A WASHINGTON STATE OWNED PUBLIC BANK IS COMPATIBLE WITH LWVWA POSITION ON PRIVATIZATION

Recommendation on Public Banking and a State Owned Public Bank to the LWVWA Board

By Public Bank Task Force, LWVWA, July 30, 2020

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EXECUTIVE SUMMARY

Under the framework of the league's Privatization Position, the League of Women Voters of Washington (LWVWA) Public Bank Task Force has been entrusted to explore and determine whether public banking and the Washington Investment Trust a.k.a. a Washington (WA) state owned cooperative public bank, SB5995 as proposed by the Washington State Legislature, benefits the state of Washington and Washingtonians

The reasons why a private-sector bank's management of public funds does not meet the league's Privatization position are:

1) The state and/or local governments do not receive an "adequate" return on investment (ROI) from their public funds deposited in private-sector banks;
2) The public sectors do not have control over the leveraged investment by private-sector banks (no targeted or long term investment) and there is no guarantee that bank investments will remain in WA;
3) There is not enough transparency to demonstrate what level of risk the private-sector bank managing public funds would be taking; and
4) Although public funds have been entrusted to private-sector banks since WA statehood, the arrangement does not appear to have sufficiently benefitted the state.

Therefore the task force recommends that the LWVWA board:

1) **Support** the concept and establishment of a publicly owned bank (PB) that could provide financial services and broader investment opportunities to state and local governments or small municipalities in WA. The PB could ensure that the public funds are available to the local communities for their public projects with lower interest loans and fees. A portion of any PB profit can be re-invested within the state or the local communities

2) **Support** the establishment of a WA state owned public bank (PB) that could have increased financing capacity to fund or invest in infrastructures for the state and local governments. The governments could rely on the public bank to fund long term projects that private investment institutions might shun. The state owned PB could accept deposits from local governments and sub-political governments (e.g. Public Water or Sewage District) could share the investment profits with them.

IS THE CONCEPT OF PUBLIC BANKING COMPATIBLE WITH THE LWVWA POSITION ON PRIVATIZATION?

What is the LWVWA Privatization Position?

The Privatization Position addresses the issue of transferring some government (public) services, functions and assets to private entities when it is appropriate and preserves the common good. The privatization criteria specifies that transfers of **public assets (monies, taxes, or property**) should serve; “the common good”; “the public interest today as well as for future generations”; “assure competitive pricing and delivery”; “would not unduly impact customers”; and “would be compatible with the public well-being”. Further, there should be “adequate oversight, periodic performance monitoring”, and “documentation of **adequate** return on investment for the public for any government contribution of funds or assets to the private sector” (1).

These same criteria can be applied for reclaiming public assets from the control of the private sector. One example is the incorporation of electrical services into the Jefferson County public utility district. Puget Sound Energy Co (PSE) had been providing electrical services to the people in Jefferson County. When its operational facilities and electrical services had deteriorated over the time, Jefferson County residents voted to de-privatize the electrical services from PSE control and buy out the existing infrastructure (1 & 2). The struggle between private and public ownership in the field of energy was included in the Seattle League Privatization Study in 2019.

In a similar manner, the formation of a State Public Bank (PB) would **de-privatize** the control of public funds from private-sector banks. A public financial institution could act as a depository for public money (state, county, municipal and district members), a lending institution for public projects, or a source of participation loans with community banks. A properly run PB should increase the availability of credit to members with reduced cost. The PB should join the list of services deemed too essential to be privatized.

What’s the current status of the state public funds in private-sector banks?

Existing Requirements on Banks Holding Public Funds

Currently, the State of Washington is contracting out the government financial services to US Bank and depositing its public funds in 58 private-sector banks (including US Bank which holds the largest share of state public funds) and 10 credit unions. In 2020, the state deposits have an average **monthly balance of $ 7.4 billion in the private-sector banks and ~$100 million in the credit union**s (3) that incur various bank fees for financial services.

