



Arizonans for a New Economy

Arizona Public Banking Coalition: Banking in the Public Interest

Public Banking: Frequently Asked Questions

What is a public bank?

A public bank is financial institution that is owned and operated by a governmental entity, such as a city, county, state, or federal government. For simplicity's sake, let's assume that the public bank discussed here is a state bank. All or part of the state's funds are managed by the public bank and not by a private, for-profit bank. A public bank answers to the citizens—not to Wall Street and not to politicians. Public banks are managed for the public good, not for shareholder profit.

Are public banks safe?

Public banks are managed conservatively by banking professionals, not politicians. Forty percent of banks worldwide are public banks. In the 2008 worldwide banking crash, no public banks failed. Thanks to the Bank of North Dakota (the only public bank in the US) ND was the only state in the US that was not financially devastated by the Wall Street crash.

How is a public bank different from a community bank, a commercial bank, or a "Wall Street" bank?

Public banks are owned by governmental entities and make investments that will benefit the public. Community, commercial, and "Wall Street" banks are private, for-profit businesses that are owned by shareholders; they make investments to maximize shareholder profits. Public banks generally don't offer personal services such as checking and savings accounts, car loans, or home loans.

How is a public bank different from a credit union?

Credit unions are owned by their members and serve their members. Credit unions offer members personal banking services. Credit unions are restricted from holding and investing large amounts of governmental funds.

Do public banks compete with community banks?

No, public bank services complement community bank services; they often work together to boost the local economy. Public banks can fund infrastructure projects and loan portfolios directly, or they can provide funds to community banks, who then make and manage the loans. Often, public banks will guarantee loans managed by community banks. The availability of loan guarantees encourages community banks to lend. Community banks have thrived in North Dakota, which has had a successful public bank since 1919. According to 2014 FDIC reports Arizona, with a population of 6.6 million people, has 23 distinct banking institutions (not branches). North Dakota, with a population of 740,000, has 87 banking institutions. Obviously, community banks have thrived along side of ND's state bank. North Dakota and the Bank of North Dakota remained stable throughout the financial crisis of 2008-09.

Do public banks compete with credit unions?

No, public banks are owned and operated by governmental entities for the public good. Credit unions are owned and operated by their members for the benefit of the membership. Credit unions offer personal services such as checking and savings accounts to individuals, which public banks do not offer.

Can I get a checking or savings account, credit card, home loan, or car loan at a public bank?

Although public banks could be organized to offer these services, they usually don't offer them.

What is the difference between a public bank and a postal bank?

Postal banks are operated through the postal system and as such are part of the federal government. Public banks can be created by city, county, state, or federal governments. Postal banks offer personal services such as checking and savings accounts to individuals, which public banks do not offer. Public and postal banks complement each other much the same as public banks complement credit unions. Millions of Americans are “unbanked”, meaning they live primarily on a cash basis and often use high-priced alternative banking services like payday loans and check cashing services to get by. Having access to trusted, safe personal banking services offered through the US Postal Service would help stabilize these Americans’ lives and save them money. The US had a postal banking system from 1911-1967. Many countries still have postal banks. In fact, the Japan Post Bank has more money on deposit than any other bank in the world.

How do commercial banks, community banks, and public banks differ in terms of investments?

Large national banks invest their funds in the stock market on Wall Street, not Main Street. These commercial banks hold and manage funds for the vast majority of cities, counties, and states in the US and charge us fees for managing our taxpayer funds. They invest taxpayer funds in stocks and bonds for the benefit of their shareholders, and they make money on the taxpayer money under their control. Profits from investments made with taxpayer funds go to the banks’ shareholders—not to the citizens or to the city, county, or state. Given the boom and bust cycles of the stock market, it is a risky business.

Community banks are commercial banks whose scope is limited to a local area. Their focus is local—not national or international. Community banks offer personal and business loans. They invest in local, Main Street businesses.

Public banks invest taxpayer funds locally in projects that benefit the public good. Public bank funding of infrastructure projects saves state and local governments millions in interest payments and debt service because essentially the government is lending itself money. State public banks also can loan taxpayer funds to local governments for infrastructure projects. For example, the City of Tucson borrowed millions to improve local roads. If Arizona had a state bank, it could offer the City of Tucson a low-interest loan to fund infrastructure improvements. The city would save millions on this deal, and the state of Arizona would make money. With our existing system, millions of dollars in state funds are held in a Wall Street bank, the state pays fees for that service, and the money is unavailable for local investment. (Taxpayers, the city, and the state lose; Wall Street wins.)

Public banks also invest in loans to local businesses, entrepreneurs, farmers, and college students. Loan packages can be structured in different ways, but often the public bank backs or funds loans which are managed by local community banks.

In addition to helping businesses and governments, public banks help citizens. Millions of Americans have crushing debt from student loans, toxic mortgages, or medical bills. Some people are paying as much as \$500-1500 or more per month on student loans. With this level of debt, many young Americans can’t start families, buy cars, or finance home mortgages. Public banks can not only offer competitive, low-cost student loans to residents, but they can also buy up consumer debt and excuse it or refinance it. On a personal level, debt relief would help thousands of Arizonans. On a macro level, debt relief would kick start the economy by putting millions of dollars into circulation. Public banking is good for Arizona.

For more information about how you can become involved in the public banking movement in Arizona contact:

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