



Partnering with and Strengthening Community Banks

The mission of the Massachusetts Public Bank is to partner with and strengthen existing Massachusetts financial institutions rather than compete with them. The [legislation](#) mandates that the bank “shall seek to complement and support the operation of” Massachusetts banks and other existing institutions, requiring it to “partner rather than compete with those entities to strengthen them and to expand affordable financing in the commonwealth.”¹

This model is based on the 100-year-old Bank of North Dakota’s (BND) approach to public banking. Its founding principles similarly include a commitment to support and assist other financial institutions, and Eric Hardmeyer, the President and CEO of the bank, [has emphasized](#) that this aspect of the bank’s operations is key to its success.²

The primary ways this partnership manifests are through participation loans that expand the capacity of existing banks and a limited scope of mission that aims to supplement rather than supplant existing financing opportunities while being responsive to the banking sector’s needs. The result has been a robust and diverse banking sector in North Dakota.

Participation loans

A key way the BND lends is through [participation loans originated by local financial institutions](#).³ This type of arrangement allows local financial institutions to expand their lending capacity while still applying their expertise and community ties in making financing decisions when initiating the loans. These loans are particularly key in economic downturns when banks typically need to contract lending — the availability of participation loans allows the BND to expand credit to help banks weather the downturn and counteract the cyclical contraction. The Massachusetts Public Bank will also have the capacity to engage in participation loans with state financial institutions.

¹ <https://malegislature.gov/Bills/192/SD1712>

² <https://www.nytimes.com/roomfordebate/2013/10/01/should-states-operate-public-banks/why-public-banking-works-in-north-dakota>

³ <https://thebndstory.nd.gov/an-agile-partner/partnering-with-local-financial-institutions/>

Supplementing existing financing and responding to needs

The BND has functioned to address unmet needs in financing in the state, responding to the needs of residents and financial institutions alike. The bank does not offer typical individual banking services, like individual deposit accounts, ATM access, or debit cards. Instead, the bank provides targeted financing programs aimed at specific goals. For example, the bank has taken on a limited role in the mortgage market in the past decade [at the request of rural North Dakota banks](#) that were having difficulty meeting certain regulatory burdens.⁴ And the BND has played a key role in responding to the economic downturn resulting from COVID-19 pandemic. In 2020, the BND worked with local financial institutions to coordinate administration of the federal Paycheck Protection Program designed to help small businesses. The result was that small businesses in the state secured more funding per private-sector worker in the first round of funding than any other state, [according to a Washington Post analysis](#).⁵ The BND also implemented its own COVID-19 relief programs to provide additional support to small businesses.

As with the BND, the Massachusetts Public Bank will focus on addressing unmet needs in financing and supporting existing financial institutions rather than acting as a typical commercial bank.

North Dakota's strong banking sector

In part due to the role of the BND, North Dakota has developed and maintained a robust and diverse set of financial institutions throughout the state. North Dakota has 9.4 financial institutions per 100,000 people — more than any other state. Across the United States, there are only 1.4 financial institutions per 100,000 people, and Massachusetts has 0.26 per 100,000 people. This is in part due to different economic and geographic landscapes, but it is also likely due to the BND's ability to help banks better weather economic downturns. In the decade after the 2008 financial crisis, the number of financial institutions in North Dakota declined by 22 percent, compared to 34 percent nationwide and 36 percent in Massachusetts.⁶

The Massachusetts Public Bank will similarly have the potential to speed economic recovery from the COVID-19 pandemic and assist local financial institutions in weathering future economic downturns.

Working together, the Massachusetts Public Bank and local financial institutions can strengthen our local communities, help preserve local businesses, foster new businesses, and create jobs across the state.

For more information about the Massachusetts Public Bank, visit masspublicbanking.org

⁴ <https://thebndstory.nd.gov/an-agile-partner/home-ownership/>

⁵ <https://www.washingtonpost.com/business/2020/05/15/north-dakota-small-business-ppp-coronavirus/>

⁶ The numbers in this paragraph are determined by analyzing FDIC data and U.S. Census data.