A public fund depositary private-sector bank is required to hold collateral having a value close to or at least equal to the amount of the un-insured portion of the state public funds. Securities used as collateral should be segregated from the bank’s other assets as stated in the Revised Code of Washington (RCW) 39.58.050: For collateral for Deposits, however, the banks have a wide range of discretion as to what can be used as a security as long as it is segregated from other assets

Current Benefits to the Private-sector banks vs. the State

Income earned from the securities held as collateral for the deposited pubic funds belongs to the private-sector bank that holds the public funds and not to the state (RCW 39.58.050).

Meanwhile, when the state needs money for some projects or for its general operating budget, it borrows funds from private-sector banks or issues bonds through investment banks or bond brokers. Obtaining the loans or issuing bonds incurs additional cost to pay interest and fees for issuing bonds. The layers of fees and insurance for issuing bonds can cost from 1 % to 14% of the bond value (4). This is in addition to the interest charged on the loans, which over 25 years could be 40-50 % of the original cost. WA State is now rated 6th in the nation for highest debt per capita (5).

WHAT IS PUBLIC BANKING?

A public bank is a bank that is publicly owned by a county, a state, a municipality or a tribal government, capitalized by public funds and dedicated to invest funds in and for the benefit of the community. It would be publicly governed and return a negotiated portion of bank profits to the state or local communities. Otherwise, a public bank would operate similarly to a private-sector bank in many respects. Publicly owned and financed banks are common internationally in Europe, Asia, and South America.

Examples of Current Public Banks in US:

There are at least three public banks in the US. First, the Bank of North Dakota, owned by the state of North Dakota, (ND) was established in 1919 and is a depositary for the state revenues. It is fully functional as an investment bank for ND (6). During the financial crisis of 2008-2009, the bank continued to profit. Last year the Rate of Return was 18.6 % (7). The second is Bank2 which was established by Oklahoma Chickasaw Nation in 2002 (8). It provides loans to its tribal members and the profits and interest are re-invested in the tribal community. The third is Territorial Bank of American Samoa established by the territorial government of American Samoa to provide financial services to Samoans after the last private-sector bank had left (9).

States Considering Public Banks:

In 2019, the state of California instituted a public bank law that allows a municipality to establish its own public banking institution defined as a non-profit corporation for public benefit (10). New Jersey Governor Phil Murphy, a former Goldman Sachs executive, has signed Executive Order Creating Public Bank Implementation Board in Nov 2019 (11).

WHAT BENEFITS COULD DE-PRIVATIZING PRIVATE-SECTOR BANKING OF PUBLIC FUNDS BRING TO THE STATE AND WASHINGTONIANS?

POTENTIAL BENEFITS OF PUBLIC BANKING

The leveraging capacity of a public bank provides “adequate” return on investment

A public bank does business the same way as a private-sector bank. In a nutshell, banks are in the business of loaning money in order to earn interest. By lending, banks primarily create the money used for the loans (12&13). Banks use their available funds as a seed to invest (loan) a much larger amount of money to reap the benefits of a much larger amount of interest. This process is called leveraging. Through leveraging, banks increase their financing capacity by 10-fold or more compared to their funds on hand (12 & 14). The public bank could utilize public funds in a similar manner to increase credit availability to the state and local communities. It would thereby multiply the funds available for state projects and also gain higher interest incomes. One of the key benefits of a public bank for governments is to save interest costs compared with borrowing from a private-sector bank (15). Through the combination of borrowing money at lower rates than from private-sector banks and increasing the return on the investment of public funds, the public bank could reduce the demand for the state to obtain private-sector bank debt financing and increase available funds without raising taxes.

Low operational expense enables low interest rate and low fees

The proposed WA state owned bank would operate as an investment bank for the public sector and public purposes and not as a retail bank. Because of this, the public bank will not require bank branches, marketing expenses, high salaries for officers, etc. The expense to maintain the public bank (<12% = expenses/total income) would be far less than that of private-sector banks (> 50% = expenses/ total income) (Appendix A). Thus, a public bank would not need to charge the extensive fees for service or high interest rates that private-sector banks do to meet their expenses. This difference would contribute to the public bank's ability to offer low interest and fees.

