

PUTTING HAWAII MONEY TO WORK FOR HAWAII: INTRODUCING THE HAWAII PARTNERSHIP BANK

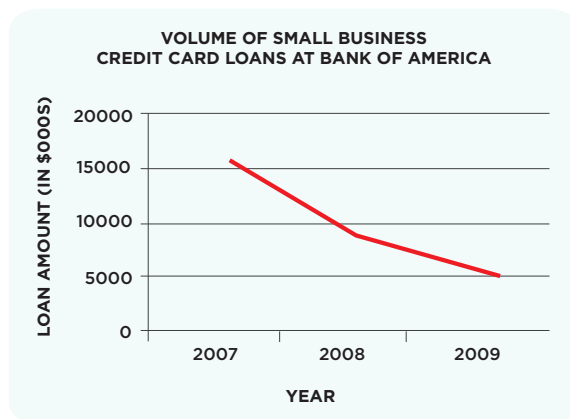


SUMMARY

Hawaii can put deposits of our state tax revenue to use in ways that create local jobs by tilting the economic playing field back toward our neighborhood businesses and state-chartered and community banks. A Hawaii Partnership Bank—like the successful Bank of North Dakota—will generate new revenue for Hawaii, save local governments money, and make us less dependent on big offshore banks that are dramatically reshaping life for families and businesses in Hawaii.

KEEPING HAWAII'S NEIGHBORHOOD BUSINESSES GROWING

Nearly 24,000 Hawaii families have lost their homes to foreclosure in the three years since the bank crisis and Great Recession began,¹ and the state faces a \$410 million budget shortfall this year.² Now more than ever, rebuilding Hawaii's middle class depends on the health of our neighborhood business and entrepreneurial economy. Yet the engine of a thriving small business economy—affordable credit—has stalled in our state since 2008. Hawaii has lost **33,350 jobs³** and **seen more than 200 small businesses go bankrupt** in the first two years of the recession,⁴ many because they could not get loans.



Source: FFIEC Community Reinvestment Act disclosure reports

The fall in bank lending through the government's Small Business Administration 7(a) program, which offers quality loans to neighborhood businesses, is stark. From 2007 to 2010, the amount of money loaned to Hawaii businesses through SBA 7(a) fell by 36 percent,⁵ robbing businesses of much-needed funds.

Big off shore banks even cut back on small business credit card loans, which have higher interest rates and are more profitable to banks. At Bank of America, the number of business card loans fell by 50 percent from 2007 to 2009, with **the value of those loans falling by 68 percent.**⁶

A SOLUTION FROM THE HEARTLAND: WHAT NORTH DAKOTA KNOWS

Instead of sending taxpayer money out-of-state by banking with Wall Street banks each year, the 91-year-old Bank of North Dakota (BND) keeps public funds in-state, cycling them back through community banks to help neighborhood businesses 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's participation loans with local banks actually **grew by 35 percent.**⁷ In the meantime, it returned \$60 million in revenue to the state treasury, allowing the state to both cut taxes and balance their budgets during the recession.⁸

That's the essence of countercyclical, and Hawaii needs to look closely at this model.

A FULLY OPERATIONAL BND-STYLE BANK IN HAWAII CAN HELP GENERATE:

- 2,840 new small business and farm jobs
- \$1.7 billion in new lending
- \$98 million in profits for the state over 10 years

Source: Center for State Innovation

BND has helped keep local banks serving local business borrowers in tough times. BND allows community banks to level the playing field 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 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 HAWAII'S MONEY WORK FOR HAWAII

Elected leaders serious about crafting policies that produce new jobs and new revenue know that a BND-style Partnership Bank is one of a very few good options. In Hawaii, legislators want to put public money to work leveraging what Hawaii businesses need most: access to the affordable capital they need to grow.

A Hawaii Partnership Bank will partner with local banks to keep public money at home, where it will:

- **Generate new revenue for Hawaii** with bank dividends. The annual dividend from a fully-operational Partnership Bank would mean **\$61 million a year for Hawaii's General Fund**.⁹ Over the past decade, BND's dividend to the state has been worth more than \$300 million.¹⁰ The bank would also lead to higher tax receipts as in-state jobs are created and neighborhood business markets improve.
- **Create new jobs and spur broader economic growth.** A recent study predicted that a fully-operational state bank would help Hawaii's community banks expand lending by \$1.7 billion and lead to **2,840 new small business and farm jobs** in the first 3-5 years. This would be accomplished at a profit for Hawaii.¹¹
- **Strengthen local banks.** A Partnership Bank invests in local banks and partners with them on large loans to help free up local bank capital for even more lending. As a result of BND's support, North Dakota's local banks are thriving. BND's charter is clear that it must "be helpful to and to assist in the development of [North Dakota banks]," not compete with them.¹²
- **Serve vital Hawaii public needs.** Partnership banks can provide bridges to our state when federal funds—whether disaster relief or health care reimbursements—are slow in coming. They also offer local governments a more affordable alternative to volatile Wall Street prices with Letters of Credit for infrastructure projects.¹³

WHO'S AFRAID OF A STUDY?

Hawaii has every reason to study this successful model closely. A Hawaii Partnership Bank has the opportunity to put Hawaii's money to work here, supporting the neighborhood businesses, entrepreneurs, and community banks that make Hawaii go.

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ABOUT DĒMOS

DĒmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, DĒmos 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. DĒmos was founded in 2000.

In 2010, DĒmos 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 FACE

Faith Action for Community Equity (FACE), a Gamaliel Foundation affiliate, is a faith-based grassroots organization in Hawaii founded in 1996. FACE's membership reflects the cultural and socio-economic diversity of our community. FACE exists to allow its members to live out our common, faith-based values by engaging in actions that challenge the systems that perpetuate poverty and injustice.

ENDNOTES

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