the Commonwealth of Pennsylvania. We educate and advocate on behalf of partnership banks, often referred to as "public banks."

We note that HB 1840 HD 2 is one of four bills now pending that approach the idea of a public "state-owned" bank of Hawaii in a variety of ways.

We offer qualified support of HB 1840, which proposes a task force to in effect study the concept of a state bank; and in separate testimony offer our unqualified support for HB 2103, which proposes to create a state bank.

We understand the attraction of a study; but other such studies have generally been an opportunity for large, out-of-state banks to kill the proposed legislation, which they fear (and perhaps rightly) will deprive them of deposits and business. We understand that.

But we believe these "too-big-to-fail" bank have had their day, with ruinous consequences, and if a study is decided, we urge that it be charged to determine HOW to proceed with a state bank, and not WHETHER to proceed.

We believe a public, state bank of Hawaii will assist the people of Hawaii to remedy the destabilizing and economically damaging actions of a private banking industry that, through its corporate business model, has precipitated the economic imbalances now witnessed across the US economy.

In so doing, we are mindful of the probability that any partnership bank in any state may differ from the model of the hugely successful public Bank of North Dakota, now in operation for almost one hundred years ([www.bndnd.nd.org](http://www.bndnd.nd.org)).

But at the same time, the success of the BND points to issues that this or any legislation that contemplates public banking must address, among them: mission, capitalization, governance, management, accountability, transparency and risk management.

Mission will vary with the needs and aspirations of the people you represent.

Capitalization will depend to some degree on the mission identified and the scope of the beneficial impacts you wish to realize, and over what time frame.

Governance, management and accountability are closely linked. Unlike the Federal Reserve which is accountable to virtually no-one, we urge you to vest governance of any proposed public bank in state-wide elected officials, who the people can remove from office. But we urge you to create a “fire wall” between the governors and the management, so that while governance will select the management, establish its duties and monitor its performance, it will have no role in the day- to- day decisions of management.

Any institution created must provide the most transparent review of its activities – independent and published audits and regular reports.

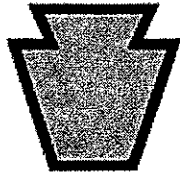
And of course, as public funds are involved, legislators’ responsibility must be to insure that the practices and policies of management meet the highest standards of prudent risk management. The people of Hawaii and all the United States have already suffered the consequences of banks run like casinos.

As an assist to your efforts, we append an FAQ from our web site that may be of assistance.

Thank you for the opportunity to testify.

Mike Krauss  
Chair, the Pennsylvania Project, Inc.  
[www.papublicbnakproject.org](http://www.papublicbnakproject.org)

The addendum follows and can be downloaded from  
<http://papublicbankproject.org/wp/wp-content/uploads/2012/01/PA-PBP-FAQ-Complete-and-Revised.pdf>



**Pennsylvania  
Public Bank  
Project**

**Banking in the Public Interest - Keystone of a New Prosperity**

# **A Pennsylvania Partnership Bank**

**Key Questions and Answers for  
Pennsylvania Elected Officials and Policy Makers  
State Treasury Staff, Bankers  
Taxpayers and Voters**

**An initiative of  
The Pennsylvania Project, Inc.  
PO Box 4390 | Harrisburg, PA 17111  
A non-partisan, not for profit  
Public policy advocacy organization**

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*Dear Fellow Pennsylvanian,*

*Not so long ago, the words "banker and banking" were synonymous with prudence, probity and respectability. But say those words today, and millions of Americans react with anger and scorn.*

*What happened?*

*With the support of several administrations and Congresses of both political parties, a significant portion the vast network of community banks that served local depositors, businesses and communities was gobbled up in the creation of the new, "money center" mega banks. This is the Wall Street banking cartel that operates through the Federal Reserve and controls the nation's supply and cost of money and credit.*

*Then Washington allowed these banks to combine their banking and investment operations into the "too-big-to fail" banks, which then gambled away the hard assets of the American people – mortgages, savings, pensions and investments.*

*Fraud became a business model and the "too-big-to-fail" banks failed. The American people lost many trillions of dollars of their wealth. The middle class was devastated, while the gamblers made off with their fortunes.*

