A Public Bank would Strengthen Illinois' Community Lenders

By
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The recent critique of public banking in Crain's by eight Illinois leaders of Community Development Financial Institutions (CDFIs) rests on a misunderstanding: the model being attacked is not the model being proposed. A public bank (a bank owned by the people through their government) would not compete with CDFIs, community banks, or credit unions. It would expand their lending power, stabilize them during downturns, and multiply the impact of public dollars that currently sit in low-yield accounts at megabanks.

A public bank can begin lending far sooner than critics claim

The CEOs argue that a public bank would take "years of effort before a single loan could be made." But that is true only under the most restrictive interpretation of current law. The BND began operating within months of its 1919 legislation. For capital, it used a bond issue; and for liquidity, it used existing state deposits from tax revenue transferred from the large banks in Minneapolis and Chicago. The BND also lends money to the state and its agencies. A modern Illinois public bank could do the same.

The real delays or roadblocks come from statutory requirements — FDIC insurance and 100% collateralization of public deposits — that BND never faced and that make little sense for a bank with essentially one depositor: the state. The FDIC and collateral requirements are legislative choices, which can be changed for a public bank. By lending to the state or refinancing some of the state's bonds, a state-owned bank could begin making a profit immediately.

A public bank materially expands access to capital

The CEOs claim a public bank "would not materially improve access to capital or lower the cost of funds." In fact, a public bank expands capital in three ways:

- It leverages its capital tenfold, like any bank. A $1 billion capitalization supports roughly $10 billion in loans.
- It partners with CDFIs and community lenders, participating in and guaranteeing loans, allowing them to make larger, longer-term, lower-rate loans.
- It recycles profits into new capital. BND has averaged nearly 20% return on equity for 24 years, generating new lending power annually.

CDFIs cannot match this multiplier effect. They are constrained by the capital they can raise from philanthropy, federal programs, and the private market. A public bank doubles or triples the capital available to them by absorbing risk and expanding their balance-sheet capacity.

A public bank strengthens community banks and local governments

North Dakota has six times the national average of community banks per capita, largely due to the BND's partnership loans with community banks, credit unions, and CDFIs, strengthening rather than competing with local lenders. The BND acts as a "mini-Fed" for the state's banks, providing liquidity, loan participations, and support during downturns. The North Dakota Bankers Association endorses it for this reason.

BND also enables cities, counties, and school districts to refinance infrastructure at rates far below the bond market. The savings stay in the community instead of flowing to Wall Street underwriters and bondholders. Illinois governments currently park billions in low-yield accounts at megabanks. A public bank would put those funds to work locally.

Illinois' strong CDFIs would become stronger with a public bank

Illinois has excellent CDFIs — which is precisely why a public bank would be so powerful here. CDFIs excel at technical assistance and mission-driven lending but lack scale. They cannot expand dramatically without new capital sources. They cannot take on large projects without assembling complicated, multi-layered financing — a bottleneck BND was created to remove.

A BND-model public bank solves these problems by:

- Buying participations in CDFI loans
- Guaranteeing loans CDFIs would otherwise decline
- Stabilizing CDFIs during downturns, as BND did in 2008
- Helping small lenders comply with burdensome regulations

The 'only one success story' argument is misleading

The CEOs say there is "just one widely cited success story in more than 100 years: the Bank of North Dakota." But public banks around the world — including Germany's Sparkassen, Alberta's ATB Financial, and China's vast public banking network — have long records of stability and profitability. They are pillars of their financial systems.

The reason the U.S. has only one state-owned bank is political, not economic. The banking lobby has blocked new public banks for over a decade. Where public banks exist, they succeed.

Direct investment in CDFIs is not a substitute

The CEOs suggest Illinois simply invest more public funds directly into CDFIs. That is a good idea — but it is not an alternative to a public bank.

Direct investment is one-time capital. A public bank is permanent, revolving capital that grows every year. Direct investment does not multiply loans up to 10 times invested capital, recycle profits into new capital and lending, provide loan guarantees, stabilize lenders during downturns, refinance public infrastructure at lower cost, or assist regulatory compliance. A public bank does.

The path forward

Illinois does not need to choose between CDFIs and a public bank. The most effective model is a partnership one: a public bank that expands the reach, stability, and profitability of local lenders. The question is not whether Illinois should create a public bank. It is whether Illinois wants to keep sending its public dollars to Wall Street, or put them to work generating new credit in its own communities — multiplying capital, lowering costs, and strengthening the institutions already doing the work on the ground.

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