



**Alliance for Local
Economic Prosperity**

Keeping Our Public Funds Safe, Local and Working

Developing a State Bank: Expanding Access to Capital

ECONOMIC & RURAL DEVELOPMENT & POLICY COMMITTEE

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@THE ROUNDHOUSE, SANTA FE

New Mexico Needs More Financial Resources

- More financing for small businesses, rural and tribal development needs and potential.
- Lending programs that support industry diversification and access to financing by entrepreneurs from marginalized backgrounds.
- Capital to adapt to climate change, financing for post-wildfire redevelopment.
- Oil and gas revenues drop in 5-7-10 years. Current federal and state monies **will not meet all the need**, especially in 2-3+ years. Need to expand the state's financing capacity.

The State's need for development capital, especially for its socioeconomically disadvantaged communities, is addressed by a Public Bank of New Mexico.

Small Business and Rural Economic Development

Rural communities and small businesses are important to the NM economy.

54.2% of NM employees work in small businesses (2020 Bureau of Labor). There are 156,996 small NM businesses, 99% of the total. Less than one-third are led by “self-employed minorities.”

Challenges in accessing financing—awareness of programs, education on application processes, bias in loan approvals and criteria for approval.

LULAC notes **redlining** continues in NM banks.



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Who will the bank support?

Small business borrowers; farmers; rural communities, tribal and pueblo members, and underserved urban areas.

Entrepreneurs, some with track records demonstrating past success, demonstrated character (known in their communities as people of integrity). People underserved in the past: **women, people of color, rural residents.**

The bank will make money, however, the sole focus will not be maximizing profits. There will also be value placed on increasing the income of individuals and families, **increasing their per capita income**, and expanding community wealth, with focus on local economic prosperity.

Support of **food providers** to: develop adaptive practices addressing climate change, create food system links from growing to processing to distribution and minimizing the 95% export with 94% import of food to NM.

The NM Public Bank Works With the State's Commercial Banks and Credit Unions



Unique Role for A Public Bank

- A gap exists in lending support
- Public Bank of New Mexico would address the gaps
- Why a PBNM?
 - Minimal investment in the bank reaps 8-10X the capital for investment in New Mexicans. No other state agency can leverage funds to that extent.
 - State funds are deposited and invested in NM.
 - State revenue is going to diminish.

Borrower Access to Loans

- 1. Borrower applies for loan in community bank, credit union holding partner agreement with the state bank.**
2. Borrower brings documentation—business plan, financials
3. Loan officer determines eligibility based on criteria developed by PBNM staff and agreed to meet in the partnership contract.
4. When questions of eligibility arise, local institution contacts PBNM staff for consultation.
- 5. Loan approved → Payments made to local financial institution.** Repayments and interest are allocated on a predetermined timeframe and in a percentage determined by the particular loan program engaged. (Example: a loan covered 70% by PBNM, 30% by local institution with 5% interest would have an agreed upon split on the interest payment + an administrative fee for the bank/CU to handle the loan.)



State Bank—Key Points

- **The PB will NOT compete with community banks, credit unions or CDFIs. The PB will create partner lending programs with these institutions.** FDIC data of Sept 30, 2023
- The NMFA is maxing out on bond issuance.
- Bank programs and lending will be based on principles of equitable access and democratic board governance, including community development expertise.
- The PB of NM will receive NM revenue deposits to Keep NM Revenue Safe, Local and Working for New Mexicans. It is an additional tool in the state's finance system.

Typical Loans in PBNM Model

Small business startups & expansions, Entrepreneurial Loans, Cooperatives @ \$1.5-2 Million/each

Smaller loans @\$100-250K

Long-term loans @\$10-40K, including home solar installations

Medical, dental and veterinarian students, new clinic loans, low default rates

Initial lending programs: Accelerated Growth, Business Development, Value-Added Guarantee, Bank Participation (Definitions in Appendix)

Public Bank Supports the State's Econ Dev Plan

- Plan's Goal: Anticipate future climate change and create a 20-year plan for NM economic development
 - *"... build a diverse and robust economy that engages local talent, cultivates innovation, and delivers prosperity for all New Mexicans."*
- Challenges noted in the Plan include:
 - A lack of collaboration between Econ Dev stakeholders
 - The lack of representation of "socioeconomically disadvantaged communities" in planning activities related to their communities.



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What the Bankers Say & AFLEP Responses



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ERRONEOUS ALLEGATIONS

Directing state (or local) deposits away from community banks will lessen – not increase – the lending capacity of our banks across the State of New Mexico, and transferring public deposits away from local institutions could jeopardize the safety and soundness of these institutions

There has not been a demonstrated public policy need supporting the creation of a public bank in New Mexico, since there is no need for additional liquidity and no shortage of community bank locations to serve New Mexico consumers and small businesses

Capitalizing a public bank will divert needed state revenues from more immediate needs.

HOW IT WILL WORK—THE FACTS

The bill does not mandate that municipalities use the public bank for deposits. They can still use local banks.

There is a need. We all hear stories about small businesses that banks can't or won't finance today. The public bank will make that possible.

The bank is capitalized by moving funds from one investment to another. This money will be used to access up to 8-10X more funds for immediate needs.



What the Bankers Say & AFLEP Responses

ERRONEOUS ALLEGATIONS

Corporate governance could expose the bank to political and financial risk since, without a chartering authority, a public bank would lack regulatory oversight unlike community banks that are examined for safety and soundness and compliance with national and local laws by federal and state regulatory agencies

New Mexico's constitutional and regulatory prohibitions, including the "anti-donation clause," present substantive hurdles that will be difficult – if not impossible – and costly to overcome

It is extremely unlikely that a public bank will receive access to the Federal Reserve payments system or deposit insurance from the Federal Deposit Insurance Corporation (FDIC) – and without access to these systems a public bank would be severely limited in its abilities to process payments in a timely manner.

HOW IT WILL WORK—THE FACTS

New Mexico is the chartering authority and the bank will follow the same rules that all banks in New Mexico do. It will be examined, audited and comply with the same regulations and schedule annual audits.

The loan is the product and a service that the anti-donation clause demands. For the same reasons that the state can issue funds for other loans, the bank's loans will not go against the anti-donation clause.

False. A public bank can access the Federal Reserve for primary or secondary credit like other banks. There is precedent for this.



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APPENDIX

Loan Program Definitions

Accelerated Growth -- The Accelerated Growth Loan Program assists New Mexico-based early-stage companies active in one of nine target areas identified by the New Mexico Economic Development Department (NMEDD):

- Aerospace
- Biosciences
- Cybersecurity
- Film & Television
- Outdoor Recreation
- Intelligent Manufacturing
- Global Trade
- Sustainable & Green Energy
- Sustainable and Value-Added Agriculture

Business Development -- The Business Development Loan Program assists new and existing businesses based in New Mexico in obtaining loans that have a higher degree of risk than would normally be acceptable to a lending institution. The loans may be used to start a new business or expand or refinance an existing business.

Value-Added Guarantee -- The Value-Added Guarantee Loan Program assists New Mexico-based companies that want to invest in activities that add value to New Mexico communities through products and services produced by New Mexico's agriculture, energy, commercial, technology, and manufacturing sectors.

Bank Participation -- The Bank Participation Loan Program assists a New Mexico-based financial institution that has a New Mexico-based borrower whose financing needs have outgrown the legal lending or exposures limits of the originating lender. Loans must be beneficial to New Mexico communities and be consistent with the state's public policy and be made on a sound and collectible basis.



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Questions? Contact Us

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