

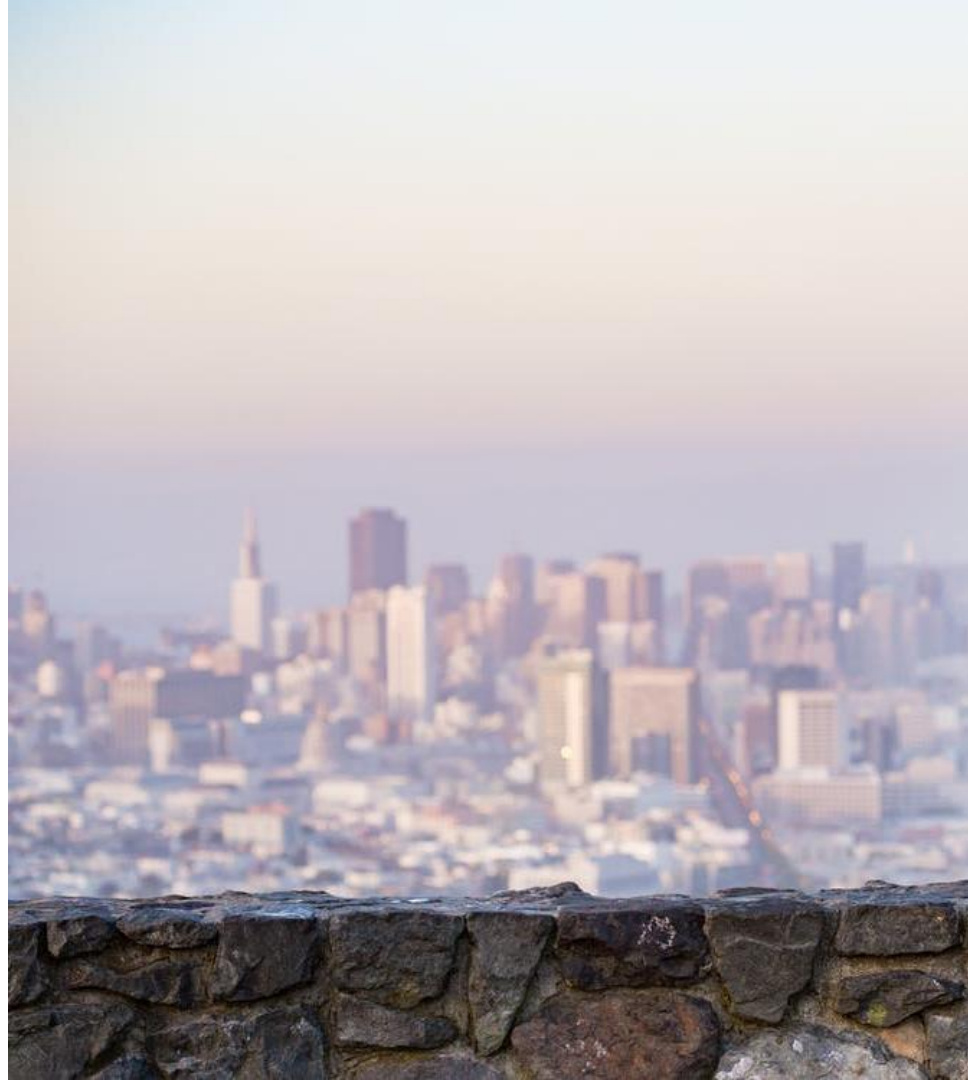


**MUNICIPAL BANK FEASIBILITY TASK  
FORCE  
MATERIALS FOR MEETING #5  
JUNE 28, 2018, 3:00-5:00PM  
CITY HALL, ROOM 305**



# MUNICIPAL BANK FEASIBILITY TASK FORCE MEETING #5

June 28, 2018 from 3:00-5:00pm



# What questions are we answering?

- What will the report look like? What is the process and timeline to complete the report?
- What are potential municipal bank products and services?
- What are some guiding operational principles for the bank?
- How could bank governance be structured?



# WORK PLAN



# Outline for Final Report

- Background & Introduction
- Banking & Municipal Banking Basics
- Benefits and Challenges Related to Municipal Banking
- Costs and Benefits Associated with Municipal Bank Models
- Next Steps



# Timeline for Report

**July:** Complete financial modeling & present results to Task Force

**August/September:** Draft report and appendices

**October:** Circulate report to Task Force and subject matter experts for review

**October/November:** Revise and finalize report

**November/December:** Publish report and present it to Board of Supervisors



# Report Goal

The goal of the report is to provide the Board of Supervisors and the public with a clear and concise analysis of the costs and benefits of a public bank. The report will provide several different models with specific costs by service level and formation type, as well as the procedural steps the Board and the public would need to proceed.





# LINES OF BUSINESS



# Lines of Business

## Goals

### Affordable Housing

1. ADU financing
2. Small sites acquisition
3. Mezzanine financing

### Small Business Lending

1. General contractors
2. New businesses
3. Letters of credit

### Infrastructure

1. 15-30 year loans for investment
2. Purchase SF muni bonds

### Un- and Underbanked

1. Payday alternatives (employer-based?)
2. Refi high-cost debt

### Cannabis

1. Deposits
2. Payments
3. Lending

# ADUs: More Details

Description of service	Who are clients?	How many served?	Size of loan?	Term and Rates?
Accessory dwelling units (ADUs) are units added to existing residential properties. Individuals who want to build ADUs face a financing gap, because they need financing for construction without the income stream from the rental, and a public bank could fill this gap.	SF residents who own homes but lack the equity to get a home equity line of credit – this could include low-income and new homeowners.	The Planning Department projects 11,000 ADUs in SF added over 25 years (though large developers with access to credit may build some of these).	\$200k-\$250k	Rates are TBD for a term of 20 years. Let's discuss. Loans would be repaid by rental income from ADU. Would need float period (with limited repayment) during construction.



