

DE NOVO BANK START-UP COSTS



Approximately **\$1 million** in regulatory start-up costs, such as accounting and legal fees



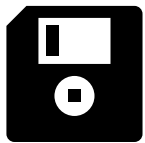
Minimum of **\$10 to \$30 million** in capital (depending on the size of the bank)



At least 15+ experienced employees with salaries of about **\$2 million** per year



Main office and branch location for **\$750,000 to \$1 million** per year (in San Francisco)



\$500,000 to \$1 million for data processing and IT systems



One-time renovations (vault, teller stations) and ongoing security costs



Agreements with third parties for products and services

BALANCE SHEETS FOR THREE MODEL BANKS

Bank of San Francisco

(consumer-focused community bank)

Assets	Liabilities
\$60 million cash & balances due from depository institutions \$226 million loans/leases (less loan loss) \$346,000 premises and fixed assets \$288,000 other intangible assets \$2.9 million other	\$265 million in deposits \$1 million other
\$290 million	\$266 million
	\$24 million

New Resource Bank

(business-focused community bank)

Assets	Liabilities
\$49 million cash & balances due from depository institutions \$26 million in securities \$259 million loans/leases (less loan loss) \$2 million premises \$12 million other	\$304 million in deposits \$3 million other
\$348 million	\$307 million
	\$41 million

Bank of North Dakota

(public banker's bank)

Assets	Liabilities
\$357 million cash & balances due from depository institutions \$58 million federal funds sold \$1.6 billion in securities \$4.6 billion loans/leases (less loan loss) \$149 million other	\$4.6 billion in deposits \$300 million federal funds & repo \$1.26 billion short and long-term borrowing \$10 million other
\$7.0 billion	\$6.2 billion
	\$824 million

INCOME STATEMENTS FOR THREE MODEL BANKS

	Bank of San Francisco	New Resource Bank	Bank of North Dakota
Background	Consumer, small business and non-profit focused community bank	Environmentally-focused community bank (serves mostly business clients)	Public banker's bank (mostly participation lending, limited consumer offerings)
Location	San Francisco, CA	San Francisco, CA	Bismarck, ND
Number of Employees	38	55	178
Year Established	2005	2006	1919
Initial capitalization	\$10 million	\$24.7 million	\$2 million
Expenses			
<i>Salaries</i>	<i>(\$4.6 million)</i>	<i>(\$7.3 million)</i>	<i>(\$16.6 million)</i>
<i>Premises</i>	<i>(\$768,000)</i>	<i>(\$1.2 million)</i>	<i>(\$1.5 million)</i>
<i>Data Processing</i>	<i>(\$433,000)</i>	<i>(\$972,000)</i>	<i>(\$5.2 million)</i>
<i>Other Operational Expenses</i>	<i>(\$1.3 million)</i>	<i>(\$2.7 million)</i>	<i>(\$7.3 million)</i>
<i>Interest Paid Out</i>	<i>(\$664,000)</i>	<i>(\$139,000)</i>	<i>(\$37.9 million)</i>
Total Expenses	(\$7.7 million)	(\$12.2 million)	(\$63.4 million)
Revenue			
<i>Interest Received</i>	<i>\$10.4 million</i>	<i>\$14.2 million</i>	<i>\$219 million</i>
<i>Non-Interest Income (Fees, Commissions, Trading/Derivatives)</i>	<i>\$797,000</i>	<i>\$1.4 million</i>	<i>\$6.0 million</i>
Total Income	\$11.2 million	\$15.6 million	\$226 million
Income Calculations			
<i>Net Interest Income</i>	<i>\$9.7 million</i>	<i>\$14.0 million</i>	<i>\$182 million</i>
<i>Net Non-Interest Income/Loss</i>	<i>(\$6.2 million)</i>	<i>(\$10.7 million)</i>	<i>(\$24.6 million)</i>
<i>Provision for Loan Loss</i>	<i>(\$590,000)</i>	<i>(\$565,000)</i>	<i>(\$12 million)</i>
Net Income Pre-Tax	\$2.9 million	\$2.7 million	\$145 million
Net Income Post-Tax	\$1.3 million	\$27,000	\$145 million
Net-Interest Margin	3.90%	4.29%	
Notes: All data for calendar year 2017. Due to rounding, numbers may not sum precisely. Source: 12/31/2017 Federal Financial Institutions Examination Council Report for Bank of San Francisco and New Resource Bank. 12/2017 Bank of North Dakota Call Report, available at: https://bnd.nd.gov/pdf/12-17callreport.pdf			

