

Date: 10/4/17  
Submitted in CJP ND 1106 Committee  
Council File No: 17-0831  
Item No.: 1

## The Bank of North Dakota Model

### More profitable than Wall Street.

Deputy: Adam R. Lid

Wall Street Journal, Nov 16, 2014: "It is more profitable than Goldman Sachs Group Inc., has a better credit rating than J.P. Morgan Chase & Co. and hasn't seen profit growth drop since 2003. Meet Bank of North Dakota, the U.S.'s lone state-owned bank, which has one branch, no automated teller machines and not a single investment banker. . . . Return on equity, a measure of profitability, is 18.56%, about 70% higher than those at Goldman Sachs and J.P. Morgan."

### Why? It has lower costs:

- Massive deposit base includes all state revenues.
- No bonuses, fees, commissions, high-paid CEOs, private shareholders.
- Doesn't compete but partners with local banks, which act as the front office.
- No need for branches; no ATMs, no advertising.

### BND's savings are passed on to borrowers and communities:

- 2% loans for infrastructure (schools, roads, water facilities, etc.)
- Student loans 2% below federal rate
- 1% loans for startup farms and businesses
- Low-interest loans for affordable housing

### Profit an LA City Bank could generate annually on the BND model:

- Cost of capital: \$500 million from pension funds at 6% = \$30 million
- Cost of deposits: \$5 billion at 1% = \$50 million
- \$3.5 billion in loans at 3.35% (avg BND return in 2016) = \$117 million profit
- \$1 billion in securities at 1% = \$10 million profit
- Total = \$127 million profit less \$80 million cost of funds = \$47 million return

### Other savings:

- 50% of the cost of infrastructure is financing; if the city owns the bank, it gets this back, saving nearly 50%.
- Wall Street fees can completely eat up profits – see The New York Times, *Wall Street Fees Wipe Out \$2.5 Billion in New York City Pension Gains*, <https://www.nytimes.com/2015/04/09/nyregion/wall-street-fees-wipe-out-2-5-billion-in-new-york-city-pension-gains.html>

– For more information, contact Ellen Brown, Chairman, Public Banking Institute,  
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# Ten-Year Summary

Bank of North Dakota  
December 31, 2016 (Unaudited)

	2016	2015	2014	2013
<b>Operating Results</b> (in thousands)				
Interest income	\$210,803	\$194,298	\$174,584	\$153,182
Interest expense	33,975	32,164	31,455	30,217
Net interest income	176,828	162,134	143,129	122,965
Provision for loan losses	16,000	12,500	8,000	-
Net interest income after provision for loan losses	160,828	149,634	135,129	122,965
Noninterest income	6,323	7,688	7,987	7,422
Noninterest expense	30,996	26,668	32,157	36,172
<b>Net Income</b>	<b>136,155</b>	<b>130,654</b>	<b>110,959</b>	<b>94,215</b>
Payments to general fund	-	-	-	-
Payments to other funds	19,989	28,645	17,345	19,356
<b>Balance Sheet</b> (in thousands)				
<b>Total Assets - Year End</b>	<b>7,295,268</b>	<b>7,407,942</b>	<b>7,215,687</b>	<b>6,873,409</b>
Federal funds sold and resell agreements	63,070	77,905	42,105	36,645
Securities	2,068,327	2,657,527	2,933,570	2,584,169
<b>Loans</b>	<b>4,789,553</b>	<b>4,339,618</b>	<b>3,852,155</b>	<b>3,476,946</b>
Agricultural	687,486	513,899	436,970	361,756
Commercial	1,982,625	1,811,259	1,559,137	1,388,104
Residential	739,412	693,712	652,076	629,931
Student	1,380,030	1,320,748	1,203,972	1,097,155
<b>Deposits</b>	<b>4,887,192</b>	<b>5,802,142</b>	<b>5,730,611</b>	<b>5,601,127</b>
Noninterest bearing	663,156	641,264	700,446	798,559
Interest bearing	4,224,036	5,160,878	5,030,165	4,802,568
Federal funds purchased and repurchased agreements	242,480	119,500	178,455	245,110
<b>Short- and Long- Term Debt</b>	<b>1,280,538</b>	<b>727,322</b>	<b>645,126</b>	<b>465,961</b>
<b>Equity</b>	<b>875,732</b>	<b>749,493</b>	<b>652,134</b>	<b>551,797</b>
Capital	2,000	2,000	2,000	2,000
Capital surplus	72,000	72,000	72,000	72,000
Undivided profits	789,496	673,330	571,276	477,705
Accumulated other comprehensive income (loss)	12,236	2,163	6,858	92

Public Bank LA – Statement to Ad Hoc Committee on Jobs

Los Angeles manages more than five billion dollars in annual revenue collected from tax, fee and fine payers, as much as the whole country of Iceland. The city maintains bank accounts with between \$4B and \$12B in cash, and manages up to \$45B in investments for pensions and other funds. That money is currently held in accounts at commercial banks, where it earns next to zero interest.

