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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/10/10

SPONSOR Egolf, Keller LAST UPDATED \_\_\_\_\_ HJM 23

SHORT TITLE Bank Accounts in Small, Local Banks SB \_\_\_\_\_

ANALYST White

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY10	FY11		
NFI	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB 66

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

State Investment Council (SIC)

Department of Finance and Administration (DFA)

Secretary of State's Office (SOS)

#### Responses Not Received From

State Treasurer's Office (STO)

### SUMMARY

#### Synopsis of House Joint Memorial

House Joint Memorial 23 resolves that the residents and state government of New Mexico be urged to move their money from large national banks to small community banks, and that copies of the joint memorial be transmitted to the State Treasurer, the Secretary of the Department of Finance and Administration (DFA), the Secretary of State, and the State Investment Council (SIC).

### FISCAL IMPLICATIONS

As the joint memorial simply urges the New Mexico state government and its residents to move their monies to small community banks and does not require or mandate such action, there is no direct general fund fiscal impact. However, such actions on the part of certain state agencies could result in general fund fiscal impacts due to issues noted in the significant issues section

below.

## **SIGNIFICANT ISSUES**

Moving large amounts of money from large national banks to small community banks would undoubtedly have a significant impact on the amount of liquidity available for loans to New Mexico businesses and individuals. General studies, most recently by the Arrowhead Center at New Mexico State University, have stated that public deposits in community banks can increase lending practices significantly. Such increased liquidity has the potential to stimulate the New Mexico Economy in a time of historic economic hardship. However, such a move with the state's money could have additional unintended consequences.

If the state were to move all of its monies into small community banks it would need to change its current fiscal agent bank. Both DFA and the State Treasurer's Office (STO) voiced concerns in their analyses of this joint memorial and House Bill 66 with regard to such a change. Currently, pursuant to 6-10-35 NMSA 1978, the BOF designates the state's fiscal agent bank pursuant to statutory criteria and procedures within the State Rules Act. Due to the size of the fiscal agent contract, its procurement is accomplished through a request for proposal (RFP) with BOF. The scoring of the RFP, due to the complex nature of the contract, uses a number of different criteria including technical capabilities, general banking qualifications, quality of service delivery, and price. Based on past RFP's it is unclear whether or not any New Mexico community banks would have the liquidity or infrastructure in place to handle the mass amount of general fund banking transactions which take place on a daily basis. As stated in statute the duties currently required of the state's fiscal agent bank include:

1. "the collection for the State of all checks and other items received by the State on any account;
2. the handling of the checking account of the State Treasurer;
3. the handling of all transfers of money in connection with the sale or retirement of bonds or obligations of the State;
4. the safekeeping of bonds or other securities belonging to or held by the State or any official thereof;
5. the rate of interest to be paid upon average daily balances of State Funds; and
6. acting as the agent of the State in fiscal matters generally, including cash management and financial consulting services, but exclusive to those matters for which the custody bank provides custodial service to the state, subject always to the supervision and approval of the agency."

In order to protect the state's deposits it is imperative that any financial institution bidding to be the State's fiscal agent have sufficient internal infrastructure to adequately provide at least the aforementioned services on a statewide scale. STO noted in its analysis of HB 66, "no community bank has submitted a fiscal agent proposal in several years...probably due in part to (the) complexity of services required and the operational capabilities necessary to provide these transactions."

Both STO and DFA analyses of this joint memorial and HB 66 also raise significant concerns with the actual cost and physical presence of banking institutions throughout New Mexico. DFA notes that "small community banks tend to have fewer branches and generally are not located in all cities. Therefore, there would be less accessibility to banking centers." The chart below

shows the seven largest banks currently in New Mexico in terms of physical banking presence and total deposits.

**Physical Banking Presences within New Mexico**

<u>Financial Institution</u>	<u>Number of Branches 2009</u>	<u>Deposits in Market (\$M)</u>
NM Banquest Corp (NM)	12	571.1
First Artesia (NM)	15	581.8
Beal Financial Corp. (TX)	8	847.6
Trinity Capital Corp. (NM)	6	1,339.3
First State Bancorp. (NM)	36	2,035.6
Bank of America (NC)	50	3,995.5
Wells Fargo (CA)	97	5,257.8

*Source: State Treasurer's Office*

**ALTERNATIVES**

Department of Finance and Administration (DFA):

“A recommendation can be made for residents of New Mexico to start investing in the local economy by establishing banking with local community banks and not making the same recommendation to state government.”

DMW/mew