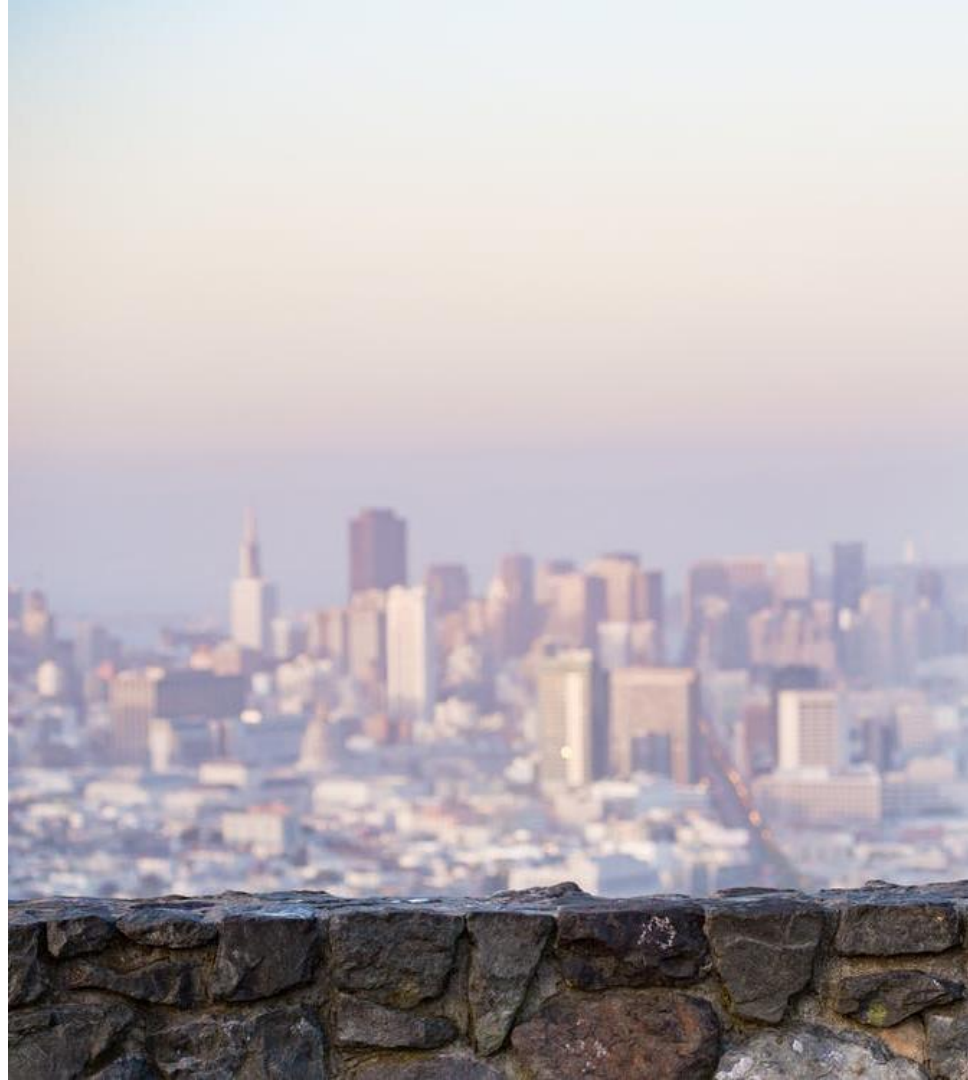
LOAN OUTPUT FOR THREE MODEL BANKS

	Bank of San Francisco	New Resource Bank	Bank of North Dakota
Background	Small business, non-profit and consumer focused community bank	Environmentally-focused community bank (serves mostly business clients)	Public banker's bank (mostly participation lending, limited consumer offerings)
Location	San Francisco, CA	San Francisco, CA	Bismarck, ND
Number of Employees	38	55	178
Year Established	2005	2006	1919
Initial capitalization	\$10 million	\$24.7 million	\$2 million
Total Lending	\$229 million	\$262 million	\$4.9 billion
Secured by Property (\$)			
Construction Loans	\$5.3 million	\$14 million	\$106.7 million
Secured by farmland	--	\$5 million	\$463 million
Secured by 1-4 units	\$79 million	\$3 million	\$795 million
Secured by multi-family property	\$13 million	\$43 million	\$283 million
Secured by nonfarm, nonresidential property	\$68 million	\$100 million	\$621 million
Agricultural, Commercial and Consumer Lending (\$)			
Agriculture	--	\$2.8 million	\$216 million
Commercial/Industrial	\$61 million	\$91 million	\$320 million
