

# It's Time for the Public Bank of NM

Keep New Mexico Revenue Safe, Local and Working for NM

# Alliance for Local Economic Prosperity (AFLEP)

- ▶ Our Mission:
- ▶ To advocate for the economic, social and cultural health and wellbeing of New Mexico communities.
- ▶ To make this possible, New Mexico State revenue must be kept Safe, Local and Working for ALL New Mexicans. Creating a State Public Bank is a means to accomplish local economic prosperity.

# Public Banking is Appealing

- ▶ Public banking interest and action has been increasing since the Great Recession of 2007-08.
- ▶ Goals include regaining more control of local revenues and reducing the exposure of local funds by Wall Street Banks in shadow banking and generation of their profits.
- ▶ 22 current initiatives in the US for public bank formation with legislation and studies moving in Mass, NY State, NYC, NJ, Philadelphia, CO, CA. City of LA city council unanimously voted to proceed with formation of a municipal PB; San Francisco and several regions completing feasibility studies; National Infrastructure Bank.

# FINANCIAL FORCES

Recovery \$\$ End

Fossil fuel \$\$ diminish

A public bank is Smart Government. We appreciate your time and your interest in public banking.

2023

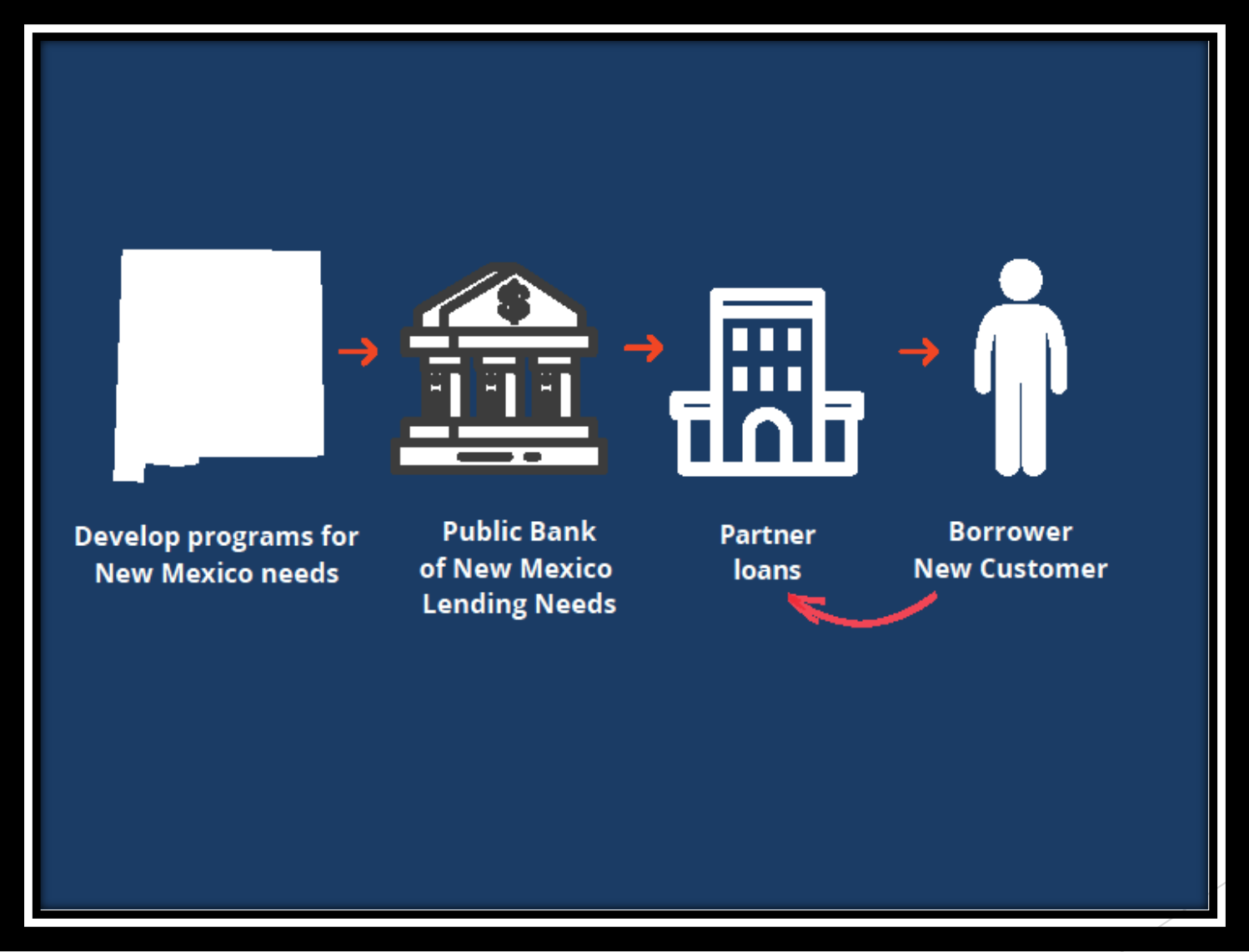
## CLIMATE DISRUPTION

Entrepreneurs:  
Sustainable  
Adaptive  
Business  
development

Public bank in  
operation

# Enhance the NM Finance System

- ▶ NMFA and EDD have similar and overlapping missions and they are not able to fully fund the community development needs of NM; not possible pre-pandemic nor will it be possible post-pandemic.
- ▶ The Public Bank of New Mexico could be operational in 2023 when pandemic funds are gone and windfall revenue funds are diminishing.
- ▶ There will be lending demands that include business focus on responses to climate disruption and sustainable business practices; NMFA, EDD and DOA will not fully support them.
- ▶ The opening deposit of a \$50 million appropriation can turn into up to \$450-500 million in lending, a significant investment in New Mexicans. The bank can leverage 8-10x its equity as a Bank.



# How the Bank Works

- ▶ Community needs identified—what business activity desired to enhance a thriving community?
- ▶ PB develops lending progs based on needs, priorities.
