



STATE OF HAWAII | KA MOKU'ĀINA 'O HAWAII'  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
KA 'OIHANA PILI KĀLEPA  
335 MERCHANT STREET, ROOM 310  
P.O. BOX 541  
HONOLULU, HAWAII 96809  
Phone Number: (808) 586-2850  
Fax Number: (808) 586-2856  
cca.hawaii.gov

JOSH GREEN, M.D.  
GOVERNOR | KE KIA'ĀINA

SYLVIA LUKE  
LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA

NADINE Y. ANDO  
DIRECTOR | KA LUNA HO'OKELE

DEAN I. HAZAMA  
DEPUTY DIRECTOR | KA HOPE LUNA HO'OKELE

**Testimony of the Department of Commerce and Consumer Affairs**

**Before the  
Senate Committee on Commerce and Consumer Protection  
Wednesday, January 28, 2025  
9:30 a.m.  
Via Videoconference**

**On the following measure:  
S.B. 158, RELATING TO PUBLIC BANKING**

Chair Keohokalole and Members of the Committee:

My name is Dwight Young, and I am the Commissioner of Financial Institutions for the Department of Commerce and Consumer Affairs' (Department) Division of Financial Institutions. The Department offers comments on this bill.

The purpose of this bill is to: (1) establish a state-owned bank implementation board within the Department of Commerce and Consumer Affairs to determine the need for, potential costs and benefits of, and prerequisites to establishing a state-owned bank and (2) requires a report to the legislature.

In 2012, the DFI issued a white paper entitled "Should Hawaii Establish a State Bank?".<sup>1</sup> The white paper considered various factors, including:

- (1) The Bank of North Dakota;
- (2) The Federal Reserve Bank of Massachusetts research report;

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<sup>1</sup> This white paper is available at: <http://cca.hawaii.gov/dfi/learn-more-banks/>.

- (3) Access to credit by local businesses;
- (4) The lending capacity of local banks;
- (5) Stabilization of the state economy and finances;
- (6) Start-up costs; and
- (7) Public policy issues.

Notably, the Bank of North Dakota is the only state-operated bank in the United States and was established due to the lack of credit available to farmers. In 1919, farmers in North Dakota were unable to obtain loans for farm equipment or loans to expand their agricultural acreage. Today, the Bank of North Dakota continues to act as a correspondent bank (not a commercial bank) and has expanded its loan portfolio to include student loans. It should be noted that the banking environment in Hawaii is very different than that in North Dakota. North Dakota is sparsely populated with an agricultural base and many small community banks that rely upon the Bank of North Dakota to partner or fund a variety of credit needs like housing, education, small business and public infrastructure. This is not the case in Hawaii

American Samoa, a U.S. government territory, established a territorial bank in 2016 when all commercial banks left the marketplace. The territorial bank was unable to get Federal Deposit Insurance Corporation (FDIC) insurance, and the government had to back all assets with the full faith and credit of the territorial government. It took 18 months before the Federal Reserve Bank issued a master account number and granted access to the U.S. payment system. The Territorial Bank of American Samoa opened in 2019.

To establish a state-operated bank, the State must consider several factors, including the purpose of the bank. The purpose of the state bank will, in turn, guide the consideration of: (1) managerial factors, including the competence, experience, integrity, and financial ability of the bank organizers and management; and (2) financial factors, including the viability of the business plan and the ability to maintain profitability. Finally, a minimum capital of approximately \$20 million is needed to address current

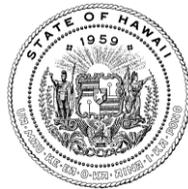
funding and future growth and earnings. More capital may be required depending on the purpose of the bank.

In Hawaii, all banks must have FDIC insurance. Both the Bank of North Dakota and the Territorial Bank of American Samoa are not insured by the FDIC but are instead backed by the full faith and credit of the government. In addition, state law requires banks to match, dollar for dollar, all assets of the bank as collateral.