Bundling Small Member Bonds to Obtain Lower Rates

Bonds issued by small communities are often hindered by high fees and higher interest rates which are due to their locally-based credit rating (4 & 12). A state owned public bank could issue bonds for, or buy bonds from, the communities. In addition, small communities could be a member of the public bank which may, through scale, hold a much better credit rating and enable borrowing at lower interest rates (4 & 16). The public bank would also accept deposits from local governments (17). The proposed WA state public bank aims to be a cooperative membership bank in which the members were the state agencies, local governments and sub-political governments.

IMPACT ON THE STATE ECONOMY

Compare and contrast impacts for public and private-sector banks

Any new loan would generate new spending from jobs created both by the funded project and by the businesses which provide supplies. New lending spurs new spending and new deposits, expanding credit capacity through various rounds of loans and spending. This is called "deposit expansion multiplier". The public bank deposit expansion is dedicated to the member state or communities; whereas a private-sector bank's new loan could be somewhere outside of the state or the communities even though the bank retains the public funds. The study of public banking for New Jersey showed the Estimated Economic Impact of a New Jersey State Bank as follow (18):

Every $10 million of new credit or lending would yield …

New Gross State Output $15,872,000 to $20,777,000
New State Earnings $3,838,000 to $5,209,000
New Employment 60 to 93 new jobs created
New Value-Added $8,928,000 to $11,798,000

"*New Jersey could generate as much as $10 billion in new credit capacity, through* successive *rounds of lending and spending.* ***These subsequent rounds would tend to be higher for a public bank than if the state's funds were deposited into a private-sector bank with many out-of-state investments"*****(18).**

A global study for government-owned banks found that government banks play a stabilizing role in the economy. By looking at the bank balance sheet data, lending by government-owned banks decreases less during recessions and increases less during expansions. In the United States, the only government-owned bank, the Bank of North Dakota (BND), played an important stabilizing role during the global financial crisis of 2007–09 (19). The study also shows that government banks provide financing for long-term capital projects in the public sector that private-sector banks fail to provide.

Risk of Bank Failure

Any banking business has a risk of failure. Risk is often mentioned as a concern for creating a public bank but it is NOT UNIQUE to public bank. Financial institutions have repeatedly jeopardized the financial system by venturing into risky activities in the quest for higher profits. The drive for maximizing profits pushed the entire financial system into riskier speculative activities (20). During the 2008-2009 financial crisis, 18 private-sector banks in Washington State failed including Washington Mutual (21) and the state lost millions in public funds (22). By contrast, most government-owned banks are mission-oriented and serve a social purpose other than profit maximization (19). Therefore, public banks are less likely to engage in an excessive degree of risky activities.

Risk of Political interference

The global study finds that "*lending behavior depends on the electoral fortunes of the party affiliated with the bank: the interest charged is lower in the areas where the political party affiliated with the bank is strongest."*(19). Although government-banks are shown to lend more to large firms as compared to smaller ones, they are also found to lend more in depressed areas as compared to their privately owned counterparts. But the author of the study pointed out that political interference on government-owned banks are unlikely to be unique as privately-owned banks may potentially also get preferential political treatment, or be persuaded to provide preferential treatment on behalf of politicians (19)

STATE REQUESTED REVIEW OF A WA STATE OWNED PUBLIC COOPERATIVE BANK (WAPB)

Potential Benefits and accountability of the state public bank

The legislature commissioned a draft business plan report for a WA state created public cooperative bank (published by Evans school of Public Policy and Governance, University of Washington in May 2020) (17). The report stated that a state created public cooperative bank (WAPB) could offer local governments many potential benefits. The report pointed out potential benefits similar to those shown above. WAPB would start to yield retained earnings (profit) in 5 to 10 years of its operation depending on the source of the capital. For transparency and accountability of WAPB operation, it suggested external & internal audits, and oversight by the State Auditor. An alternative audit possibility could involve both Department of Financial Institutions and the Public Depository Protection Commission each of which resides in a different state agency.