- ▶ PB partners with CB's, CU's, CDFI's—loan criteria developed and interest and admin fees determined; PB is a nonprofit and charges lower interest.
- ▶ Borrower brings business plan to CB, CU, CDFI.
- ▶ Loan made and administered by the latter with admin fee paid by PB.
- ▶ Bank creates a new customer.
- ▶ Community gains jobs, GRT and other revenue; people remain in community; money circulates in the community.

# Significant Features of the Public Bank

- ▶ Board members include: Secretary of Econ Dev, State Treasurer and NMFA CEO; 4 people with banking, investment backgrounds and 4 people with extensive community development and finance experience and expertise.
- ▶ Bank management includes experienced bankers with civil service/community outlook and openness to alternative models of lending.
- ▶ With PB backing, more flexible lending for short term, longer term and entrepreneurial lending; not typically funded by CBs.
- ▶ Regulatory oversight by FDIC, State of NM and other Federal requirements that support access to Federal lending.



# Financial Plan Assumptions

- ▶ The PB of NM will receive NM revenue deposits to Keep NM Revenue Safe, Local and Working for New Mexicans.
- ▶ The PB is an additional finance tool in the state's finance system and will not require ongoing appropriations as other agencies.
- ▶ The PB will NOT compete with community banks, credit unions or CDFIs. It will create partner relationships.
- ▶ Bank programs and lending will be based on principles of equity and democratic board governance.
- ▶ If there is no lending demand, the funds revert to the state with no losses.

# Challenges to HB236, 2021 Session

## 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 that have been exacerbated by the COVID-19 pandemic, including expansion of early childhood education and broadband infrastructure improvements for remote learning and economic development

## How it will work

- ▶ Deposits in the financial plan are limited to state deposits. We encourage local entities to support their local banks.  
<https://www.nmlegis.gov/Agendas/NMFAageOct14.21.pdf>
- ▶ 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.
- ▶ We are capitalizing the bank by moving funds from one investment to another. This is money that will be used to access up to 8-10X more funds for immediate needs.

