

# PUTTING OREGON'S MONEY TO WORK FOR OREGON: INTRODUCING THE VIRTUAL STATE BANK



## SUMMARY

Oregon can put its public funds to use in a way that creates jobs and tilts the economic playing field back toward Main Street businesses, family farms, and our community banks. A Virtual State Bank (VSB), based on the principles of the successful Bank of North Dakota, will raise revenue for Oregon without raising taxes, and consolidate and strengthen our economic development programs. Finally, the VSB — known in the proposed legislation as the Oregon Finance and Credit Board — will make Oregon businesses and farms less dependent on the Wall Street banks that have cut back on lending to small businesses here.

## BIG OUT-OF-STATE BANKS ARE FAILING OREGON SMALL BUSINESSES

Now more than ever, the future of Oregon's middle class depends on the health of our small businesses. Yet the engine of a thriving small business economy — affordable credit for viable businesses — has stalled in our state since the financial industry set off the Great Recession of 2008. While Oregon has lost **148,600 jobs**<sup>1</sup> and approximately **50,000 acres of family farmland**<sup>2</sup> in the last three years, the largest banks have returned to profitability after taxpayer bailouts. Many of these same banks have refused to restore lending for credit-worthy small businesses and consumers to pre-crisis levels.<sup>3</sup>

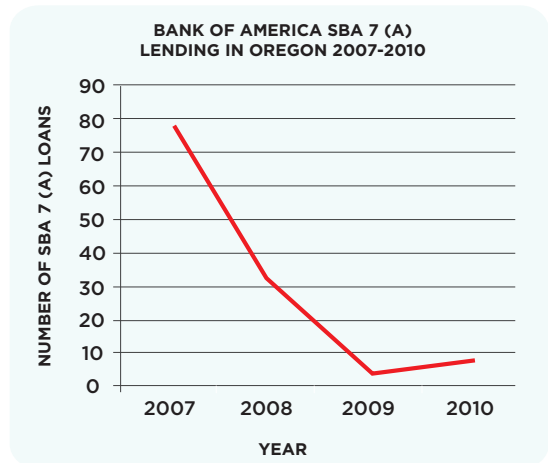
These big banks have been costing us jobs in Oregon.

For example, in 2010, Bank of America made just six Small Business Association 7(a) loans — the flagship program for small business lending — in Oregon.<sup>4</sup> That was a **92 percent decline from the bank's 77 SBA 7(a) loans in 2007**, a drop that has pushed viable Oregon small businesses either out of business or onto higher-interest credit cards.<sup>5</sup> The average business card interest rate is 16 percent, but quality SBA 7(a) loans average seven to nine percent. In 2009, **97 percent of the bank's Oregon small business loans were on higher-interest credit cards.**<sup>6</sup>

Lending cutbacks by the big banks have had a disproportionate impact on the Oregon economy due to high bank consolidation in the state. Here, three large out-of-state banks — US Bank, Bank of America, and Wells Fargo — currently control 47 percent of all deposits, up from 42.5 percent before the crisis.<sup>8</sup> None is chartered or based in Oregon.<sup>9</sup>

“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 2010<sup>7</sup>



Source: FOIA request to the Small Business Administration

## OREGON TREASURER TED WHEELER DESCRIBED THE POTENTIAL OF THE VSB IN THE FEBRUARY 9TH, 2011 OREGONIAN:

“One of the frequently cited reasons for Oregon’s sluggish recovery has been a shortage of bank financing. We also frequently hear that our tools for economic development need sharpening... [We must] be creative and bold in our approach to unlock additional lending capacity, in partnership with existing local institutions... If this effort succeeds, we will put more Oregon public funds to work for Oregon families, businesses and communities.”<sup>10</sup>

## A SOLUTION FROM THE HEARTLAND: WHAT NORTH DAKOTA KNOWS

Oil and gas in the ground is not all North Dakota has going for it. While the state treasuries in Oregon and other states send billions of dollars out-of-state by banking with Wall Street banks each year, the 92-year-old Bank of North Dakota (BND) keeps taxpayer dollars in-state, cycling them back through community banks to help small businesses and farms add local jobs.

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 increased its lending to strengthen the state’s economy and save jobs. BND’s **business lending actually grew by 35 percent.**<sup>11</sup>

That’s the essence of countercyclical, and Oregon is poised to be the first state in the nation to adopt the principles of North Dakota’s model.

