

Andrew Yang's Proposal to Launch The People's Bank

Introduction

Andrew Yang is committed to addressing poverty in New York City. As Mayor, Yang will use a range of strategies to lift up low-income New Yorkers and combat the ravages of the COVID-19 pandemic, including pushing for basic income to support those in the greatest need, and bringing back New York's world-class nightlife industry. This proposal outlines another step that Andrew will take: establishing The People's Bank of New York.

The People's Bank will be the nation's first city-backed financial institution. Its mission will be to give New Yorkers the tools they need to save money, build credit and establish financial stability. In the process, the Bank will build economic resilience so every working New Yorker will not only have access to banking services but also have money to spend on food and care even during economic, social and health crises like COVID-19.

The People's Bank will also level the playing field for small businesses so that entrepreneurs can build back the flourishing neighborhoods shops and restaurants that give our city life. The Bank will support the creation and expansion of 100,000 small businesses by 2026.

As Mayor, Andrew Yang will be able to launch the People's Bank using existing New York City authorities and the New York City budget.

Bank Structure

The People's Bank will be a new nonprofit corporation funded with an initial loan of \$100 million from the City of New York. The People's Bank has two objectives, which it will pursue via five basic programs.

Objective 1: Ensure every New Yorker can access basic financial products and services, like checking accounts, and has the opportunity to save money affordably, build credit, and secure small business loans

The People's Bank will:

- ◆ Provide growth capital to CDFIs which they can use to offer a larger range of services in more neighborhoods at better costs
- ◆ Launch an Innovation Lab to arm CDFIs with best-in-class financial technology and bring the benefits of fintech products, like mobile-first banking, to more consumers.
- ◆ Create a new People's Bank certification for financial institutions in New York City that offer basic banking services with appropriate guardrails and commit to accepting NYC ID for purposes of opening accounts.

Objective 2: Support small business lending in underserved communities by guaranteeing loans and loan portfolios

The People's Bank will:

- ◆ Provide loan guarantees for traditional small business loans originated by CDFIs
- ◆ Partner with CDFIs and mission-oriented technology companies to extend micro-loans under \$50,000 to entrepreneurs that would otherwise be unable to access financing.

Although nonprofit, the People's Bank will operate as a financially sustainable social enterprise, making loans at interest rates that allow the bank to cover operating costs and continue to originate new loans over time.

The design of the People's Bank is based on existing best practices from analogous institutions, like The Bank of North Dakota, the only state-run bank in the United States, and on cutting edge research on how public financing programs can accelerate small business lending.¹

The People's Bank will work in tandem with Yang's proposal for Basic Income, which will encourage more New Yorkers to open bank accounts.

The remainder of this white paper describes the Bank's activities in greater detail.

Objective 1

Give more New Yorkers the basic financial tools they need to save money

New York City has far too many unbanked households. Currently, there are approximately 350,000 unbanked households in New York City, or roughly 12% of all City households. Those without bank accounts, mostly in low-income communities of color, have greater difficulty saving money and often pay exorbitant fees on alternative financial services (AFS) like check-cashing, prepaid cards, and high-interest loans. For just one of those services, check-cashing, New Yorkers are estimated to pay, on average, over \$600 per year.²

Being unbanked carries other, less obvious costs. Customers using AFS products rarely build credit, which is essential for accessing fair loans, credit cards, and rental leases. For many low-income immigrants and marginalized communities, even if they build market credit, they can't afford to be in further debt with interest-bearing loans and high interest credit cards. In this time of economic crisis, New Yorkers need money in their pockets that they can spend toward food, care, and housing.

Being unbanked also disincentivizes saving since AFS costs rise quickly when consumers try to save larger sums of money. And during a pandemic,

¹ See *Big Ideas for Small Business*, pgs. 82-114. See also, [Philadelphia Public Bank Feasibility Study](#).

² <https://www1.nyc.gov/office-of-the-mayor/news/021-20/de-blasio-administration-celebrates-five-year-anniversary-idnyc-announcement-braille>.

being unbanked can be physically dangerous, since you can't cash a check remotely.

The three biggest factors discouraging New Yorkers from getting bank accounts are **access, trust and costs**. The People's Bank will address these issues by lending to CDFIs to expand operations and working to leverage new technologies for the benefit of lower-income consumers. The Yang Administration's UBI program will also be an important tool for helping families shift into the mainstream banking system.