# Challenges to HB236, 2021 Session

## 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 and the safety and security of public funds would be dependent on the full faith and credit of the State of New Mexico

## How it will work

- ▶ New Mexico is the chartering authority and the bank will follow the same rules that all banks in New Mexico do - including FDIC guidelines. It will be examined, audited and comply with the same regulations and meet requirements to access the Fed window.
- ▶ 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.
- ▶ A public bank can access the Federal Reserve for primary or secondary credit like other banks. There is precedent for this. The full faith and credit of the State of NM backs current bond issuance.

# Financial Plan Highlights

- ▶ Key findings in Financial Plan (moderately conservative with input from UNM Finance professor, and investors with extensive financial expertise and financial analyst):
  - Bank is profitable in year 2.
  - Bank can assume more risk and be profitable.
  - In the first 7 years, at no cost to the state, the PB's equity/capital increases from \$50 million to \$113 million.

# 7-Year Net Income, Total Equity

	Net Income	Total Equity	7-Year Equity Growth Rate:
▶ Year 1		50,000,000	12.43%
▶ Year 2	1,996,519	51,901,533	Total Gross Loans:
▶ Year 3	5,388,395	57,171,839	\$485,566,082
▶ Year 4	8,810,306	65,852,614	@ 75% of deposits
▶ Year 5	12,130,133	77,938,972	
▶ Year 6	15,622,421	93,511,723	
▶ Year 7	19,356,931	112,930,119	

## Statements

	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	1.0	2.0	3.0	4.0	5.0	6.0	7.0
	1-Jan-22	1-Jan-23	1-Jan-24	1-Jan-25	1-Jan-26	1-Jan-27	1-Jan-28
	31-Dec-22	31-Dec-23	31-Dec-24	31-Dec-25	31-Dec-26	31-Dec-27	31-Dec-28

### 1. Income Statement

Total Interest Income	USD	6,430,000	10,795,860	15,620,091	21,208,626	27,636,185	34,729,880
Total Interest Expense	USD	300,000	900,000	1,980,000	3,708,000	6,127,200	9,030,240
<b>Net Interest Income</b>	<b>USD</b>	<b>6,130,000</b>	<b>9,895,860</b>	<b>13,640,091</b>	<b>17,500,626</b>	<b>21,508,985</b>	<b>25,699,640</b>
Interest Rate Spread	%	5%	6%	6%	6%	6%	8%
Non Interest Revenues	USD	0	0	0	0	0	0
<b>Total Net Revenue</b>	<b>USD</b>	<b>6,130,000</b>	<b>9,895,860</b>	<b>13,640,091</b>	<b>17,500,626</b>	<b>21,508,985</b>	<b>25,699,640</b>
Allowance Provision	USD	1,143,992	1,375,706	1,513,276	1,740,268	2,001,308	2,301,504
Non Interest Expenses	USD	3,038,500	3,129,655	3,223,545	3,320,251	3,419,859	3,522,454
Depreciation	USD	45,975	120,194	222,495	353,749	515,067	707,814
Goodwill Impairment	USD	0	0	0	0	0	0
<b>Earnings Before Tax (EBT)</b>	<b>USD</b>	<b>1,901,533</b>	<b>5,270,305</b>	<b>8,680,775</b>	<b>12,086,358</b>	<b>15,572,752</b>	<b>19,167,867</b>
Taxes	USD	-	-	-	-	-	-
<b>Net Income</b>	<b>USD</b>	<b>1,901,533</b>	<b>5,270,305</b>	<b>8,680,775</b>	<b>12,086,358</b>	<b>15,572,752</b>	<b>19,167,867</b>
Retained Earnings b/f	USD	0	1,901,533	7,171,839	15,852,614	27,938,972	43,511,723
Net Income	USD	1,901,533	5,270,305	8,680,775	12,086,358	15,572,752	19,167,867
Common Dividends	USD	0	0	0	0	0	0
Stock Issuances	USD	0	0	0	0	0	0
Stock Repurchases	USD	0	0	0	0	0	0
Preferred Stock Issuance	USD	0	0	0	0	0	0
Preferred Dividends	USD	-	-	-	-	-	-
<b>Retained Earnings</b>	<b>USD</b>	<b>0</b>	<b>1,901,533</b>	<b>7,171,839</b>	<b>15,852,614</b>	<b>43,511,723</b>	<b>62,679,591</b>