The DFI's white paper concluded that the State must first determine what a state-operated bank would accomplish and be used for before it can analyze the managerial factors, financial factors, and capital requirements involved in establishing this financial institution.

Finally, I would like to express a concern with the Division of Financial Institutions ("DFI") being the lead agency for this study. There will be a conflict of interest as DFI is the likely agency to regulate the State bank. From a planning perspective it would be in our best interest to be ultra conservative. As the regulator DFI would be placed in an awkward position of evaluating and criticizing any plan made or put in motion. A consulting role would allow DFI to provide input while being removed from any policy or decision making.

Thank you for the opportunity to provide comments on this bill.



JOSH GREEN, M.D.  
GOVERNOR

SYLVIA LUKE  
LIEUTENANT GOVERNOR

LUIS P. SALAVERIA  
DIRECTOR

SABRINA NASIR  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
*Ka 'Oihana Mālama Mo'ohelu a Kālā*  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT

**WRITTEN ONLY**

TESTIMONY BY LUIS P. SALAVERIA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION  
ON  
SENATE BILL NO. 158

**January 28, 2025**  
**9:30 AM**  
**Conference Room 229 and Videoconference**

RELATING TO PUBLIC BANKING

The Department of Budget and Finance provides comments Senate Bill No. 158.

Senate Bill No. 158 establishes a state-owned bank implementation board within the Department of Commerce and Consumer Affairs (DCCA) for administrative purposes. The newly established board would be required to determine the need for, potential costs and benefits of, and prerequisites to establishing a state-owned bank. The board would consist of fourteen members representing various state, nonprofit and other organizations, serve without compensation but be reimbursed for travel and other expenses in performance of their duties.

Similar bills were most recently proposed in the 2022, 2021, 2020, and 2016 legislative sessions which this department also opposed.

The bill specifies that this board would review and evaluate a list of issues, including the Bank of North Dakota (the only existing public bank in the United States), other studies and models, evaluate the economic impact, capital requirements, costs and revenues, and laws and regulations applicable to a state-owned bank. The board

would be required to submit a report on its findings and recommendations, including any proposed legislation, to the legislature no later than twenty days prior to the convening of the regular session of 2027, and would cease to exist on June 30, 2027. The bill does not appropriate any funding for its expenses.

The Department has concerns on the purpose of this bill. One of the primary functions and responsibilities of the Department stated in the Hawaii Revised Statutes, is for the safekeeping, management, investment, and disbursement of funds deposited into the state treasury by all state departments. Regulated and insured commercial financial institutions utilized by the state have the capacity, experience, security and technology to carry out the banking needs of the state. Furthermore, keeping state funds at these financial institutions supports businesses and jobs in the local economy. Management of the state's funds ensures that cash is available when needed to cover the multitude of activities and programs at all the state's departments and the legislature. Furthermore, establishment and operation of a state-owned and operated bank would inevitably be a significant and expensive undertaking.

Thank you for the opportunity to submit testimony on this bill.

Charlotte A. Carter-Yamauchi  
Director

Shawn K. Nakama  
First Assistant

Research 808-587-0666  
Revisor 808-587-0670  
Fax 808-587-0681



LEGISLATIVE REFERENCE BUREAU  
State of Hawaii  
State Capitol, Room 446  
415 S. Beretania Street  
Honolulu, Hawaii 96813

## Written Comments

### **SB158** **RELATING TO PUBLIC BANKING**

Charlotte A. Carter-Yamauchi, Director  
Legislative Reference Bureau

Presented to the Senate Committee on Commerce and Consumer Protection

Tuesday, January 28, 2025, 9:30 a.m.  
Conference Room 229 & Videoconference

Chair Keohokalole and Members of the Committee:

Good morning, Chair Keohokalole and members of the Committee. My name is Charlotte Carter-Yamauchi, and I am the Director of the Legislative Reference Bureau (Bureau). Thank you for providing the opportunity to submit written **comments** on S.B. No. 158, Relating to Public Banking.