Shortcomings of the business plan

The Public Bank Task Force addressed the following comments and questions to the authors about the business plan report..

The main question we have is whether the business plan adequately reflects an actual functioning public bank and has credible numbers to substantiate the report's claims.

For the functionality of a state-created public bank, the business plan addresses only one activity for the bank, that being infrastructure financing. While this is an important activity, it is not the only activity anticipated for this bank. We interpret the bank's functions to be infrastructure financing as well as investing as "potential benefits for local governments and the state." This report has not shown or included the state and/or its funding agencies' participation in the plan.

Should we assume that this business plan was written as a base plan or as a starting point for planning the creation of the investment bank?

For the credibility of the report, all the numbers that appeared in the report had no citations, source links, table legends, or explanation of how the numbers in the tables were tabulated. Therefore, the numbers used in the business plan report are considered dubious or at least unsubstantiated. The business plan appears to be just a prototype concept for a state public bank. After our review of this report, the Public Bank Task force wonders if the authors did not intend to define or determine an explicit plan for the public bank. We have addressed the following critical questions to the authors and received the answers from the Evans School who published the business plan for the WAPB. They stated that their "*scope of work was constrained by stipulations in the budget proviso and the Statement of Work specified by the Office of Financial Management*" (The budget proviso is Supplemental Budget SB6032, 2017-2018, page 53). Therefore their answers are based on the constrained scope. The LWVWA Public Bank Task Force believes that the Statement of Work and their answers to our questions do not reflect the potential opportunities for WAPB.

CRUCIAL QUESTIONS ON THE BUSINESS PLAN

Questions about some aspects of the state created public cooperative bank a.k.a. "WAPB" report:

1. What is the reason the WAPB was not considered as a public funds depository?
2. Why didn't you consider some aspects of the Bank of North Dakota (6 &7) structure?
3. Why does the report not quantify a comparison of operational expenses of the WAPB vs. private-sector banks?
4. What would be the potential state earnings if the approximately 55% of public funds deposited in the largest five private-sector banks (3) are deposited in the WAPB using a similar fractional lending system for loans?
5. What would be the relative economic impact on the state economy of the WAPB vs. private-sector banks?

6. What are the reasons for the report's "assessment" that the public bank should not provide any "transactional depository services to members, such as check clearing, automatic clearing house transactions, and remittance processing"?

Survey-related questions:

1. What efforts were made to ensure that state survey respondents were sufficiently knowledgeable about public banks to make informed responses?
2. Because both the number of survey respondents and the number of positive responses was small, what analysis was used to develop the statistics used and how confident can you be about your decisions and the conclusions presented in the business plan?
3. How could the WAPB serve to fill the gap in small, rural jurisdictions' needs for infrastructure as identified by the survey respondents?

Questions about "gifts of public goods"

1. Are you aware of a number of State Supreme Court decisions on the constitutionality of state public funds being used for development on behalf of private companies? For example, the court decided in CLEAN (Citizens for Leaders with Ethics and Accountability Now) vs. the State in 1995 that the use of public funds to build a stadium for a private sports franchise was constitutional based on "public benefit".
2. What other types of loans could fall into the category that the WAPB can offer?

CONCLUSION

The Public Bank Task Force recommends that the LWVWA board:

1) **Support** the concept and establishment of a publicly owned bank (PB) that could provide financial services, broader investment opportunities and a substantially better (compared to private-sector banks) return on investment to state and local governments or small municipalities in WA.

2) **Support** the establishment of a WA state owned public bank (PB) that could increase financing capacity to fund or invest in infrastructures for the state and local governments. The state owned PB could accept deposits from local governments and sub-political government entities (e.g. School or Public Water and Sewage Districts) and share the investment profit with them.