**Balance Sheet**

Property, Plant & Equipment	USD	1,000,000	1,873,525	3,237,710	5,061,278	7,332,830	10,044,645	13,192,878
Cash	USD	4,000,000	11,172,000	52,915,443	123,431,637	196,611,908	221,093,827	198,215,309
Available for Sale Securities	USD	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Trading Assets / Other Securities	USD	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
New Agricultural Loans	USD	20,000,000	30,000,000	33,000,000	37,950,000	43,642,500	50,188,875	57,717,206
New Commercial Loans	USD	20,000,000	20,000,000	22,000,000	25,300,000	29,095,000	33,459,250	38,478,138
New Administered Loans	USD	5,000,000	5,000,000	5,500,000	6,325,000	7,273,750	8,364,813	9,619,534
Other	USD	0	0	0	0	0	0	0
<b>Total Gross Loans</b>	<b>USD</b>	<b>45,000,000</b>	<b>99,038,383</b>	<b>157,418,016</b>	<b>223,598,025</b>	<b>298,748,466</b>	<b>384,214,904</b>	<b>481,544,738</b>
Loans as % Deposits	%	75%	83%	73%	65%	62%	66%	75%
Loan Losses Allowance	USD	1,000,000	1,271,225	1,598,052	1,957,562	2,370,997	2,846,449	3,393,217
<b>Total Net Loans</b>	<b>USD</b>	<b>44,000,000</b>	<b>97,767,157</b>	<b>155,819,964</b>	<b>221,640,463</b>	<b>296,377,468</b>	<b>381,368,455</b>	<b>478,151,521</b>
Goodwill	USD	0	0	0	0	0	0	0
Other Assets	USD	0	0	0	0	0	0	0
<b>Total Assets</b>	<b>USD</b>	<b>110,000,000</b>	<b>171,812,682</b>	<b>272,973,117</b>	<b>411,133,379</b>	<b>561,322,207</b>	<b>673,506,927</b>	<b>750,559,708</b>
<b>Risk Weighted Assets</b>	<b>USD</b>	<b>18,160,000</b>	<b>20,749,191</b>	<b>22,568,909</b>	<b>25,579,292</b>	<b>28,965,588</b>	<b>32,265,066</b>	<b>35,549,730</b>

Funds from SIC	USD	0	0	0	0	0	0	0
Total Deposits	USD	60,000,000	120,000,000	216,000,000	345,600,000	483,840,000	580,608,000	638,668,800
Senior Debt	USD	0	0	0	0	0	0	0
Subordinated Notes	USD	0	0	0	0	0	0	0
Convertible Bonds	USD	0	0	0	0	0	0	0
Trading Liabilities	USD	0	0	0	0	0	0	0
Other Borrowings	USD	0	0	0	0	0	0	0
<b>Total Liabilities</b>	<b>USD</b>	<b>60,000,000</b>	<b>120,000,000</b>	<b>216,000,000</b>	<b>345,600,000</b>	<b>483,840,000</b>	<b>580,608,000</b>	<b>638,668,800</b>
Share Capital	USD	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Retained Earnings to Common	USD	0	1,812,682	6,973,117	15,533,379	27,482,207	42,898,927	61,890,908
Preferred Stock	USD	0	0	0	0	0	0	0
<b>Total Equity</b>	<b>USD</b>	<b>#####</b>	<b>#####</b>	<b>#####</b>	<b>#####</b>	<b>#####</b>	<b>#####</b>	<b>#####</b>
<b>Total Liabilities and Equity</b>	<b>USD</b>	<b>110,000,000</b>	<b>171,812,682</b>	<b>272,973,117</b>	<b>411,133,379</b>	<b>561,322,207</b>	<b>673,506,927</b>	<b>750,559,708</b>

