

PUTTING MARYLAND MONEY TO WORK FOR MARYLAND: INTRODUCING THE MARYLAND PARTNERSHIP BANK



SUMMARY

Maryland can put state deposits to use in ways that tilt the economic playing field back toward Main Street businesses, our community banks, and long-term job growth. A Maryland Partnership Bank (like the successful Bank of North Dakota) will generate new revenue for Maryland, save local governments money, and make our businesses less dependent on the Wall Street banks that have cut back on lending in our state. Maryland should create a commission to examine the policy idea's potential here.

BIG OUT-OF-STATE BANKS ARE FAILING MARYLAND SMALL BUSINESSES

Now more than ever, the future of Maryland's middle class depends on the health of our small businesses. Yet the engine of a thriving small business economy – affordable credit – has stalled in our state since the financial industry set off the Great Recession. While Maryland has lost **161,894** jobs¹ and the largest banks have returned to profitability after taxpayer bailouts, many of these same banks have refused to restore their lending to pre-crisis levels.²

The large bank lending cutbacks have had a disproportionate impact on the Maryland economy due to high bank consolidation in the state. Here, two out-of-state banks—Bank of America and M&T—currently control fully one-third (1/3) of all deposits, up from 25 percent before the crisis.⁶ The five largest banks in Maryland control more than 57 percent of our state's deposits, and none is chartered or based in Maryland.⁵

For example, in 2010, Bank of America made just two Small Business Association 7(a) loans in Maryland – the flagship program for small business lending.⁶ That was a **99.4 percent decline from the bank's 312 SBA loans in 2007**, a drop that has pushed Maryland small businesses either out of business or onto higher-interest credit cards.⁷ The average business card interest rate is 16 percent, but quality SBA 7(a) loans average seven to nine percent. In 2009, **98 percent of the bank's Maryland small business loans were on credit cards.**⁸

A SOLUTION FROM THE HEARTLAND: WHAT NORTH DAKOTA KNOWS

While Maryland and other states' treasuries send billions of dollars out-of-state by banking with Wall Street banks each year, the 91-year-old Bank of North Dakota (BND) keeps the state's money in-state, cycling it back through community banks to help small businesses add local jobs.

“Wall Street banks have cut back on small business lending... [by] more than double the cutback in overall lending. The big banks pulled back on everyone, but they pulled back harder on small businesses... [Small business] options just keep disappearing.”

– Chair of the TARP Congressional Oversight Panel, May 2010³

STORIES FROM THE MARYLAND SMALL BUSINESS CREDIT CRUNCH

Clinton. Esteban Barragan wanted a loan to buy new equipment so he could expand and hire more workers for his business of 16 years. “I’ve been to a couple of banks, but it’s the same thing. When they hear that I’m in construction, they don’t want to hear anything else.”⁹

White Marsh and Dundalk. Banks kept turning down Samuel Demisse and his successful coffee bean import business, Keffa Coffee: “Capital is the blood of any small business—to have inventory, to pay the bills, to keep the lights on.” Demisse finally took a non-bank loan in 2010 even though he had to pay twice as much interest as he would have with a conventional bank loan.¹⁰

Baltimore. “Startup companies didn’t stand much of a chance of attracting the interest of the lenders... at the Chamber [of Commerce small business lending] event. Half of the 14 lenders said they weren’t looking to talk to companies in business less than two years.”¹¹

*Stories reported in *Baltimore Business Journal*: “Wary banks, needy businesses flirt over still-scarce loans,” March 1, 2010

The Bank of North Dakota doesn’t compete with community banks; it supports them to create a ‘crowding in’ effect. From 2007 to 2009—through the trough of the financial crisis—BND’s **participation loans with local banks actually grew by 35 percent.**¹²

That’s the essence of countercyclical, and Maryland needs to look closely at this model.

In broad terms, BND has helped keep Main Street banks serving local business borrowers in markets from which they would otherwise have been shut out by big out-of-state banks. BND supports local banks with the participation loans, bank-stock purchases, and interest rate buy-downs that make possible productive loans that would otherwise not be made.

BND has done all that in partnership with the state’s economic development programs and at a profit, about half of which it pays annually into North Dakota’s General Fund.

It’s a tremendous success as a business and as economic policy.

MAKING MARYLAND’S MONEY WORK FOR MARYLAND

Elected leaders serious about crafting policies that produce new jobs and new revenue know that a BND-style Partnership Bank is one of a very few good options. They want to put public money to work

leveraging what Maryland businesses need most: access to the affordable capital they need to grow.

