TESTIMONY MEMORANDUM

To: Chair and Members of House Labor & Business Committee
From: Gregory H. Anderson
Tresha Resource Partners, Oregon Public Bank Alliance
Date: March 17, 2021 - Informational Hearing
Re: HB 2743 - ORS Changes to Allow State Chartered Municipal Banks

Good morning, Chair, Vice-Chair and members of the Committee.

My name is Greg Anderson, and my background includes service in both appointed and elected offices in public service. I Chaired 5 of the 6 years I served on a municipal Planning Commission and one term as Mayor of my then city of residence, Florence, Or. I also was one of the 3 founding officers of a state-chartered commercial bank, a community bank there, Oregon Pacific Bank in the early/mid 1980's, which still operates successfully there today.

I'm here to testify today re HB 2743, which proposes making changes in ORS clarify allowing a municipality to charter a non-commercial state-chartered municipal bank.

I've reviewed the current reports and general history of the only currently existing public bank in the nation, that of North Dakota's ***Bank Of North Dakota***, aka "BND." I've found that it's Capital Position, or Equity-Position, is significantly healthier than most other generally known private-sector commercial banks otherwise operating in our economy. Notably, BND shows itself to have a debt-to-equity ratio of about 6-to-1 (6:1). This ratio is commonly used in business analysis by bankers and business analysts alike, and is a time-tested "solvency-ration." It's a ratio that is used by banks considering loans to commercial entities, as well as being applied to banks themselves by outsiders considering the strength of a bank's own 'financials.'

It is generally believed that a private sector business' solvency-ratio should be in the neighborhood of 2:1 or 3:1. The greater the equity (the 2nd number in equation) in comparison to debt (the first number in equation), the stronger the entity is shown to be; this applies to all business' whether manufacturing, commercial, retail, or even a bank. While the ratio varies by industry, the position and solvency of the firm is what is being analyzed. Many banks these days, as an industry, have debt-to-equity ratios of 9:1 or 10:1, while BND operates with a ratio of 6:1… making it generally more solvent (and stronger) than the comparisons elsewhere in the private sector's, publicly traded banks..

I believe it's fair to say that a Municipal Bank would be started much the same way as we did in Florence in the 1980's to form a new commercial bank. That would include writing a business plan to support an application with the State of Oregon's Bank Regulator. That plan would include identification of the source of Capital being proposed to charter the proposed bank. The regulator must be satisfied that the bank's Capital is adequate, as well as it having prudent '*business experienced*' Board Members and satisfactory initial Bank Officers <u>before</u> the regulator signs-off on allowing "*actual operations*" of any proposed bank.

In reviewing the advocates Business Plan draft, I found that careful and considered steps were taken to lessen the likelihood of "political influence" by designating that a considerable portion of the new banks Board-Of-Directors be experienced bankers. The plan includes educating/training any members who don't have previous management experiences, and operates to self-nominate continuing board-positions.

A committee member earlier questioned the concerns of stressed operations to the banking industry, referencing "The '08 Debacle," which few saw coming, and questions the dangers which that carries for a municipality that has its own bank; I would propose the following observations. Most "community banks" fared better than their contemporary large money-center banks, largely due to the more extreme pressures that those larger banks place on providing a ROI (Return-On-Investment) to their stock-holders, and the risks they took to achieve that. I have found that the BND, at the very same time ('08 thru current) "did not even have a blip" on annual operations and profitability as compared to the large money-center banks at the same identical time. The larger money-center banks became weakened due to staggering loan-losses, which ate into their Capital/Equity; the BND meanwhile, had continued operations and even donated/returned annually some of its profits to North Dakota's State General Fund. The public bank operated more conservatively than risk-taking private sector money-center banks, and this was by-design, most certainly.

I'd be happy to answer any questions, and want to thank you for your time here this morning.

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