Meeting the following Criteria:

Criteria to be Public Bank

- Public Bank functions as an investment bank for the state and **holds public funds as capital** to provide low interest loans with lower fees than private-sector banks to the state and local governments but it is not a retail bank

- Unlike a state funding agency, a Public Bank functions as a bank, which is able to increase its lending capacity by the act of giving out loans (investments) up to ~ ten-fold of the original fund amount. This banking practice, known as leveraging, also would result in higher interest income to the state

- It should accept public fund deposits from state and local governments

- The operation of the state owned public bank must have a firewall between the bank operation and political interference.

Pro statements for the Public Bank:

- The Public Bank would reduce the need for the state to obtain private-sector bank debt financing and increase available funds for public projects without raising taxes by increasing the return on investment of public funds while providing borrowers with lower interest rates than are available from private-sector banks.

- Some of the Public Bank Investment income and profit would be reinvested within the state and some could augment the state revenue.

- The Public Bank would start to yield profits in 5 to 10 years of its operation depending on the source of the capital.

- The Public Bank could provide loans to the state or local government's long term projects including those that may not attract private investments.

- The oversight commission for the Public Bank operation must be composed of people who have banking or financial background as well as elected officials.

Con statements against Public Bank:
Opposing views and rebuttals

- No need for a public bank because a state funding agency plays a similar role.
    - The concept demonstrates a lack of understanding of the difference between banking and agency funding.

- Risk of PB failure
    - Banking business failure is an issue for both Public and Private banking.

- Political influence negatively affects bank activities
    - A public bank requires a robust firewall between the bank operation and the politicians

- Political challenges to establishing a public bank
    - Poor understanding of banking operation by politicians
    - Fierce oppositions from private-sector banking and financial associations
    - Political fear of risking loss of public funds

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GLOSSARY OF BANK TYPES:

Private-Sector Bank: A bank not owned by a state or municipality. Private banks, commercial banks, cooperative banks, and banks with publicly traded shares are private-sector banks.

Public Bank or Public-Sector Bank: A bank in which a state or municipality, or other public sector is the owner.

Commercial Bank: A bank which provides services to businesses such as accepting deposits, and making business loans. Commercial banks are operated for profit. Commercial banking may be combined in one entity with retail banking and investment banking. Commercial banks can include private sector banks and public sector banks.

Private bank: A private bank is one owned by an individual or a partnership. Its services are typically offered only to the very wealthy. Services may include investment portfolio management, tax advisory services and estate planning. Many commercial banks also have special sections that offer these kinds of "private" banking services to wealthy customers.

Investment Bank: A financial services company or corporate division of another type of bank whose activities include the speculative activities of trading in securities and derivatives, assisting with mergers and acquisitions, and market making. "Investment" banks do not typically take deposits.

The Glass-Steagall Act, passed during the Great Depression (1930s), prohibited investment banks, commercial banks and insurance companies from being under common ownership. The idea was to protect depositors in the commercial banks and the policy holders in insurance companies from the speculative activities of the "investment" banks. This sensible law was repealed by the Gramm-Leach-Bliley Act during the Clinton administration in the 1990s. The result is that many banks now have both kinds of activities and the risky, speculative tendencies on the "investment" banking side put depositors on the commercial banking side at risk as we saw in the Great Recession of 2008.

Cooperative Bank: A bank which does not issue capital stock but is owned by its members. Cooperative banks include credit unions and mutual banks.

Mutual Savings Bank: It is a type of cooperative bank and mutually owned by depositors. It also does not issue capital stock. The primary difference between cooperatives and mutual savings banks is that the former has equally voting rights for each member whereas the latter has voting rights proportional to the amount of business a customers does with the bank. Mutual savings banks also operate for the profit of their owners, and they are unrestricted in who they may have as customers. It is because of these fundamental differences that mutual savings banks are not exempt from income taxes while credit cooperatives are. These mutually owned banks represent an intermediary ownership structure between cooperatives and commercial banks (1).