The purpose of this measure is to, among other things:

- (1) Establish a State-Owned Bank Implementation Board within the Department of Commerce and Consumer Affairs to explore the feasibility, costs, and benefits of creating a public financial institution by examining models like state green banks, sovereign wealth funds, and the Bank of North Dakota;
- (2) Require the Implementation Board to submit a report of its findings and recommendations, including any proposed legislation, to the Legislature no later than twenty days prior to the convening of the Regular Session of 2027; and
- (2) Require the Legislative Reference Bureau to assist the Implementation Board in preparing its findings, recommendations, and proposed legislation; provided that the Implementation Board submits a draft of its findings, recommendations, and proposed legislation to the Bureau no later than December 1, 2027.

The Bureau takes no position on this measure but submits the following comments for your consideration.

As to the request of the Bureau to assist the Implementation Board with its findings, recommendations, and proposed legislation, the Bureau notes that the finalized report to the Legislature containing these items is due no later than twenty days prior to the convening of the Regular Session of 2027. In Section 3 of the measure, the Implementation Board is only required to provide the Bureau with its draft findings, recommendations, and proposed legislation by no later than December 1, 2027, giving the Bureau very little time to review and finalize these documents. The Bureau notes that during this time period of any year, the Bureau is generally inundated with requests from members to draft legislation for the upcoming regular session. Accordingly, to ensure that the Bureau has sufficient time to fulfill its regular legislative drafting duties and to finalize the required report on time, the Bureau respectfully requests that measure be amended to require the Implementation Board to submit its draft findings, recommendations, and proposed legislation to the Bureau no later than October 15, 2027, rather than December 1, 2027.

If the foregoing amendment is made, the Bureau believes that the services requested of the Bureau under the measure are manageable, provided that the Bureau's interim workload is not adversely impacted by too many other additional responsibilities, such as other conducting studies, writing or finalizing other reports, drafting legislation, or any combination of these for the Legislature or for other state agencies, task forces, or working groups that may be requested or required under other legislative measures.

Thank you again for your consideration.



**SanHi**

GOVERNMENT STRATEGIES

A LIMITED LIABILITY LAW PARTNERSHIP

DATE: 1/28/2025

TO: Senator Jarrett Keohokalole  
Chair, Committee on Commerce and Consumer Protection

FROM: Tiffany Yajima

RE: **SB 158 – Relating to Public Banking**  
**Hearing Date: Tuesday, January 28, 2025 at 9:30 a.m.**  
**Conference Room: 229**

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Dear Chair Keohokalole, Vice Chair Fukunaga, and Members of the Committee on Commerce and Consumer Protection:

We submit this testimony on behalf of the Hawaii Bankers Association (HBA). HBA represents seven Hawai'i banks and one bank from the continent with branches in Hawai'i.

HBA respectfully **opposes** S.B. 158, which would create an implementation board to explore the feasibility and costs associated with the creation of a state-owned bank. HBA believes that a state-owned bank is unnecessary and against sound fiscal policy and would jeopardize the state's financial health. Therefore, creating a board to study the feasibility of a state-owned bank is also unnecessary.

First, there are now only two state banks in the country – one in North Dakota and second in American Samoa. The Bank of North Dakota does not function as a standard depository bank but acts as a correspondent bank whose purpose is to partner with local financial institutions, not to compete with them. If the intended purpose of a state bank in Hawaii is to engage in mortgage lending, housing development, agricultural development, and land use - and not deposits and checks - these activities are available today in partnership with local financial institutions and community development financial institutions (CDFIs).

Furthermore, a bank is required to have capital to organize and remain operational. In 2011, the Federal Reserve Bank of Boston analyzed the costs of organizing a state bank in Massachusetts and concluded that the required capitalization would be \$3.6 billion, representing 21% of Massachusetts' direct debt. Hawaii's needs would be smaller but still materially quite large.