*Nothing has changed, and the American people are awakening to the reality that the federal government has been "compromised" – as one reporter writing for the Wall Street Journal so carefully put it.*

*Tens of millions of dollars of annual lobbying by the banks, and now who knows how many millions of campaign contributions (The sources can now be are hidden in the so-called "Super PACS.") guarantee federal inaction.*

*But America needs a sound, effective and responsible banking industry. And it is within reach.*

*Across the nation, support is growing for the creation of state, municipal and county "Partnership Banks," based on the model of the hugely effective Bank of North Dakota.*

*We invite you to learn about Partnership Banking, and join our effort to create a Pennsylvania Partnership Bank.*

*Sincerely,*

*Mike*

*Mike Krauss*

*Chairman, the Pennsylvania Project, Inc.*

# **A Pennsylvania Partnership Bank**

## **Key Questions and Answers for Pennsylvania Elected Officials and Policy Makers State Treasury Staff, Bankers Taxpayers and Voters**

The following information was drawn from already published material prepared by the *Center for State Innovation, Demos* and the *Public Banking Institute*, with additional research by the *Pennsylvania Project, Inc. / Pennsylvania Public Bank Project*.

**Q: How will a Pennsylvania Partnership Bank work?**

**A: Participation loans**

A Partnership Bank (also sometimes referred to as a public bank, development bank, or state bank) primarily interacts with the banking community through participation loans made with community banks to small businesses, homebuyers, farmers and students. The loans help increase a private bank's lending power and small businesses' job creating power. A Partnership Bank can also purchase part or all of a loan after it has been issued, to help a private bank stay within its capital adequacy and portfolio balance requirements.

**Direct bank stock lending**

A Partnership Bank can also provide capital to private banks through bank stock loans for mergers and acquisitions, capital refinancing, or capital expansion.

**Infrastructure funding**

Partnership Banks can be a source of funding for local governments when they buy debt for infrastructure investments. Access to low cost funds from the regional Federal Home Loan Banks, along with low overhead and an emphasis on public-purpose lending, allow the bank to lend its own assets, often at lower rates than private sources.<sup>1</sup>

The banks can also provide reliable Letters of Credit for tax-exempt bonds at lower interest rates.

**Banker's bank functions**

The Bank of North Dakota (BND) acts as a mini-reserve bank for the state's banking industry and serves the functions of a bankers' bank — a 'wholesale' bank providing core services including participations to smaller banks. There are only 22 bankers' banks in the country and a Partnership Bank could help provide community banks with lower cost,

higher quality services.<sup>2</sup> Banks are free to continue working with private bankers' banks—a Partnership Bank is simply another option for community banks to use.<sup>3</sup>

**Q: How much capital is needed to start a Partnership Bank? Where would it come from?**

**A:** That depends on how much impact policy makers want the Bank to have on the commonwealth's economy and job creation, and how soon. Of course, a Partnership Bank would need to sustain its capital adequacy, so depending on the size of state deposits that will be held at the Partnership Bank, this could drive the capital needs. It seems likely that there will be a transition stage where the Partnership Bank's participation loan portfolio grows and there are arguments for growing the capital at a similar rate.

Ultimately, a Partnership Bank can be thought of as an economic engine that will be greatly impacted by the inflow of state deposits and reinvestment of profits into Partnership Bank capital. Center for State Innovation analysis shows that even after accounting for debt service obligations due to start-up capital, Partnership Banks in Oregon, Washington State, Hawaii and other states would be profitable in about two to three years with an actual return on equity of about seven to 10 percent per year, and could be scaled up to full operation within five years.<sup>4</sup>

The likely sources of Partnership Bank start-up capital are a General Obligation bond issue, or other dedicated state funds, such as "rainy day" funds. The Partnership Bank will replace the rainy day fund, maintained because states and municipalities do not have ready access to lines of credit. In an emergency the state can borrow from the bank – effectively itself - at no or very low interest. This is precisely what North Dakota did in the immediate aftermath of the devastating Grand Forks Fire and Flood of 1997.