Retail Banking (aka consumer banking): Banking for the general public rather than corporations. Many commercial banks also engage in retail banking, and since the repeal of the Glass-Steagall Act can also engage in "investment" banking. Retail banking services include savings and transaction accounts, mortgages, personal loans, debit cards, and credit cards.

Banker's Bank: A bank in which the shareholders and customers are banks. The Federal Reserve and the Federal Home Loan Banks are examples.

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APPENDIX A

COMPARISON BETWEEN BANK OF NORTH DAKOTA (PB) AND TWO PRIVATE-SECTOR BANKS, BANK OF AMERICA AND US BANK

A. Balance Sheet

BND = Bank of North Dakota, **BAC** = Bank of America, **USB** = US Bank

Bank Comparison-Balance Sheet (all $ numbers in million)

	BND	BND	BND	% of	BAC	BAC	BAC	% of	USB	USB	USB	% of
Assets	2018	2017	Average	total assets	2018	2017	Average	total assets	2019	2018	Average	total assets
Cash	510	415	463	6.6%	177,404	157,434	167,419	7.2%	22,405	21,453	21,929	4.6%
Securities	1,913	1,665	1,789	25.5%	917,232	862,235	889,734	38.4%	128,191	114,221	121,206	25.2%
Loans	4,584	4,909	4,747	67.7%	946,895	936,749	941,822	40.6%	296,102	286,810	291,456	60.5%
Allowance for loan losses **(A)**	(93)	(85)	(89)	-1.3%	(9,601)	(10,393)	(9,997)	-0.4%	(4,020)	(3,973)	(3,997)	-0.8%
Net loans	4,491	4,824	4,658	66.4%	937,294	926,356	931,825	40.2%	292,082	282,837	287,460	59.7%
Other assets	102	99	101	1.4%	322,577	335,209	328,893	14.2%	52,748	48,863	50,806	10.6%
Total assets	7,016	7,003	7,010	100.0%	2,354,507	2,281,234	2,317,871	100.0%	495,426	467,374	481,400	100.0%
Liabilities				% of total liabilities				% of total liabilities				% of total liabilities
Non-interest deposits	567	555	561	18.2%	426,647	444,674	435,661	21.2%	75,590	81,811	78,701	18.3%
Interest bearing	4,202	4,050	4,126	133.5%	954,829	864,871	909,850	44.3%	286,326	263,664	274,995	64.1%
Total deposits	1,103	4,605	2,854	92.4%	1,381,476	1,309,545	1,345,511	65.6%	361,916	345,475	353,696	82.4%
Short & long term debt	281	1,264	773	25.0%	504,737	518,120	511,429	24.9%	63,890	55,479	59,685	13.9%
Other liabilities	6,154	310	3,232	104.6%	202,969	186,423	194,696	9.5%	17,137	14,763	15,950	3.7%
Total liabilies		6,179	3,090	100.0%	2,089,182	2,014,088	2,051,635	100.0%	442,943	415,717	429,330	100.0%
			-	% of total Assets				% of total Assets				% of total Assets
Total equity **(B)**	861	825	843	12.0%	265,325	267,146	266,236	11.5%	52,483	51,657	52,070	10.8%
			-									
Total liabilities & equity	7,016	7,003	7,010		2,354,507	2,281,234	2,317,871		495,426	467,374	481,400	

Notes:

A. Allowance of Loan losses

The financial health of a commercial bank is oftern disclosed in the financial statements by looking at the allowance of loan losses account. One percent is normally an acceptable number. If the percent starts to climb above this number, management will often pay more attention to this metric. For these three banks the public bank has a slightly higher percent. This may have nothing to do with ownership. North Dakota is a largerly rural state and the tariff war in recent years has had a negative impact on agriculture states.

B. Equity (in % of total asset) for all three banks is very near identical. This is to be expected. A bank will typically find a balance between too much leverage and not enough leverage, since Equity (capital is another word for equity), is an indication of the amount of risk a bank has.