### 3 . Cash Flow Statement

Earnings Before Tax (EBT)	USD	1,812,682	5,160,435	8,560,262	11,948,828	15,416,720	18,991,981
Taxes	USD	0	0	0	0	0	0
Add back: Allowance Provision	USD	1,232,843	1,485,576	1,634,134	1,879,254	2,161,142	2,485,313
Add back: Depreciation	USD	45,975	120,194	222,497	353,763	515,109	707,917
Add back: Goodwill Impairment	USD	0	0	0	0	0	0
<b>Gross Operating Cash Flow</b>	<b>USD</b>	<b>3,091,500</b>	<b>6,766,205</b>	<b>10,416,893</b>	<b>14,181,844</b>	<b>18,092,971</b>	<b>22,185,211</b>
(Increase) / Decrease in Gross Loans	USD	(54,038,383)	(58,379,633)	(66,180,009)	(75,150,441)	(85,466,438)	(97,329,834)
ChargeOffs	USD	-1,232,843	-1,485,576	-1,634,134	-1,879,254	-2,161,142	-2,485,313
Recoveries	USD	271,225	326,827	359,509	413,436	475,451	546,769
(Increase) / Decrease in Funds to Central Bank	USD	-	-	-	-	-	-
(Increase) / Decrease in Trading Assets / Other Securities	USD	-	-	-	-	-	-
(Increase) / Decrease in Other Assets	USD	-	-	-	-	-	-
Increase / (Decrease) in Funds from SIC	USD	-	-	-	-	-	-
Increase / (Decrease) in Total Deposits	USD	60,000,000	96,000,000	129,600,000	138,240,000	96,768,000	58,060,800
Increase / (Decrease) in Trading Liabilities	USD	-	-	-	-	-	-
<b>Cash Flow from Operations</b>	<b>USD</b>	<b>8,091,500</b>	<b>43,227,822</b>	<b>72,562,259</b>	<b>75,805,585</b>	<b>27,708,843</b>	<b>(19,022,368)</b>
Capital Expenditures	USD	(919,500)	(1,484,379)	(2,046,066)	(2,625,314)	(3,226,924)	(3,856,150)
Available for Sale Securities	USD	-	-	-	-	-	-
<b>Cash Flow from Investment</b>	<b>USD</b>	<b>(919,500)</b>	<b>(1,484,379)</b>	<b>(2,046,066)</b>	<b>(2,625,314)</b>	<b>(3,226,924)</b>	<b>(3,856,150)</b>
Senior Debt Increase / (Decrease)	USD	-	-	-	-	-	-
Subordinated Notes Increase / (Decrease)	USD	-	-	-	-	-	-
Convertible Bonds Increase / (Decrease)	USD	-	-	-	-	-	-
Other Borrowings Increase / (Decrease)	USD	-	-	-	-	-	-
Share Capital Increase / (Decrease)	USD	-	-	-	-	-	-
Common Dividends	USD	-	-	-	-	-	-
Stock Issuances	USD	-	-	-	-	-	-
Stock Repurchases	USD	-	-	-	-	-	-
Preferred Stock Issuance	USD	-	-	-	-	-	-
Preferred Dividends	USD	-	-	-	-	-	-
<b>Cash flow from Financing</b>	<b>USD</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Opening Cash Balance</b>	<b>USD</b>	<b>4,000,000</b>	<b>11,172,000</b>	<b>52,915,443</b>	<b>123,431,637</b>	<b>196,611,908</b>	<b>221,093,827</b>
<b>Cash Inflow / (Outflow)</b>	<b>USD</b>	<b>7,172,000</b>	<b>41,743,443</b>	<b>70,516,194</b>	<b>73,180,271</b>	<b>24,481,918</b>	<b>(22,878,517)</b>
<b>Cash Balance</b>	<b>USD</b>	<b>4,000,000</b>	<b>11,172,000</b>	<b>52,915,443</b>	<b>123,431,637</b>	<b>221,093,827</b>	<b>198,215,309</b>



# Alliance for Local Economic Prosperity (AFLEP)

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**BOLD and create the Public Bank of New Mexico**

- ▶ For more information and to request the Bank Plan and financial details contact us at [info@aflep.org](mailto:info@aflep.org)
- ▶ Contact Angela Merkert, Executive Director, [angela.Merkert@gmail.com](mailto:angela.Merkert@gmail.com)
- ▶ Contact Robert Mang, Treasurer and Convenor of Banking Committee, [rmang@me.com](mailto:rmang@me.com)