Moreover, funds in the Partnership Bank can be reliably expected to provide greater returns to the economy and treasury than rainy day funds.

In the event that the controversial privatization and sale of state owned liquor stores occurs, Pennsylvania legislators and policy makers may wish to consider capitalizing a Pennsylvania Partnership Bank in part with proceeds from the sale.

**Q: Will a Partnership Bank compete with community banks?**

**A:** No. In fact, as 'participation lenders,' Partnership Banks are designed to complement community banks, not compete with them. Partnership Banks are primarily banker's banks and do not have branches. They generally do not originate business loans, take in deposits from businesses or individuals, or offer consumer banking products.

The BND Charter states explicitly that the bank is “[t]o be helpful to and to assist in the development of state and national banks... and not in any manner to destroy or to be harmful to existing financial institutions.”<sup>5</sup>

The North Dakota Bankers Association and its member banks strongly support the Bank of North Dakota.

#### **Not competing over loans**

A Partnership Bank has no interest in competing for the origination or refinance of private loans, so private banks need not fear that allowing participation will lead to a loss of customers.

#### **Not competing for deposits**

A Partnership Bank can be prohibited from taking private deposits,<sup>6</sup> as well as local government deposits. In fact, the bank can help community banks secure local government deposits less expensively through Letters of Credit. Under some proposed Partnership Bank legislation, private banks would no longer receive, or would receive fewer, short-term state deposits. But most community banks receive little or none of this money at present as states currently require 100 percent collateral or higher for these funds.

#### **Overall competitiveness of the banking market**

Due in part to BND’s supportive role, North Dakota has one of the lowest Herfindahl-Hirschman Indexes (HHI) for banks—a measure of market concentration—in the U.S., much lower than the HHIs of similar states such as Montana, South Dakota, and Wyoming.<sup>7</sup> Despite being one of the least-populous states, North Dakota has more community banks than Hawaii, Maine, and New Hampshire combined.

No North Dakota bank has more than 10 percent of total deposits, and the two biggest out-of-state banks—Wells Fargo and U.S. Bank—actually lost market share there in the last three years.<sup>8</sup>

***In contrast, since 1997 Pennsylvania has lost more than 175 banks chartered in the commonwealth - 29 in the last four years alone. The total assets of In-State Banks have declined from about \$479 billion in 2007 to a little over \$281 billion in 2010. Of that total, more than 90% is held by only one bank.*** (Source, FDIC and the Federal Reserve)

**Q: Does a Partnership Bank have to take in all state deposits?**

**A:** No, a Partnership Bank is not required to take in all state deposits. In fact, a new bank cannot put all of a state’s deposits to work right away in productive investments, and needs a ramp-up and capital-development period of several years.

The Bank of North Dakota grew into its role over several decades. First capitalized with a General Obligation bond of \$2 million—worth \$23.9 million in 2011 dollars—the bank now has assets of more than \$4 billion.<sup>9</sup>

Roughly half of BND profits are plowed back into the bank's capital to expand its lending capacity, and the rest returned to the state's general fund – revenue without taxation.

**Q: How can a Partnership Bank guard against imprudent risk?**

**A:** The Bank of North Dakota has stringent safeguards in place to protect taxpayers. As a result, BND has never suffered major losses from loans and has always turned a profit for taxpayers, even when losses from loans are included.

- **Independent audits.** The bank is audited annually by an outside firm, and biennially by the North Dakota Department of Financial Institutions. Partnership Banks operate like independent financial institutions rather than state agencies. However, BND's outside auditor publicly presents its review of the bank's financial condition—perhaps the only public review in the country.
- **Legislative oversight.** The bank is required to present its audit annually and its budget biannually to the legislative committees of the North Dakota House and Senate.
- **Loan loss reserves.** No loan portfolio is immune to individual loan failures, and as with other banks around the world, a Partnership Bank would have a loan loss provision and would follow prudent banking practices. Thus, even if some loans held by the Partnership Bank fail, it could not only cover its deposits, but continue to provide a profit to both the bank and the state. In 2010, BND's loan-loss allowance was 1.79 percent, less than the 2.03 percent average at similarly-sized banks. BND's Asset Liability committee constantly monitors loan-loss ratios.<sup>10</sup>
- **Capital standards.** BND maintains its capital ratio at eight to ten percent for all levels of capital, higher than the Federal Reserve's standard.
- **Lending limits, underwriting standards.** All loan decisions are reviewed by committee, senior management, and even the bank's Advisory Board and governing board.
- **Credit review.** An internal independent department reports directly to the bank president and Advisory Board on risk ratings. In addition to being monitored by state regulators, a Partnership Bank would be required to meet external safety and soundness standards such as S&P ratings in order to maintain access to its own liquidity.