B. Income and Expenses

BND = Bank of North Dakota, BAC = Bank of America, USB =US Bank

Bank Comparison- Income and expense statement (All $ numbers in million)

All numbers in thousands	2018	2017	Average	% return on applicable asset	BAC 2018	BAC 2017	BAC Average	% return on applicable asset	USB 2019	USB 2018	USB Average	% return on applicable asset
Income												
Interest income												
Securities	41	31	36	2.0%	25,958	21,358	23,658	2.7%	3,395	3,053	3,224	2.8%
Loans	199	189	194	4.2%	40,811	36,221	38,516	4.1%	14,099	13,120	13,610	4.8%
Total interest income (1)	240	220	230	3.28%	66,769	57,579	62,174	2.7%	17,494	16,173	16,834	3.6%
				% cost on applicable liability				% cost on applicable liability				% cost on applicable liability
Interest expense												
Deposits	17	10	14	0.47%	4,495	1,931	3,213	0.24%	2,855	1,869	2,362	0.68%
Short and long term debt	29	27	28	3.62%	14,842	10,981	12,912	2.52%	1,587	1,385	1,486	2.68%
Total interest expense	46	38	42	1.36%	19,337	12,912	16,125	0.79%	4,442	3,254	3,848	0.93%
Net Interest Income (NII)	194	182	188		47,432	44,667	46,050		13,052	12,919	12,986	
Provison for loan losses	12	12	12		3,282	3,396	3,339		1,504	1,379	1,442	
NII after provision for loan losses	182	170	176		44,150	41,271	42,711		11,548	11,540	11,544	
Non interest income	7	6	7		43,815	42,685	43,250		9,831	9,602	9,717	
Noninterest expense (2)	30	31	31	13.1%	53,381	54,743	54,062	51.3%	12,785	12,464	12,625	47.5%
Net Noninterest income (expense)	(23)	(25)	(25)		(9,566)	(12,058)	(10,812)		(2,954)	(2,862)	(2,908)	
							-					
Net Income	159	145	152		34,584	29,213	31,899		8,594	8,678	8,636	

NOTE:

1. Total interest income: The gross average interest earned on asseets is modest for all three banks presented here. This is probably the result of the low interest rate environment during the time frame presented. Fortunately interest expense is also low so the net interest return is in the 2%-3% range. Low historically but not recently.
2. Non-interest expense shows a wide divergence between the public bank and the two private sector banks. This is to be expected since the public bank has somewhat of a monopoly within a state. Therefore marketing costs should be lower. Also, the public banks customers are mostly government entities

C. Notable Differences between PB and Private-sector banks

NOTE:
Non-interest Income :
It is primarily fees. The banks charge fees for their services.
Non-Interest Expense:
It would include rent, salaries, real estate taxes, insurance, marketing, utilities etc.

BND: Bank of North Dakota, BAC: Bank of America, USB: US Bank

	Income and Expense Comparison (All $ numbers in million, Ave. of 2017 & 2018)		
	BND	BAC	USB
Interest income			
Securities	36	23,658	3,224
Loans	194	38,516	13,610
Total interest income	230	62,174	16,834
Interest expense			
Deposits	14	3,213	2,362
Short and long term debt	28	12,912	1,486
Total interest expense	42	16,125	3,848
Net Interest Income (NII)	188	46,050	12,986
Provison for loan losses	-12	-3339	-1441.5
loan losses	176	42,711	11,544
Non interest income	7	43,250	9,717
Non-interest expense	31	54,062	12,625
Net Noninterest income (minus non-interest expense)	-24.5	-10812	-2908
		-	
Net Income	152	31,899	8,636

Notable differences between Public Bank and Commercials banks					
		Percent of the total income (Average)			
BANKS	Total income (interest+non-interest) in million	**Non-interest income**	**interest income**	**Non-interest expense**	**Interest Expense**
BND	236	**2.9**	**97.0**	**12.9**	**17.8**
BAC	105,424	**41.0**	**59.0**	**51.3**	**15.3**
USB	26,550	**36.6**	**63.4**	**47.5**	**14.5**