In broad terms, BND has helped North Dakota keep Main Street banks serving credit-worthy business borrowers in tough times. BND levels the playing field for community banks in markets that would otherwise be dominated by big out-of-state banks. BND supports local banks with the participation loans, bank-stock purchases, and — with the state’s economic development programs — 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 OREGON’S MONEY WORK FOR OREGON

Elected leaders serious about crafting policies that produce new jobs and new revenue know that a BND-style Virtual State Bank is one of very few good options. They want to put public money to work providing what Oregon small businesses and family farms need most: access to the affordable capital they need to grow.

A VSB for Oregon 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 a fully-operational state bank would help Oregon community banks expand lending by \$1.3 billion and lead to **5,391 new small business and farm jobs** in the first 3-5 years. This would be accomplished at a profit for Oregon.<sup>12</sup>

A fully operational BND-style bank in Oregon can help generate:

- 5,391 new small business and farm jobs
- \$1.3 billion in new lending
- \$155 million in Rainy Day Fund revenue

- **Strengthen local banks.** Primarily because the BND is there to support local banks, North Dakota has twelve times more community banks per capita than Oregon.<sup>13</sup> 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.<sup>14</sup> In fact, the enabling legislation for the VSB explicitly bars it from retail banking operations.

- **Meet vital Oregon public needs.** The proposed VSB will streamline Oregon’s many different economic development funds and expand the state’s small business lending markets. The VSB could potentially provide bridges to our state when federal money — whether disaster relief or Medicaid reimbursements — is slow in coming. It could also offer local governments a more affordable alternative to volatile Wall Street prices with Letters of Credit for infrastructure projects.<sup>15</sup> The VSB would also lead to higher tax receipts as in-state jobs are created and small business markets expand.
- **Make public funds count.** We should take the opportunity provided by the proposed legislation to write stringent accountability standards for job creation into the state’s economic development programs. Taxpayers have to know that public funds for economic development are creating good Oregon jobs. This includes requirements that both the state and borrowers track the numbers of jobs created and the wages paid, and disclose their methodologies.
- **Serve as a laboratory for further innovation.** The Virtual State Bank — or Oregon Finance and Credit Board is a scaled-down version of the original Oregon State Bank proposal modeled after the BND. The proposed Board replicates the most successful job-creating functions of the BND with a fund rather than a depository bank. Demonstrating the VSB’s power to help re-build Oregon’s economy will make way for the creation of a fully-operational bank that leverages state deposits, and has the potential to generate **\$155 million for Oregon’s Rainy Day Fund.**<sup>16</sup>

## WHO’S AFRAID OF INNOVATION?

Oregon has every reason to follow this successful model. A VSB — first as a \$500+ million fund, and later as a depository for the state’s Short Term Funds — has the opportunity to put Oregon money to work right here, supporting the small businesses, farms, and community banks that make Oregon go.

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## ABOUT DĚMOS

DĚmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, DĚmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world. DĚmos was founded in 2000.

In 2010, DĚmos entered into a publishing partnership with *The American Prospect*, one of the nation's premier magazines focusing on policy analysis, investigative journalism, and forward-looking solutions for the nation's greatest challenges.

## ABOUT OREGONIANS FOR A STATE BANK

Oregonians for a State Bank is a coalition of community bankers, small business owners, farmers, community organizers and faith groups dedicated to the economic health of our local communities.

## ENDNOTES

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2. United States Department of Agriculture National Agriculture Statistics Service database, <http://quickstats.nass.usda.gov/> (accessed March 22, 2011)
3. 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>
4. FOIA Requests to the Small Business Administration by DĚmos and the Service Employees International Union. Bank of America also makes small business loans through the SBA 504 program however it did not make any in Oregon in 2010. The 504 program is limited to loans for commercial real estate and equipment purchases—not the credit small businesses need most in a credit crisis. For more information, consult "Small Business Administration 504 Loan Program", Comptroller of the Currency, May 2010 [http://www.nadco.org/Files/Public/2010\\_Insights\\_504.pdf](http://www.nadco.org/Files/Public/2010_Insights_504.pdf), and "Small Business Lending at Bank of America," SEIU report, 2009, <http://www.seiu.org/change-that-works/bank-of-america/bofa-smbiz-final.pdf>
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