In addition to substantial start-up costs, maintaining compliance with federal financial laws and regulations entails significant expenses—particularly challenging to offset in Hawaii’s relatively small banking market. Although the U.S. banking system is the largest and most comprehensive in the world, it also ranks among the most highly regulated industries in the nation. For example, the rising costs of combatting illicit finance and fraud are often overlooked. According to the Federal Trade Commission, fraud losses in the United States surpassed \$23.7 billion last year, although some estimates place this figure as high as \$158 billion. With or without consumer-based deposits, fraud risks exist with managing balance sheet and loan operations.

Most Hawaii banks are examined by both federal and state regulators to ensure compliance with applicable regulations, monitor balance sheet risk, and maintain overall safety and soundness. However, because a state bank would likely not carry FDIC deposit insurance, it would not benefit from the supervisory oversight of federal bank regulators. In the absence of independent, experienced oversight, key risks—such as balance sheet exposure—may go unchecked, increasing the potential for losses that could ultimately jeopardize state funds.

The objectives of this bill can be achieved through existing financial channels, without incurring the high start-up costs and risks associated with establishing a state-run bank. Below-market financing for creditworthy initiatives—including public infrastructure, small businesses, housing, and higher education—is already available through partnerships with local banks and Community Development Financial Institutions (CDFIs).

For these reasons we respectfully ask that the committee hold this bill. Thank you for the opportunity to submit testimony on this measure.



*Mortgage Bankers Association of Hawaii*  
*P.O. Box 4129, Honolulu, Hawaii 96812*

January 27, 2025

The Honorable Jarrett Keohokalole, Chair  
The Honorable Carol Fukunaka, Vice Chair  
Members of the Senate Committee Commerce and Consumer Protection

Hearing Date: January 28, 2025  
Hearing Time: 9:30am  
Hearing Place: Hawaii State Capitol, Conference Room 229

Re: SB 158 Relating to Public Banking

I am Linda Nakamura, representing the Mortgage Bankers Association of Hawaii ("MBAH"). The MBAH is a voluntary organization of individuals involved in the real estate lending industry in Hawaii. Our membership consists of employees of banks, savings institutions, mortgage bankers, mortgage brokers, financial institutions, and companies whose business depends upon the ongoing health of the financial services industry of Hawaii. The members of the MBAH originate and service, or support the origination and servicing, of the vast majority of residential and commercial real estate mortgage loans in Hawaii. When, and if, the MBAH testifies on legislation or rules, it is related only to mortgage lending and servicing.

The MBAH opposes SB 158.

SB 158 proposes to establish a state-owned bank implementation board within the Department of Commerce and Consumer Affairs to determine the need for, potential costs and benefits of, and prerequisites to establishing a state-owned bank.

The MBAH agrees with the testimony submitted by the Hawaii Bankers Association. Creating a board to determine if Hawaii is in need of a state-owned bank is not the best use of taxpayers' monies as there are sufficient banks and financial services firms to meet the needs of the community.

Thank you for the opportunity to present this testimony.

Linda Nakamura  
Mortgage Bankers Association of Hawaii



Testimony to the Senate Committee on Commerce and Consumer Protection  
Tuesday, January 28, 2025  
Conference Room 229

Comments Regarding SB 158, Relating to Public Banking

To: The Honorable Jarrett Keohokalole, Chair  
The Honorable Carol Fukunaga, Vice-Chair  
Members of the Committee

My name is Stefanie Sakamoto, and I am testifying on behalf of the Hawaii Credit Union League (HCUL), the local trade association for 47 Hawaii credit unions, representing over 864,000 credit union members across the state.

HCUL offers the following comments regarding SB 158, Relating to Public Banking. This bill would establish a state-owned bank implementation board within the Department of Commerce and Consumer Affairs to determine the need for, potential costs and benefits of, and prerequisites to establishing a state-owned bank, and requires a report to the legislature.