# Mezzanine Financing: More Details

Description of service	Who are clients?	How many served?	Size of loan?	Term and Rates?
<p>City real estate developers have a difficult time breaking even on middle-income, family/workforce housing – due to inability to access more mezzanine financing from traditional lenders. They turn to higher cost equity financing. A public bank could provide mezzanine financing (for 2-3 years) for developers to reduce equity financing and expand developments for these projects.</p>	<p>Financing would be used by real estate developers for workforce/family housing with restricted rent. Ultimate “clients” would be middle-income families able to buy or rent these units.</p>	<p>\$200K financing per unit. A \$3-5 million loan could lead to 15-25 new units of workforce housing</p>	<p>Starts at \$3-5 million per project (for 15-25 units).</p>	<p>Rates are 3-7% for a term of 2-3 years. Could explore having public bank act as a guarantor for the developers to access more mezzanine financing from existing lenders. Or preferred equity structure for the public bank to get a share of project upside.</p>



# Small Sites Acquisition: More Details

Description of service	Who are clients?	How many served?	Size of loan?	Terms and Rates?
Small sites acquisition program helps non-profits acquire rent-controlled properties at risk of conversion. The non-profits use traditional financing and City subsidies (\$250-350k/unit). A public bank could offer the traditional financing.	Non-profits purchasing 5-25 unit buildings at risk of conversion where low-income tenants live.	MOHCD goal is to preserve 30 units per year at \$300k per unit (plus City subsidy)	Total loan volume for 30 units is \$9 million, individual loans vary based on building size and cost, approximately \$1.5 and \$7.5 million	Currently rates are 5.5-6%. Would like lower rates (3-4%) for 10 (or ideally 15) years.



# Small Business Lending: More Details

Description of service	Who are clients?	How many served?	Size of loan?	Terms and Rates?
Many small businesses have difficulty accessing capital from traditional financing sources. Though there are CDFIs and City lending programs aimed at small businesses, gaps remain, which a public bank could fill.	Subject matter experts have identified general contractors, new businesses, LBE businesses with City contracts as underserved.	There are 33,875 businesses with 2-10 employees in SF. It is not clear how many would qualify. CMD estimates 400 LBE contractors.	\$5,000 to \$250,000	Online SMB platforms tend to have rates between 6-99%. Rates TBD. Let's discuss.



# Payday Alternative: More Details

Description of service	Who are clients?	How many served?	Size of loan?	Terms and Rates?
<p>Payday loans are small unsecured consumer loans (typically \$500 or less) provided to low-income households with income but bad credit. Payday loans can cost \$15-25 in fees per \$100 for two-weeks effectively a 391-650% APR. A public bank could offer an alternative to traditional payday loans.</p>	<p>Per DBO, 10.7 million payday loans were issued in CA in 2017 (~230,000 in SF). Clients tend to be asset-limited, income-constrained, employed individuals. A public bank could begin with an employer-based pilot program for City employees.</p>	<p>The City of SF has 19,000 employees with salaries \$10-\$80k (limit based on living wage calculator). Employer-based loan programs have uptakes rates of 15-20%, suggesting 2850-3500 participants</p>	<p>TBD</p>	<p>CDFI Oportun provides loans with an average rate in the low 30's and maximum is low 50's. Rates TBD. Let's discuss.</p>





# OPERATIONAL GUIDANCE

# Standards and Practices

What are acceptable standards and practices for:

APR  
Percentages

Fees

Foreclosure  
Methods

Collection

Rate of Return  
& Profitability

Compensation  
for Executives  
and Staff







**GOVERNANCE**

# Governance Basics

**What is corporate governance?** Rules, practices and processes that govern a corporation

**Typical structure?** Board of Directors represents shareholders and appoints CEO (and other officers)

**Open questions:** Size and composition of board? Who appoints them? Role in decision-making?



# Governance Details

## Crucial that bank board be independent

- BLA report: “In order to ensure operational autonomy an independent board of directors” must be appointed (potentially by Mayor/BOS)
- FDIC (Statement of Policy): It will carefully evaluate insurance for public banks due to “ultimate control by political process” and “unique supervisory concerns”
- Verdict: Board must have banking knowledge and be insulated from political process



# Comparison of Governance Models

Public Bank	Status	# of Board Members	How Appointed?	Who Serves on Board?
Bank of North Dakota	Existing	3 & 7	By position and by governor	Elected officials & experts appointed by politicians
Public Bank of Oakland	Proposed by Friends' report	15	Application process	Community members, experts, elected officials
Bank of New Jersey	Proposed by legislation	13	By governor with advice and consent of senate	Experts appointed by politicians
Alberta Treasury Branches	Existing	12	Application process and by Lt. Governor	Experts appointed by politicians



# Governance Questions

**How many directors?** Models have between 3 and 15

**Who should be directors?** Elected officials? What knowledge is required?

**How should directors be appointed?** By Mayor? Board of Supervisors? Via a vetted list? By application?

**Community involvement:** How can a governance model promote community involvement?



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

**Molly Cohen**  
Senior Policy Analyst