Thus even if some loans held by a Partnership Bank fail, the Bank could not only cover its deposits but provide a profit to both the bank and the state through state dividend payments. In 2009, BND showed a profit of \$58 million, including loan defaults.<sup>11</sup> Over the



past decade, BND has returned an average of \$30 million per year to the state general fund.<sup>12</sup> Analysis suggests this would be the case in other states as well.

In North Dakota, it is the bank that has helped the state manage its risk. During the recession that followed the bursting of the dot-com bubble, BND was able to pay a special one-time dividend that helped North Dakota close a \$40 million budget deficit.<sup>13</sup> And the role of the bank in providing capital and partnering with community banks helped stabilize the state's banking industry and lower the risk of bank failures in the financial crisis that began in 2008. In fact, no banks in North Dakota failed as a result of the recent banking industry collapse.

Further, a Partnership Bank is just that — a bank — and not also an investment, trading or speculation enterprise. There will be no participation in the exotic and risky “financial products” such as derivatives or credit default swaps that led to the collapse of Wall Street.

**Q. Wouldn't political interests end up forcing a Pennsylvania Partnership Bank to make bad loans?**

**A:** No. In addition to the safeguards outlined above, we propose that in Pennsylvania as in North Dakota, the Partnership Bank will be run by a professional banking staff, not any state agency, authority or committee of the state legislature, adhering to prudent financial policies, not high risk practices.

Managers and officers will be salaried civil servants and receive no bonuses or commissions for loan volume, activity or increased profits. No officer or manager can have any “stock position” or compensation package of the kind that led to the reckless pursuit of short term profit that collapsed Fannie Mae and Freddie Mac.

The primary assets of a Partnership Bank are participation loans in which the loan originator is a private bank. This public-private partnership provides market-driven checks against manipulation by political actors.

It is important to note that the Bank of North Dakota has enjoyed the support of both Democratic and Republican administrations and legislators. U.S. Sen. John Hoeven—also a Republican former Governor of North Dakota—was President of the Bank of North Dakota earlier in his career.

**Q: Won't this just increase regulations on private banks in the state?**

**A:** No. A Partnership Bank does not add any regulatory burden for private banks, nor is it a financial bailout to private banks, like the federal government's Troubled Asset Relief Program. A Partnership Bank is not pushed into risky lending instruments by stockholder-

driven profit-maximization and can act as a stabilizing, market-driven force in Pennsylvania credit markets.

**Q: Doesn't Pennsylvania already have economic development programs that do these things?**

**A:** A Partnership Bank is not an economic development program, and does not replace current state economic development efforts. A Partnership Bank can be a source of liquidity to help organize funding for projects designed by the state's economic development agency that meet the Bank's strict lending criteria. BND works closely with North Dakota's economic development agency—they are housed together.<sup>14</sup>

Unlike revolving loan funds, a Partnership Bank has the power to leverage funds—ten-to-one as a rule of thumb—and can therefore increase the state's ability to fund economic development.

The creation of a Partnership Bank may also be an opportunity, as Oregon Treasurer Ted Wheeler argues in his January 2011 letter to Oregon legislators, to “consolidate [the state]’s existing economic development funds and programs under a single roof... to better align these efforts with our objectives.”<sup>15</sup>

**Q: The Treasurer of the Commonwealth of Pennsylvania already gets a good return on the commonwealth's investments. Why change that?**

**A:** A Partnership Bank is not a substitute for an investment manager, and we would expect that the Treasurer would retain these functions. For example, in North Dakota, BND does not manage the state pension fund investments.