While we understand the intent of SB 158 is to explore ways to enhance financial services and economic development in Hawaii, we have significant concerns about the implications of establishing a state-owned bank and its potential impact on existing financial institutions, including credit unions.

Further, funds being deposited into a state bank would apparently 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, and within the state. Further, pursuant to the State's Code of Financial Institutions (HRS Ch. 412:4-104), it is a requirement that all depository institutions be federally insured. Therefore, a state-owned, and state-insured bank would be in violation of state law if it accepts deposits.

Thank you for the opportunity to provide comments on this issue.

**SB-158**

Submitted on: 1/23/2025 1:12:13 PM

Testimony for CPN on 1/28/2025 9:30:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Andrew Crossland	Individual	Oppose	Written Testimony Only

Comments:

**I STRONGLY OPPOSE** the implementation of a State-owned bank, and I urge all Committee members to **VOTE NO** on this Bill.



## *Restore the Commons*

Tuesday, January 28, 2025, 9:30 am

Senate Committee on Commerce and Consumer Protection

SENATE BILL 158 – RELATING TO PUBLIC BANKING

Position: Strong Support

Me ke Aloha, Chair Keohokalole, Vice-Chair Fukunaga, and Members of the Committee on Commerce and Consumer Protection.

SB158 establishes an implementation board to determine the need for, potential costs and benefits of, and prerequisites to establishing a state-owned bank.

As the bill's preamble aptly notes, this well-established function could save Hawaii taxpayers substantial time and money by creating money, as all banks do, through the issuance of loans. In the process, many otherwise necessary projects without enthusiastic commercial support could proceed in a timely way, with repayment going directly and entirely to the public trust rather than to private shareholders. Because of compounding interest on privately held bonds, keeping public investments public stretches tax dollars twice as far (see [The Public Bank Solution](#), by Ellen Brown, Esq). How can we afford not to?

It is a proven buffer against financial collapses, especially salient in today's penchant for speculative bubbles, and a way to enhance the public purse rather than leaking tax dollars to private pockets. Examples abound of the power of public banks to generate business and build infrastructure, in ways more affordable and more readily repaid than either general obligation bonds or commercial loans. All around the world, public banking has been immensely successful in stabilizing economies and providing a floor of economic operation. North Dakota, a deeply red State, has weathered previous disasters better than commercial banks that have gone under, and without requiring bail-outs. Germany's postal banking has been foundational to its industrial strength. Most famously, the Reconstruction Finance Corporation, created by conservative Republican William Taft, was used by FDR to transform America's second-rate pre WWII industry into the powerhouse that beat back the two reigning juggernauts of its time, Japan and Germany, and lead the U.S. to being the foremost worldpower it remains. Other examples abound all around the world.

Public banking is opposed by commercial banks for obvious reasons. They would prefer to garner fees from the public trough, and the control that a stranglehold on making loans provides. A classmate from Berkeley, now lobbying for the banking industry, tried to assert that he had "binders-full" of research showing that public banking doesn't work, but a review of the literature reveals that these binders are probably full of concerns that they offset private power, providing the public with better options. The evidence is that private commercial banks do quite well in an environment where the public has its own options to boost economic productivity that benefits everyone.

Creation of a state-owned bank is overdue, considering how much more quickly and effectively we might have responded to the housing crisis and to the Lāhainā disaster, as well as to boost our achievement of greater food security and energy security.

Mahalo for the opportunity to address this issue,

/s/ Charley Ice, Hoa'āina; Co-chair of the Energy & Climate Action Committee of the Environmental Caucus, former Chair of O'ahu Democratic Party Region 5 ('Aiea-Pearl City); retired Hydrologist. Commission on Water Resource Management (25 years) and Planner at DHHL (10 years)

**Building the new normal with People and Land: Food Security Health Care Public Banking  
Regenerating Soils Cutting Waste Eliminating GHG emissions**