The Review of Maine State Bank Analysis
By Marjorie Whitmore, LWV WA Public Bank Task Force

The *Maine State Bank Analysis*, prepared by the Center for State Innovation in 2011, offers "predictions about the effect of a potential Maine State Bank on the state banking industry, job creation and small businesses, and the state budget." Driven by the market recession of 2009, Maine was interested in exploring the benefits of a state public bank, similar to several other states. North Dakota, which has had a state bank since 1919, alone seemed to escape the financial chaos of the 2009 crash. The Maine analysis loosely defines a state bank as a "bank capitalized by state money, that would serve as the repository for state deposits, and would be publicly governed and return a negotiated portion of bank profits to the state."

Highlights of the Maine State Bank Analysis include:

- **Effects on the state banking market:** The analysis used North Dakota to compare its lending rates to states with equivalent size, population, and geography. "North Dakota's banking system appears healthier than that of nearby states. … The extra leveraging ability that the state bank provides ... as a banker's bank are all critical in helping to strengthen small and/or young banks." North Dakota's lending rates per capita were 13% to 129% greater than similar states. (South Dakota was not included in the comparison of nearby states due to its concentration of large commercial banks in the past decade.)

- **Small business jobs created or retained:** The analysis provided a projection, based on a variety of measurements, including using the Small Business Administration (SBA) calculator of 1% in loan to asset ratio. Estimates of increased lending activity at that rate suggest 600 to 800 jobs created or retained in the state of Maine in small business jobs. Alternately, if the lending rate increased by 8%, as occurred in North Dakota, the estimate increases to 3,500 new or retained jobs. *Note: At the time this analysis was written in 2011 commercial banks had tightened loan underwriting, consequently credit to small businesses was difficult to obtain. The resulting loss in capital to small businesses led to shrinking markets and job losses.*

- **Returns to the bank:** "We find that with prudent banking practices, Maine could expect an average Return on Assets (ROA) for a state bank of around 1% until all start-up debt obligations are expired, after which the ROA would be closer to 1.7%."

- **Funding sources:** The analysis suggested several possible options as sources of capital for a state bank, including a general obligation bond, money from the state general fund (they noted potential political difficulties with this option, but balanced that risk with the increase in returns), or raising capital through the sale of bank stock.

Conclusion

Although the report was admittedly simplified, the assumptions reached were based on conservative calculations. The analysis concluded that their calculations strongly favor support for a state bank.

Outcome of SP0083 LD 237, an Act to Establish a State Bank of the Maine Legislature.

SP0083 LD 237 was proposed January 26, 2017, during Maine's 128th legislative session. It was defeated March 29, 2017, after testimony from the Maine Bankers Association, Maine Credit Unions, and the Finance Authority of Maine.

The bankers cited disruption in the banking markets and the failure of 18 banks in North Dakota after the start of the Bank of North Dakota, caused by state funds being withdrawn. Proponents of the bill offered an amendment that would reinvest in certain financial institutions to minimize distress to state community banks. The bill's sponsor, Senator Dave Miramant suggested this could be offset by taking a portion of the state's reserves currently in out-of-state banks. The bankers also didn't think a state bank could provide complex services to state institutions currently serviced by financial institutions. They felt the SBA and other quasi-government agencies meet the needs of citizens who may not qualify for loans from the private sector due to the nature of the risk exposure.

The chief risk officer of the Finance Authority of Maine thinks the state should put the $325 million needed to start a state bank into their funds so they can continue to loan to the citizens of Maine.

The resistance from the financial institutions was strong and their message consistent; too expensive, too much risk to existing programs. They want to keep the state's money where it is.

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