Also note that deposit income does not suffer. A Partnership Bank pays the state Treasury a market-average rate for its deposits. In fact, in FY 2009-2010, that added up to an estimated \$23.4 million from the interest on state deposits held at BND (along with \$63.2 million in FY 2009-2010 BND profits, a total of 5.28 cents per dollar deposited).<sup>16</sup> Compare that to the 2.53 cents per dollar that Washington State's Treasurer received in 2009-2010 from its depository banks.<sup>17</sup>

**Q: Can a Pennsylvania Partnership Bank act as the state's fiscal agent or concentration bank? Would it be cost-prohibitive to set up that operation?**

**A:** The Bank of North Dakota handles the functions of a fiscal agent for North Dakota and remains profitable. Partnership Banks tend to have much lower overhead than comparable private banks due to the lack of costs like branches, ATMs and marketing. Over the last 15 years (1995-2009) the Bank of North Dakota averaged an efficiency ratio

of about 28 percent, while small- and medium-sized banks in North Dakota averaged about 62 percent.<sup>18</sup>

Once up and running, the bank costs the state nothing to operate and in fact returns money to the state. The primary difference is that while a concentration bank such as Bank of America is the only bank to benefit from state deposits, a Partnership Bank would spread the benefit to small- and medium-sized banks throughout the state through participation loans.

**Q: Would a Pennsylvania Partnership Bank impair liquidity in state deposits?**

**A:** No. Like any private bank, a Partnership Bank has to carefully manage liquidity day-to-day in order to be able to meet all its operational needs. State deposits in a private financial institution are managed so that funds are available to the state to withdraw to meet payroll and other obligations as necessary. A Partnership Bank would be no different, and the Bank of North Dakota has demonstrated over the past 92 years that it can do so capably—and still turn a profit.

**Q: Isn't setting up a Pennsylvania Partnership Bank just too complex?**

**A:** There are more than 8,000 thousand banks in operation in the U.S. and new private banks are formed every year. This is not something never before done — like putting a man on the moon.

*A Partnership Bank is more straightforward to set up than a private bank. As a 'wholesale' bank, it would have one location, no marketing, very little or no direct lending and a single source of deposits—the state government. A focus on participation loans also reduces the need for bank loan officers and loan brokers. Costs of operation are substantially reduced.*

**Q: Isn't the reason that banks curtailed lending 2008-2010 due to a decrease in loan demand?**

**A:** No, it is one of several factors. While a reduction in lending during an economic downturn is in part a reflection of decreased demand for new loans—businesses holding off on expansion—much of the loan demand curve is tied directly to the cost of debt. Reacting to the excesses of Wall Street, regulators tightened their underwriting standards and increased the interest cost to borrowers, and demand for new loans naturally dropped. Center for State Innovation analysis shows that banks in North Dakota reduced lending 33 to 45 percent *less* than comparable states, due in no small part to the stabilizing effects of its Partnership Bank.<sup>19</sup>

**Q: Isn't North Dakota's economy strong not because of the state bank, but because of recently discovered natural gas and oil deposits?**

A: In part. But a booming energy economy does not explain the underlying strength of North Dakota's lending markets. The Center for State Innovation analyses compare North Dakota's lending market against those in states with similar populations and economies: Montana, South Dakota, and Wyoming. All four states also have benefited from a boom in energy prices. In fact, Montana and Wyoming have extracted much more gas than North Dakota. But North Dakota ranks ahead on the measures that BND influences: loan-to-asset ratios, average loans per capita, quality of bank assets, HHI, and numbers of banks per capita.<sup>20</sup>

The above cited CSI analysis that explores and attempts to tease apart the economy-lending linkage a little—though obviously the two are quite intertwined—has found that BND's support of North Dakota's small- and medium-sized bank lending market has helped keep that market strong, independent of other major components of the state's economic health such as the housing market and the oil and gas industries.

