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The Public Bank LA plan is incredibly naïve

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In association with the Alliance for Community Transit – Los Angeles, LA Forward, and the Sunrise Movement LA, Public Bank LA organized a Teach In to explain how a public bank in Los Angeles would benefit residents.

The Municipal Bank of Los Angeles, as proposed by Public Bank LA, would be a wholesale bank. Los Angeles would deposit its tax revenues with the bank. Loans would be made to small businesses, to encourage the construction of affordable housing (for example, by lending to tenant organizations without collateral), and to support the development of green energy.

When put before Los Angeles voters in 2018, 58% rejected the public bank concept.

The Teach In was led by Trinity Tran, co-founder and lead organizer of Public Bank LA and Naveen Agrawal, an organizer with Public Bank LA.

Not only did Tran misrepresent the existing banking system and fail to note issues arising from establishing a local, non-diversified, public bank, but Agrawal, who has banking industry experience, substantially understated likely lending risk. A fundamental weakness in the proposal for a Municipal Bank of Los Angeles is in how it would be governed. The process would leave the bank wide open to capture by special interests.

Tran relied on emotionally charged words to stir viewers to support the cause. Private banks are greedy, extractive, pursuing profits, aligned with gun manufacturers, private prisons, and fossil fuel companies.

Tran told viewers access to the Federal Reserve discount window would allow the public bank to borrow at low interest rates. But the discount window is not a source of long-term funds, it is designed to help banks deal with shortfalls in liquidity.

Tran praised the public Bank of North Dakota — it “must be doing something right.” But the BND serves as the bank for the state’s energy industry — an industry she and other public bank supporters abhor.

Tran tells the participants, “Imagine if our cities could be made self-sufficient.” She cited Councilwoman Monica Rodriguez: “keeping money local means keeping power local.” But bank diversification is fundamental to stability. Lack of geographic diversification in lending would doom a local bank — public or private — if there were to be a serious earthquake or riot that limited the ability of borrowers to repay their loans.

The risk of public bank lending was understated in the Teach In. Agrawal explained that it is not risky to lend to a street vendor, just a “headache.” Based on his own experience, he expects a default rate of 0.1% on public bank lending. This seems impossible given that default rates on federally funded Small Business Administration loans average above 15%. The Los Angeles Community Development Bank (federally funded) experienced a default rate of 40%.

The most troubling revelation had to do with bank management. The system envisioned by Public Bank LA supporters would have the municipal bank run by individuals selected at random from the areas defined by each of the city’s 99 neighborhood councils. Selected volunteers would be offered a year of training. Not to worry, Agrawal tells us, overseeing a bank “is not rocket science.”

The problem with random selection is that individuals who volunteer will, disproportionately, represent special interests that could benefit from decisions made by the 99-member guiding Assembly. Evidence of developer and union influence has been documented at the neighborhood level.

The oversight plan gets worse. Bank objectives – a mandate for lending — would be determined based on periodic surveys of Los Angeles residents. Of course, assuring citywide distribution of the survey will not be easy and respondents will not be random. Expect those who take the time to complete the survey to suggest lending to projects from which they would benefit financially.

The Public Bank LA plan is incredibly naïve. The bank would lack geographic diversification in lending, the oversight plan would put individuals in charge who have no banking experience, and special interest influence would lead to bad loans and bank failure, taking the city’s deposits with it.

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