The city paid over \$109 million in transactional and origination fees to these commercial banks in 2016. Some of these banks have been downgraded by authorities for their risky or fraudulent practices. Many of the city's investments finance direct harm to the public, including over \$70M invested in tobacco companies alone. The firms who help manage these funds seek the highest possible fees for themselves, extracting the financial power of taxpayers to perpetuate bubbles in housing and capital markets, instead of economic development here at home.

We applaud the city council's efforts to better discriminate between the financial institutions to which we entrust public funds, and to disqualify those banks which have shown themselves to be unworthy of the public trust. Further, we support current efforts to create responsible investment ordinances to prevent public funds from financing harm to the people of the city and the world.

But in an era of consolidation, where banks have grown too-big-to-fail, any discerning city will soon run out of options for where to put its money. We can and must go a step further. We should learn from the example of municipalities and states which have founded their own public banks. North Dakota, a dyed-in-the-wool red state, has operated the country's only public bank for nearly a century, and it is a great success. The German people operate a network of county-level public banks which provide unique regional benefits to their constituents, while out-performing their commercial competitors in reliability, security, growth and transparency.

The Bank of Los Angeles would be able to accept city deposits and manage all the purchasing and reporting needs the city requires. It would then make targeted loans to the city itself, as well as sectors of the local economy where capital would make a measurable difference in the lives of Angelenos. The bank would be answerable to an independent board of governors made up of elected officials, responsible financial and banking experts, and members of the community including advocates for affordable housing and climate change mitigation. It would follow a strict mandate to safeguard and grow the city's assets through loans to local businesses and municipal entities. It would operate according to a charter that enables it to act in the interest of the city and its people, and not for any shareholders or executives. A bank whose employees are public servants, and whose mission is to improve the lives of regular Angelenos.

Such an institution will require meticulous planning and strong leadership, as well as appropriate action from the City Council and Mayor's office, in coordination with the state and its regulatory authorities. We believe the challenges such an effort would face are justified by the benefits it would provide: to grow revenues and cut costs for city government, to safeguard LA's assets in the event of another financial collapse, and to enable investment in Los Angeles by Los Angeles. We can and must take back this money power for the people of the city. We call for the city council to seat a commission to explore and author a charter for the Bank of Los Angeles.

-- Respectfully submitted,

David Jette, Legislative Director, Public Bank LA

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617-953-8544

**Public Bank of Los Angeles**

**Balance Sheet Pro Forma**

Cash	200,000,000	4.0%
Bonds	2,000,000,000	40.0%
Other Securities	300,000,000	6.0%
Loans	2,400,000,000	48.0%
Other Assets	100,000,000	2.0%
<b>Total Assets</b>	<b>5,000,000,000</b>	
Deposits		
Los Angeles Controller - Operational Accounts (revolving)	4,000,000,000	80.0%
Other Governmental Accounts	280,000,000	5.6%
Commercial Accounts	100,000,000	2.0%
Consumer Accounts	20,000,000	0.4%
<b>Total Deposits</b>	<b>4,400,000,000</b>	
Borrowings	100,000,000	2.0%
Equity	500,000,000	10.0%
<b>Total Liabilities and Equity</b>	<b>5,000,000,000</b>	

**Income Statement Pro Forma**

**Interest Income**

Net Yield from Bonds (1%)	20,000,000
Net Yield from Other Securities (3%)	9,000,000
Net Yield from Lending (3%)	72,000,000

**Interest Expense**

Interest on Deposits (1%)	44,000,000
Debt Service (5%)	5,000,000

**Net Interest Income** **52,000,000**

Banking Service Fees (0.1% of Deposits)	4,400,000
Other Income (Special Services, Fees)	5,000,000

**Total Noninterest income** **9,400,000**

Salaries and Benefits	15,000,000
Data Processing	5,000,000
Occupancy and Equipment	1,000,000
Other Operating Expenses	7,500,000

**Net Income** **32,900,000**

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