It is also worth noting that oil and gas production and extraction tax revenues provided \$71 million to the state general fund over the 2007-2009 biennium (the statutory cap), while the Bank of North Dakota returned \$60 million; thus the bank's direct impact on the state budget surplus has been almost as great as that of the oil and gas industries.<sup>21</sup>

Additionally, while other states have had far larger energy industries and revenues for far longer than North Dakota, unemployment is substantially lower in North Dakota (it is the lowest in the nation) compared to, for example, Alaska and Texas.

In sum, the above suggests that while oil and gas revenues are certainly important to North Dakota's economy and fiscal health, they are not the only factor driving it, and that the state's Partnership Bank plays a major role.

***But Pennsylvania is also developing substantial natural gas reserves. The revenue and jobs from the industry, combined with the broader reach of a Partnership Bank into the economy, suggests that Pennsylvania has a remarkable opportunity to create an era of sustainable and broadly shared prosperity and economic development, reaching into every county and community in the commonwealth.***

## Notes

1. Oversight of Federal Home Loan Bank System (S. Hrg. 108-834), 108th Congress (2003)  
<http://www.access.gpo.gov/congress/senate/pdf/108hrg/21384.pdf> Federal Home Loan Bank of Dallas, Economic Development Program guidelines and application, February 2011 (accessed April 18, 2011)  
[https://www.fhfb.com/community/data/EDP\\_CommLending\\_5-09.pdf](https://www.fhfb.com/community/data/EDP_CommLending_5-09.pdf)
2. Center for State Innovation, Demos, Progressive Maryland and the Public Banking Institute, "Rebuttal to Opposition Testimony on HB 1066/SB789: A bill to study the creation of a State Bank of Maryland," March 2011 (accessed April 18, 2011) <http://www.stateinnovation.org/State-Banks-Materials/Response-to-MBA-Opposition-Testimony-HB-1066,-SB-7.aspx>
3. There is room for both a healthy Partnership Bank and healthy bankers' banks in most markets. North Dakota is an excellent example: it has both a large, healthy, and long-running Partnership Bank and a private bankers' bank operating in the state's credit market. In fact, the Minnesota-based United Bankers' Bank works with community banks in North Dakota and is even a member of the North Dakota Bankers Association which is very supportive of the Bank of North Dakota. Over the last seven years, United Bankers' Bank has more than doubled its assets and deposit base and has averaged about \$2.5 million in net income while sharing markets with the Bank of North Dakota. Fargo-based Partnership Bank and Trust is another example. The bank provides correspondent lending services to community banks in North Dakota. Over the last seven years, Partnership Bank and Trust's assets have grown by over 70 percent to over \$2 billion, and profits average about \$13 million per year.
4. Center for State Innovation, "Oregon State Bank Analysis," February 2011 (accessed April 14, 2011) <http://www.stateinnovation.org/State-Banks-Materials/CSI-Oregon-State-Bank-Analysis-020411.aspx> Center for State Innovation, "Washington State Bank Analysis," December 2010 (accessed March 31, 2011) <http://www.stateinnovation.org/Home/CSI-Washington-State-Bank-Analysis-020411.aspx>
5. Bank of North Dakota, Policy of the Bank, 1920 (accessed April 18, 2011) <http://www.stateinnovation.org/Services-for-State-Executives/Initiatives/State-Banking-Reform/State-Banks/BND-Policy.aspx>
6. Less than two percent of the Bank of North Dakota's deposits come from private individuals.
7. Center for State Innovation, "Oregon State Bank Analysis," February 2011 (accessed April 14, 2011) <http://www.stateinnovation.org/State-Banks-Materials/CSI-Oregon-State-Bank-Analysis-020411.aspx>
8. Federal Deposit Insurance Corporation, Deposit Market Share Report (accessed April 5, 2011) <http://www2.fdic.gov/sod/sodMarketBank.asp?barItem=2>. Contrast these numbers with those of Vermont, another predominantly rural state with similar demographics: two out-of-state banks control 42.8 percent of deposits, and the state had only 23 institutions in 2010, compared to 100 in North Dakota.
9. North Dakota's Gross State Product in 2009 was \$31.87 billion. Bureau of Economic Analysis, "Economic Downturn Widespread Among States in 2009" U.S. Department of Commerce, November 18, 2010 (accessed April 18, 2011) [http://www.bea.gov/newsreleases/regional/gdp\\_state/2010/pdf/gsp1110.pdf](http://www.bea.gov/newsreleases/regional/gdp_state/2010/pdf/gsp1110.pdf)
10. FDIC insurance is unnecessary and costly for a bank that holds state deposits and has no private depositors. The FDIC's \$250,000 cap covers a tiny portion of any state's deposits. A Partnership Bank would be closely regulated by state regulators.