A Partnership Bank for Maryland will partner with local banks to keep public money at home, where it will:

- **Create new jobs** and spur broader economic growth. A recent study of a similar proposal in Oregon predicted that it will help Oregon community banks expand lending by \$1.3 billion and lead to 5,391 new small business jobs in the first 3-5 years. And do it at a profit.¹³
- **Generate new revenue for Maryland** with bank dividends. The annual dividend from a fully-operational Partnership Bank would mean **\$263 million for Maryland’s General Fund.**¹⁴ Over the past decade, BND’s dividend to the state has been worth about \$1,170 per family. The Bank would also lead to higher tax receipts as in-state jobs are created and small business markets improve.
- **Strengthen local banks.** Primarily because of BND’s unwavering support for local banks, North Dakota has six times more community banks per capita than Maryland. There have been zero bank failures in North Dakota in this crisis, and the Bank’s charter is clear that it must “be helpful to and to assist in the development of [North Dakota banks]”, not compete with them.¹⁵
- **Serve vital Maryland public needs.** Partnership banks can provide bridges to our state when federal money—whether disaster relief or health care reimbursements—is slow in coming. They also offer local governments a more affordable alternative to volatile Wall Street prices with Letters of Credit for infrastructure projects.¹⁶

WHO'S AFRAID OF A STUDY?

Maryland has every reason to study this successful model closely. A Maryland Partnership Bank has the opportunity to put Maryland money to work in Maryland, supporting the entrepreneurs and community banks that make Maryland go.

Jason Judd is President of Cashbox Partners, a Maryland-based small business, former director of SEIU's banking campaign, and a consultant to Dēmos, a non-partisan, non-profit public policy center.

ENDNOTES

1. Bureau of Labor Statistics, http://data.bls.gov/pdq/SurveyOutputServlet?data_tool=latest_numbers&series_id=LASST24000003
2. Michael R. Crittenden and Marshall Eckblad, "Lending Falls at Epic Pace," Wall Street Journal, Feb. 24, 2010, available at: <http://online.wsj.com/article/SB10001424052748704188104575083332005461558.html?KEYWORDS=percent22lending+falls+at+epic+pace+percent22>
3. Chair of the TARP Congressional Oversight Panel, May 13, 2010 video introduction of COP "Small Business Credit Crunch" report, <http://www.youtube.com/watch?v=l6suIQs7Wx0>
4. <http://www2.fdic.gov/sod/sodMarketRpt.asp?barItem=2&ZipCode=&InfoAsOf=2007&SortBy=Market+percent20Share&reRun=Y>
5. Ibid.
6. FOIA Request to Federal Financial Institutions Examination Council by the Service Employees International Union.
7. Federal Financial Institutions Examination Council, Community Reinvestment Act disclosure reports, <http://www.ffc.gov/craadweb/DisRptMain.aspx>
8. Ibid.
9. Gary Haber, "Wary banks, needy businesses flirt over still-scarce loans," Baltimore Business Journal, March 1, 2010, available at: <http://www.bizjournals.com/baltimore/stories/2010/03/01/story2.html?b=1267419600+percent255E2947141>
10. Lorraine Mirabella, "In tight lending climate, small businesses turn to loan alternatives. Various programs fill void in traditional bank lending," Baltimore Sun, Oct. 10, 2010, available at: http://articles.baltimoresun.com/2010-10-10/business/bs-bz-small-businesses-lending-20101010_1_businesses-tight-lending-climate-loan-or-line
11. Ibid.
12. Bank of North Dakota Annual Report 2009, available at: http://www.banknd.nd.gov/financials_and_compliance/pdfs/annualreport09.pdf
13. Center for State Innovation, "Oregon State Bank Analysis," Feb. 2011, available at: <http://www.stateinnovation.org/State-Banks-Materials/CSI-Oregon-State-Bank-Analysis-020411.aspx>
14. Center for State Innovation estimates, October 2010, available at: <http://www.stateinnovation.org/State-Banks-Materials/Building-state-development-banks-SEIU-0910.aspx>
15. Bank of North Dakota Policy of the Bank, 1920
16. Michael Corkery, "New hit to strapped states. Borrowing costs up as bond flops; refinancing crunch nears," Wall Street Journal, January 14, 2011, available at: <http://online.wsj.com/article/SB10001424052748704307404576080322679942138.html>