

28 October 2013

Memo to: Public Banking Study
From: Kate Rader and Claudette Sortino
Subject: Interview with State Treasurer Beth Pearce

Pearce shares the concerns and values of public bank proponents. However, she thinks that proponents have proposed a solution without first defining the problem. What problems do we want to solve? What are Vermont's unmet investment needs? What are the reasons for failure to meet those needs? Is a public bank, or the consolidation of current state lending entities (VEDA, VHFA, VSAC, Bond Bank, State Treasurer's banking and investment services, Vermont Community Loan Fund) the answer?

S.55, introduced in the last legislative session, proposes to create a finance and lending efficiency task force to evaluate the costs and benefits of consolidating into one entity state finance and lending operations, investing, grant-making, and banking. The bill calls for an appropriation of \$25,000 to complete this study.

Pearce believes a complete study should identify capital gaps or unmet needs (which could include: mortgage financing for low-income and first-time homebuyers and not-for-profit developers, multi-family housing, underwriting and risk capital for needed community facilities and infrastructure, loans and investments to startup or expanding businesses, funding to underserved small business, agricultural financing, energy-related financing, financing higher education opportunities for Vermonters, and other areas deemed in the scope of the study), and inventory and assess current services. Resulting recommendations should address: opportunities for restructuring state-sponsored financial delivery systems or creating efficiencies, alternative sources for generating capital, strategies that complement, not compete with private or quasi-public ventures, the opportunity for the private sector to address needs, and the fact that when a program delivers financing that can be secured from existing markets, it replaces that capital and does not result in new economic activity.

A study that goes into that kind of detail that would take cost in the six figures, Pearce believes.

A state bank would require collateralization as well as organizational infrastructure. A study done by the New England Public Policy Center for Massachusetts estimated that a state bank for MA modelled on that of North Dakota would require capitalization of \$325 billion. Pearce estimated that Vermont would require about 1/10 of that, or over \$30 billion. The infrastructure – personnel and computer software would be added to that. Currently TD Bank employs 350 people in Vermont to do check processing for the state – perhaps 40% of the bank's “lockbox” business in Vermont. This would have to be replicated, in turn having an impact on the bank's private users of the service. In response to the concern that Vermont's money is going to “outsiders,” Pearce pointed out that TD Bank has made \$2 billion in commercial and mortgage loans in Vermont this year.

Other concerns about a public bank include putting taxpayer money at risk for private use, and the nearly irresistible pressure to use bank reserves to balance the state budget in years of revenue shortfall.

Pearce suggested we talk to Mark Young, President of the national Bank of Orwell, and Rep. Bill Botzow, chair of the House Commerce and Economic Development Committee.