Consumer loans	\$813,000	\$66,000	\$1.4 billion (student)
Other Loans (\$)			
Obligations of political subdivisions	--	--	\$414 million
Loans to nondepository institutions	--	--	\$208 million
Other loans	\$19,000	\$4.6 million	\$62 million
Small business and small farm lending (#)			
Loans under \$100,000	6	10	281
Loans from \$100,000-\$250,000	24	39	294
Loans from \$250,000 to \$1 million	132	109	436
Notes: All data for calendar year 2017. Data rounded for ease of reporting. Source: 12/31/2017 Federal Financial Institutions Examination Council Report for Bank of San Francisco and New Resource Bank. 12/2017 Bank of North Dakota Call Report, available at: https://bnd.nd.gov/pdf/12-17callreport.pdf			



BANKING OPERATION & COSTS

Municipal Bank Feasibility Task Force
Meeting 3
April 19, 2018 from 3:00-5:00pm





What are the questions we're trying to answer in Meeting 3?

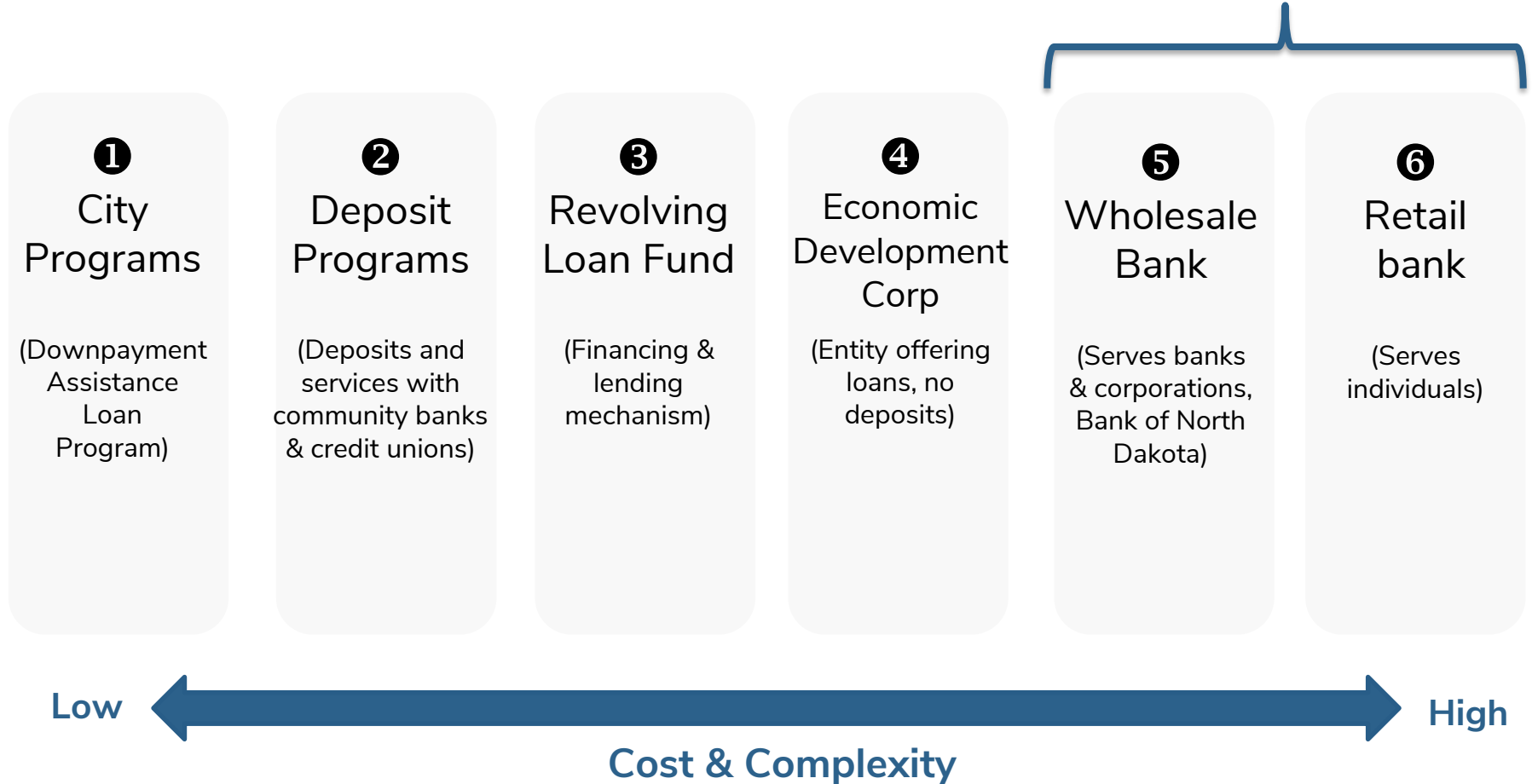
- What are the various bank models available and costs associated with them?
- What bank model can most help us achieve our goals?
- How can we as a Task Force evaluate options?



