More Banks to Fail? Not in North Dakota

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U.S. banks are again in the crosshairs. Standard and Poor's has downgraded five new middle-tier banks and put three others on negative outlook. This follows sweeping downgrades earlier in August by Moody's, which cut credit ratings on 10 banks and placed four of the 15 largest U.S. banks on review for possible downgrade. As with the banks going into receivership earlier this year, concerns include interest rate risk due to unrealized losses from long-term securities.

Meanwhile, the U.S. government itself has been downgraded by Fitch Ratings, which questions the government's ability to finance its nearly $33 trillion federal debt. Just the interest on the debt is approaching $1 trillion annually — one third of the government's federal income tax receipts — while the military budget is closing in on another $1 trillion, devouring over half the discretionary federal budget. That leaves virtually none to cover the nearly $6 trillion that, according to the American Society of Civil Engineers, is needed to repair America's broken infrastructure, among other neglected service needs.

While economists disagree on the overall economic outlook, conditions seem to be deteriorating across the board. Congress cannot agree on a budget, with threats of another government shutdown October 1 when the new fiscal year begins. The moratorium on student debt also ends on October 1, with 45% of borrowers saying they expect to go delinquent on their student loan debts. Credit card debt is at the highest level ever recorded, surpassing $1 trillion; with the average rate of interest at a new all-time record of 20.63 percent, and delinquencies surging dramatically. One trillion dollars in corporate debt is rolling over at much higher interest rates this year; layoffs and empty offices are decimating the commercial real estate market; and elevated interest rates are jeopardizing the home mortgage market, among other debt crises.

Where North Dakota Shines

One state, however, has escaped all this unscathed. North Dakota has the fastest growing GDP per capita in the country; and North Dakota banks are thriving, backstopped by the nation's only state-owned bank. ("Who knew?" said Kevin O'Leary in a recent Fox News

news clip.) According to the latest annual report of the Bank of North Dakota, "The Bank set a record net income of $191.2 million in 2022, up $47 million from 2021. Our asset size set a record as well — $10.2 billion. The return on investment was a healthy 19%. Standard & Poor's (S&P) affirmed BND's credit rating as A+/Stable."

The BND has been called the nation's safest bank. Its stock cannot be short-sold, since it is not publicly traded; the bank cannot go bankrupt, because by law all of the state's revenues are deposited in it; and it will not suffer a run, since the state, being the principal bank depositor, would not "run" on itself. Compare JP Morgan Chase, the nation's largest bank, considered among the country's safest because it is "too big to fail." JPM has over $1 trillion in uninsured deposits, the type most likely to "run" or be pulled in a crisis, and it has total deposits of $2.38 trillion. The FDIC insurance fund now has a balance of only $116.1 billion – only 5% of JPM's deposits. JPM also has major counterparty risk in the derivatives market, a multi-trillion-dollar global bubble called by the Bank for International Settlements a "ticking time bomb." JPM has $61 trillion in total derivatives, or $628 billion in netted derivatives, five times those of Credit Suisse which went insolvent last spring. Credit Suisse had to be bought by the giant Swiss bank UBS to avoid a derivatives implosion among "globally systemically important banks," of which Credit Suisse was one.

Not just the BND but North Dakota's local banks are very safe. The BND acts as a "mini-Fed" for them, helping with liquidity, capitalization, and regulation. It provides correspondent banking services, an active Fed Funds program, check clearing, cash management services, loan guarantees, and other banker's bank services. No local banks have been in trouble this year (or in fact during this century), but if they were to suffer a bank run, the BND would be there to help. According to its former CEO Eric Hardmeyer, the BND has a pre-approved Fed Funds line set up with every bank in the state; and if that is insufficient for liquidity, the BND can simply buy loans from the troubled local bank as needed.

Replicating the Model

Advocates in other states are working to replicate the BND model or variations of it, with some very promising business plans forthcoming. One analysis recently published by the Center for New York City Public Affairs at the New School measures the projected economic impact of a local New York City public bank, based on a business model put forth by local advocates. The analysis focuses on job creation, affordable housing development and preservation, and community development lending during the bank's five-year start-up phase, the time projected to achieve a full lending portfolio. The authors concluded:

> In just its five-year start-up phase, a New York City public bank has the potential to create thousands of jobs, while constructing and renovating nearly 20,000 units of affordable housing, directing over a billion dollars to climate infrastructure investments, and expanding the capacity of the city's CDFI community banks and credit unions to meet the needs of low- and middle-income New Yorkers. …
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> By partnering with CDFI banks and credit unions and other responsible lenders, the public bank could enable these institutions to increase their lending by over $5.8 billion. Besides financing affordable housing and community development and climate infrastructure, the public bank's loans would allow CDFIs to increase their capacity with respect to mortgage and consumer lending. … Loans for mortgages and small businesses will build wealth and ensure that a larger share of the City's money keeps

circulating in New York's working-class communities. Public bank lending of $4.55 billion is estimated to create approximately 70,600 jobs in its start-up phase.

Other states pursuing legislation in 2023 involving the establishment of public banks include California, Oregon, Washington State, New Mexico, Massachusetts, Pennsylvania and New Hampshire. At the federal level, a much needed solution to the infrastructure crisis is a national infrastructure bank, proposed in HR 4052. We have faced these crises before and have come out the stronger for them. Alexander Hamilton dealt with what appeared to be an insurmountable sovereign debt crisis by establishing the First Bank of the United States as an infrastructure and development bank in 1791. That model was followed by Roosevelt's government in pulling the country out of the 1930s Great Depression, and it can help put our economy on a more solid footing today.

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