11. Bank of North Dakota, 2009 Annual Report (accessed April 18, 2011) [http://www.banknd.nd.gov/financials\\_and\\_compliance/pdfs/annualreport09.Pdf](http://www.banknd.nd.gov/financials_and_compliance/pdfs/annualreport09.Pdf)
12. Center for State Innovation, Demos, Progressive Maryland and the Public Banking Institute, "Rebuttal to Opposition Testimony on HB 1066/SB789: A bill to study the creation of a State Bank of Maryland," March 2011 (accessed April 18, 2011) <http://www.stateinnovation.org/State-Banks-Materials/Response-to-MBA-Opposition-Testimony-HB-1066,-SB-7.aspx>
13. Josh Harkinson, "How the Nation's Only State-Owned Bank Became the Envy of Wall Street," *Mother Jones*, March 27, 2010 (accessed April 18, 2011) <http://motherjones.com/mojo/2009/03/how-nation%E2%80%99s-only-state-owned-bank-became-envy-wall-street>
14. Progressive States Network/Center for State Innovation phone conference with North Dakota state Sen. Tim Mathern, January 11, 2011.
15. Oregon State Treasurer Ted Wheeler, letter to Oregon legislature, January 13, 2011.
16. Center for State Innovation calculations, March 2011. All numbers are for the fiscal year beginning July 1, 2009 and ending June 30, 2010.
17. Ibid.
18. Center for State Innovation, "Washington State Bank Analysis," December 2010 (accessed March 31, 2011) <http://www.stateinnovation.org/Home/CSI-Washington-State-Bank-Analysis-020411.aspx>
19. Center for State Innovation, Demos, Progressive Maryland and the Public Banking Institute, "Rebuttal to Opposition Testimony on HB 1066/SB789: A bill to study the creation of a State Bank of Maryland," March 2011 (accessed April 18, 2011) <http://www.stateinnovation.org/State-Banks-Materials/Response-to-MBA-Opposition-Testimony-HB-1066,-SB-7.aspx>
20. Center for State Innovation, "Washington State Bank Analysis," December 2010 (accessed March 31, 2011) <http://www.stateinnovation.org/Home/CSI-Washington-State-Bank-Analysis-020411.aspx>
21. North Dakota Office of State Tax Commissioner, 49th Biennial Report, December 1, 2009 (accessed April 18, 2011) <http://www.nd.gov/tax/genpubs/49thbiennialreport.pdf>

**LAW OFFICE OF GEORGE J. ZWEIBEL  
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(808) 775-1087**

**House Committee on Finance**

**Hearing: Wednesday, February 29, 2012, 11:30 a.m.  
Conference Room 308, State Capitol, 415 South Beretania Street**

**IN SUPPORT OF INTENT OF HB 1840, HD2**

**Chair Oshiro, Vice Chair Lee, and Committee Members:**

My name is George Zweibel. I am a Hawaii Island attorney and have for many years represented mortgage borrowers living on Oahu, Hawaii, Kauai and Maui. Earlier, I was a regional director and staff attorney at the Federal Trade Commission enforcing consumer credit laws as well as a legal aid consumer lawyer. I have served on the Legislature's Mortgage Foreclosure Task Force since its inception in 2010.