Follow-Up from Last Meeting

- Q&A: branch banking (ND late adopter, but it's legal); acquire a bank (same amount of time as founding one)
- Bringing on a consultant to do quantitative modeling
- Staff and TF members spoke with Karl Beitel and attorneys from Arent Fox about their EDFI model
- Staff participated in CA public banking call, met with members of the Public Bank SF Coalition
- Organized multi-jurisdictional call including staff from Los Angeles, Santa Fe, Oakland, California, Seattle, Boulder

Spectrum of Opportunities



A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, creating a sense of height and architectural scale. The buildings are arranged in a circular pattern around a central white space.

BANK DETAILS



Discussion time:

- Do those estimates for start-up costs seem reasonable? How would you revise them?
- Is there anything major missing?
- Are there additional costs or savings for a municipal bank?
- What is the approximate range for start-up costs?

Community Goal Priorities

	Ranked Choice Score (1st=5 pts, 2nd=4 pts)	Ranked Choice Distribution (1 to 5, Left to Right)	Priority by Ranked Choice	Cumulative Voting Score	Priority by Cumulative Voting
Affordable Housing	41		1	31	1
Small Business Lending	33		2	22	2
Infrastructure	31		3	20	3
Un- and Underbanked	30		4	16	4
Cannabis	15		5	10	5

Three Bank Models

Retail Bank with
Consumer Focus

Retail Bank with
Business Focus

Wholesale Bank

Anything else?

What Legislative Changes Would We Need?

Bank Charter	Insurance Requirements	Collateral Requirements
Limits on Government Deposits	Limits on Investments	Anything else?

Big Questions around Bank Operation

Capitalization

How much? From where? Appropriation, bond, other

Deposits

How much? From where? Gov't, businesses, individuals

Revenue

How much? Where from? Typically 80% interest & 20% fees

What Do We Want the Bank to Provide?

Products & Services

Specifically, what should the bank do?

Accounts?

- Government
- Business/non-profit
- Consumer
- Treasury Management
- Interest rates

Loans?

- Originate / partner
- Small business
- Consumer
- Infrastructure and housing
- Interest rates

Research on costs & benefits



EVALUATING OUTCOMES



As a Task Force:

- How many bank models do we want to evaluate?
- Between these models, should we recommend just one? Multiple? A phased approach?
- Should we use a consensus method? Ranked choice voting? Agreed-upon criteria (e.g. impact, feasibility, cost)?

**Thank you very much for
your time and attention**

Molly Cohen
Senior Policy Analyst