The People's Bank Will Support Community Development Financial Institutions in Underserved Neighborhoods

Many low-income, majority-minority neighborhoods have few local commercial bank branches. As of 2019, on average, City neighborhoods with over 75% Black and Latinx residents had one bank branch per 23,000 people; neighborhoods with under 25% Black and Hispanic residents had one branch per 3,200 people.³ Such "bank deserts" are a big driver of high unbanked rates.

Evidence from other states suggest that the most successful banking-access programs revolve around local financial providers working in partnership with public entities. The People's Bank will therefore provide loans to the nearly 50 existing Community Development Financial Institutions (CDFIs) in the City. These credit unions, community banks, minority depository institutions (MDIs) and loan funds already know the needs of the neighborhoods in which they operate and have built strong relationships of trust over many years.

We will model our efforts on The Bank of North Dakota, the only state-run bank in the United States, which has used this method to foster the densest community-banking network in the country.

The Bank of North Dakota

The Bank of North Dakota is the only state-run bank in the United States. The Bank of North Dakota holds state agency deposits (by-and-large public, no private money) and supports private lenders' operations by buying portions of community banks' loans to businesses and issuing small business loan guarantees. Perhaps in part due to BND support, North Dakota has the most community banks per capita of all U.S. states (six

³ <https://meeks.house.gov/media/press-releases/meeks-analysis-shows-modern-day-redlining-queens>.

times more than the national average) with small and mid-sized banks and credit unions making up 83% of the North Dakota market (versus 29% nationally).⁴ Community banks' deep connection to the local community may help explain why North Dakota small businesses secured the most money per employee in PPP loans this spring.⁵ Additionally, the Bank of North Dakota makes money! In the last twenty years BND has generated almost one billion dollars in extra revenue for the state, with 400 million of that going into extra funding for education and public services.

The People's Bank will Spur Innovation in Fintech to Benefit Lower Income Consumers

Over the past few decades, the U.S. banking sector has been heavily consolidated, depriving communities of local banks that can support small businesses. One major driver of consolidation is the cost of deploying technology. Put differently, there are major economies of scale for larger banks that can build enterprise-wide technology systems.

The People's Bank will establish an Innovation Lab to partner with both CDFIs and technology companies to arm CDFIs with best-in-class technology to help them reach more New Yorkers and to bring the benefits of fintech products to more consumers. For example, the Innovation Lab might partner with technology companies to build a consumer-facing banking app that can be licensed for use by existing CDFIs.

The Innovation Lab will be able to raise additional philanthropic funding to support its activities.

The People's Bank will establish a new Certification Program for NYC Banks

The People's Bank will also create a certification program for banks operating in New York City that offer simple, safe bank accounts and pledge to accept NYC ID as identification for purposes of opening a bank account. The People's Bank "stamp of approval" will in essence leverage existing bank branches to help individuals feel safe and confident in opening a bank account for the first time.

Basic Income Payments Will Encourage New Yorkers to Open Bank Accounts

⁴ <https://ilsr.org/rule/bank-of-north-dakota-2/>

⁵ https://isps.yale.edu/sites/default/files/publication/2020/05/analysis_of_federal_ppp_program_workingpaper_isps20-08_0.pdf at 18

The People's Bank is part of Andrew Yang's broader fight against poverty, and connects with other keystone initiatives, most notably Yang's pledge to provide universal basic income (UBI) to 500,000 New Yorkers with the greatest need.

For many recipients of UBI, opening a bank account at a Community-Based Financial Institution, even a newly opened one in their neighborhood is far from a priority they are struggling with far more basic, daily challenges. In addition, many low-income and undocumented New Yorkers are hesitant to interact with City officials. However, by necessity, UBI creates a touchpoint between the City of New York and recipients.

A Yang Administration will make the most of this touchpoint. Along with notice of their eligibility for UBI, the City will mail recipients pre-filled forms that can be brought to a local bank or credit union in order to open an account. Opening a bank account through this mechanism will be one of the fastest and most secure ways to access payments.