HB 1840, HD2 would establish a task force to study the feasibility of establishing a state-owned bank in Hawaii. **If a state bank is not established now, as HB 1840 originally proposed, utilizing the volunteer task force envisioned by HB 1840, HD2 (with the additions noted below) to more fully consider establishing such bank is preferable to the approach taken in HB 2103, HD2.**

The potential benefits of creating a state bank, as described in Section 1, are compelling and worthy of serious consideration. Given the impact this would have on virtually everyone living in Hawaii – not just the interests currently included in the list appearing in Section 2 – it is essential to also ensure representation on the task force of Hawaii people including consumers, homeowners, elders and low-income persons. Accordingly, I recommend revising Section 2(a) by adding the following:

**“(11) The director of the office of consumer protection of the department of commerce and consumer affairs, or the director's designee;**

**(12) A representative of the Legal Aid Society of Hawaii;**

**(13) A representative of AARP;**

- (14) A representative of a mortgage counseling organization approved by the United States Department of Housing and Urban Development;**
- (15) A consumer representative with expertise in consumer credit; and**
- (16) A mortgage borrower whose home is located on a neighbor island.”**

It is essential to ensure representation of those who live on neighbor islands. Although the sunshine law requires task force members to attend Honolulu meetings in person, the cost of doing so is substantial. To ensure that considerations uniquely affecting Hawaii residents living on other islands are considered by the task force, Section 2(c) should be revised to provide for reimbursement of travel expenses to neighbor island members. Specifically, Section 2(c) would state:

**“(c) The members of the task force shall not receive compensation for their services, except that travel expenses reasonably incurred by a member residing on a neighbor island in order to attend task force meetings shall be reimbursed.”**

I am the only member of the Mortgage Foreclosure Task Force from a neighbor island. Because I do not get paid to advocate on behalf of borrowers, I have been forced to personally pay almost all of my travel expenses to attend Task Force meetings. In its December 2011 report to the Legislature (at page 3), the Task Force asks the Legislature to give due consideration to ensuring adequate representation from the neighbor islands on all future task forces and working groups and providing for their travel expenses. Hopefully, this past oversight will not be repeated in the task force envisioned by HB 1840, HD1.

Finally, I recommend adding a paragraph (11) to Section 2(e) specifically stating that the task force will review and evaluate the ways in which a state bank may be able to help address the foreclosure crisis and avoid the unnecessary loss of homes in Hawaii.

Thank you for your consideration of my testimony.



Rep. Marcus R. Oshiro, Chair  
Rep. Marilyn B. Lee, Vice Chair  
HOUSE COMMITTEE ON FINANCE

HEARING: Wednesday, February 29, 2012 at 11:30am in conference room 308

**Supporting** House Bill 1840 relating to a State Owned Bank

Chair Oshiro, Vice Chair Lee and members of the committee,

I am supportive of all four bills on Agenda #2 today. I commend this committee for its entrepreneurial efforts and thank you for the opportunity to explain my support in person.

Mahalo,  
Ian Chan Hodges  
Haiku, Hawaii

## FINTestimony

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**From:** mailinglist@capitol.hawaii.gov  
**sent:** Monday, February 27, 2012 2:47 PM  
**to:** FINTestimony  
**Cc:** df@mauiventure.net  
**Subject:** Testimony for HB1840 on 2/29/2012 11:30:00 AM

Testimony for FIN 2/29/2012 11:30:00 AM HB1840

Conference room: 308  
Testifier position: Support  
Testifier will be present: No  
Submitted by: David B. Fisher  
Organization: Individual  
E-mail: [df@mauiventure.net](mailto:df@mauiventure.net)  
Submitted on: 2/27/2012

### Comments:

I support creating this task group to look at creating a Hawaii State Bank with the goal of keeping Hawaii money within the State and improving the ability to finance affordable housing, innovation, and economic development. However, for this to have a chance of being successful, I think special care must be taken in selecting the membership of the task group.

I encourage you to ensure that those knowledgeable and supportive of a State Bank are well represented, in addition to the obvious representatives from Hawaii's existing banking/regulatory establishment who by definition have vested interests in the status quo. The provisions in the existing draft do not address this, and instead seem to be focused on representation from the different parts of government.

There were several suggestions in earlier testimony of potential stakeholders who would be appropriate for participation. I also agree that you should either figure out the telecommunications or pay travel costs to have neighbor island participants. You should certainly allow for inclusion early on, of a representative of the North Dakota Bank. This could be done either by flying some one in, using telecommunications, or combination.

Thank you for the opportunity to provide testimony.

Aloha

David B. Fisher