

Public Banks and Local Financial Institutions (LFIs)

California Public Banking Act

In 2019, the California State Legislature enacted the Public Banking Act (AB 857), which was then signed into law by Governor Gavin Newsom. This landmark legislation created a framework for local governments to apply to the state Department of Financial Protection and Innovation (DFPI) for licenses to operate publicly-owned banks. These public banks will reinvest taxpayers' money into local communities, driving economic development and addressing pressing local needs.

What are public banks? Unlike privately owned banks that prioritize shareholder returns, public banks leverage their lending power to better serve local needs. By focusing on critical local issues such as affordable housing, small business loans, and public infrastructure projects, public banks can make fiscally responsible investments that directly benefit the people and businesses within their jurisdictions.

Under the California Public Banking Act, California public banks must partner with local community banks, credit unions, and CDFIs to offer retail services. This collaboration strengthens the capacity of local financial institutions and expands credit availability in underserved areas, particularly communities of color.

How California's Public Banks and Local Financial Institutions (LFIs) Can Collaborate

Public banks and local financial institutions (LFIs) like community banks, credit unions, and community development financial institutions (CDFIs) can mutually benefit and positively impact our communities in addressing the housing and climate crisis and supporting small businesses.

Here are key ways they can work together:

Local Investment of Public Funds. Public banks keep local tax and fee revenues and other municipal funds within the community. They can increase local financial institutions' access to more, lower-cost capital by supporting loans, providing credit, purchasing mortgages, and cooperating in other ways such as participation lending that injects capital into local financial institutions.

Complementary, Not Competitive. The California Public Banking Act (AB 857) ensures public banks complement rather than compete with LFIs. Public banks may not offer retail banking services in areas served by LFIs, except through partnerships between public banks and LFIs. These partnerships can improve and expand retail services, such as offering financial products like Baby Bonds savings accounts or facilitating access to essential banking services like no-fee business checking for ITIN holders.

Adapting North Dakota's Public and Local Banking Success. California aims to replicate the Bank of North Dakota's successful partnership model. North Dakota has nearly six times more LFIs per capita than the rest of the country. These credit unions and community banks hold 83% of North Dakota's deposit market, compared with only 29% nationwide. Their success is supported by the 105-year-old, state-owned Bank of North Dakota (BND), which functions as a "banker's bank," meaning that most of its lending is done in partnerships with LFIs. About half of BND's \$3.9 billion loan portfolio consists of business and agricultural loans that are originated by an LFI and funded in part by BND. This model allows LFIs to compete effectively against larger banks by leveraging local expertise and public funds.¹

Funding Local Priorities. Public banks can partner with LFIs to expand lending for critical local priorities, such as small business lending, affordable housing projects, and post-disaster rebuilding. Public banks can increase the role of LFIs by providing new sources of funding enabling them to expand their operations into financial deserts to service unbanked and underbanked populations.

Credit Unions, CDFIs, and Public Banks: Shared Ethos and Purpose

Community-Oriented Focus. Credit unions and CDFIs share the public banking movement's commitment to prioritizing community needs and benefits over profit maximization. Like LFIs, public banks are intended to provide a community-focused alternative to Wall Street that is accountable and responsive to local priorities.

Active Involvement. Members and advocates of the California Public Banking Alliance, who are also directors and members of credit unions across California, from San Diego to Eureka, actively support the credit union movement. They support the tax-exempt status of credit unions.

¹ Institute for Local Self-Reliance. "Public Banks: Bank of North Dakota." Available at: <https://ilsr.org/rule/bank-of-north-dakota-2>.

Many New York-based CDFIs—including Genesee Co-op Federal Credit Union (\$29 million, Rochester), Lower East Side People’s Federal Credit Union (\$89.5 million, New York), Cooperative Federal Credit Union (\$35 million, Syracuse), and Neighborhood Trust Federal Credit Union (\$17.7 million, New York)—are advocating for public banking in New York through advocacy efforts and coalition building. These credit unions recognize the potential of public banking to address systemic inequalities and increase access to financial services for underserved populations. They actively engage in campaigns, lobby lawmakers, and participate in public forums to raise awareness about the benefits of public banking.

As Melissa Marquez, CEO of Genesee Credit Union, a New York CDFI, writes in *Credit Union Times*: “[Public Banks: An Important Idea Whose Time Is Overdue.](#)”