Objective 2

Level the Playing Field for Small Businesses

Small businesses in vulnerable neighborhoods of New York, and especially Black- and Latinx-owned business owners, are not getting the support they deserve. While 22% of New Yorkers are Black, only 2% of small businesses in the City are Black-owned. Latinx Americans are similarly underrepresented. The Yang Administration is committed to addressing this deep disparity.

The number one problem that minority small business owners face is lack of access to capital. In a recent survey, two-thirds of minorities seeking funding for their small business stated they had been denied. These denials are most often due to lack of assets (37% of denials), but low credit scores are also a frequent impediment to Black and Latinx entrepreneurs starting a business. Almost 50% of small business owners support their venture with personal funds, and when applying for a loan, banks often look into personal credit histories. Since minorities are more likely than white Americans to start life in a low-income household, they are also more likely to have struggled with consumer debt at some point in their lives, which leads to lower personal credit scores.

Difficulty in accessing capital has severe knock-on consequences, especially during the ongoing pandemic. A City report shows that

Black-owned businesses, on average, started with \$25,000 versus \$106,702 for white businesses; starting on a shoestring budget means these businesses are more vulnerable to market shocks like COVID-19, and are more likely to permanently close.⁶ Although there are additional factors (such as Black- and Latinx-owned business being more concentrated in hard-hit consumer-services sectors), from February to April 41% and 32% of Black- and Latinx owned businesses closed completely (twice the rate of better-capitalized white-owned businesses) and more than half of those businesses remain shuttered today.

The People's bank will guarantee a portion of loans above \$50K

Even with extra capital to deploy within communities, current underwriting standards may prevent banks from making loans to small business owners that have little credit history, or few assets as collateral. A Yang administration will allow entrepreneurs to break out of the Catch-22 they currently face -- few assets and little credit history mean no capital, no capital means no chance to accumulate assets and build credit -- by guaranteeing a portion of loans above \$50,000 at the loan level. With these guarantees, lenders will be able to reduce the risk they take on in making larger small-business loans. A partial People's bank backstop will broaden the pool of New Yorkers who can get loan approval, while guaranteeing lenders an adequate risk-return profile.

Making loans to businesses that are unlikely to succeed creates more problems than it solves. The People's Bank will make loans, not grants and will evaluate potential CDFI borrowers in terms of their financial track record. Working with its partner, the People's Bank will ensure that businesses most likely to be sustainable are funded, and will help entrepreneurs build credit. Business-owners who successfully repay their initial loans from city-backed CFBIs will then be in a stronger position to tap traditional credit markets, giving these borrowers increased term-flexibility, and allowing CFBI funding to be redeployed to subsequent waves of borrowers.

The People's bank will establish a first loss guarantee loan program that operates at the portfolio level for "micro loans" below \$50,000

The People's Bank will partner with CDFIs and mission-oriented financial technology companies to extend small loans and other flexible financing tools, like lines of credit, to underserved entrepreneurs. Specifically, the People's Bank will provide loan guarantees at the portfolio level for

⁶ André Dua, Deepa Mahajan, Ingrid Millán & Shelley Stewart, COVID-19's Effect on Minority-Owned Small Businesses in the United States, McKinsey & Co. 3 (May 27, 2020), <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/covid-19s-effect-on-minority-owned-small-businesses-in-the-united-states>.

partners that meet standards for fair lending practices. By guaranteeing loans at the portfolio level, the People's Bank will encourage its financial partners to extend very small loans - as little as \$5,000 or \$10,000 at a time - to entrepreneurs. Absent this guarantee, lenders cannot sustainably originate such small loans, which incur relatively high transaction costs.

Governance

The Board of the People's Bank will be appointed by the Mayor in consultation with the City Council and Borough City Presidents, similar to the board of the Economic Development Corporation (EDC). While the EDC focuses on 'macro' economic conditions in New York City, the People's Bank will focus on helping low-income New Yorkers.

Conclusion

The People's Bank will accelerate the growth and activities of existing Community Development Financial Institutions, leverage City capital to extend small and micro business loans, and bring the benefits of best-in-class financial technology to low-income New Yorkers. The People's Bank will spur hundreds of millions of dollars of economic activity, supporting a strong recovery for New York City.

The People's Bank can be launched by New York City without new state legislation. By launching the People's Bank early in his Mayoral Administration, Andrew Yang will build the case for a true public chartered bank that can ultimately offer a broader range of direct financial services both to the City of New York and to its people.