

Elevate

Public banks are an old idea gaining new currency

By Judith Crown

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Horacio Mendez, CEO of the Chicago nonprofit Woodstock Institute.

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Small and mission-oriented developers have a difficult time getting projects off the ground in Chicago's lower-income communities. Commercial banks and traditional lenders don't like the risk. Financing a deal requires piecing together a capital stack of loans from banks and nonprofit lenders, tax credits, government money and donations.

One route to accelerating economic development that's being advanced in large cities including New York and Los Angeles is a public bank. This is a lending institution wholly owned by a city or state, with profits reinvested in the community. In theory a public bank should be able to fund infrastructure and community development projects as well as small business loans at rates lower than commercial banks. They are designed to team with local community banks that alone can't fund a large project but can add private capital to the mix. The longer-range goal is to address the disadvantages faced by minority- and women-owned businesses, lift up disinvested neighborhoods and shrink the wealth gap.

The model for public banking in the U.S. is the Bank of North Dakota, the only state-owned bank in the country. It was established in 1919 to lend to cash-strapped farmers. It has functioned to support the state's economy as a "bankers bank," teaming with commercial banks and community development financial institutions to increase the size of loans or buy them outright.

"It's a good model because this bank does not then have to compete for deposits," says Ameya Pawar, CEO of Chicago-based grantmaking foundation Michael Reese Health Trust, who has advocated for public banking as

an alderman and public policy specialist. “It’s also able to spur economic activity and lend to small businesses and farmers and help attract private capital in communities where private capital doesn’t flow.”

Instead of borrowing for a big project at a 10% interest rate, an obligation that taxpayers are required to pay off over time, a city could finance that same project through a public bank at a 2% rate. The project gets built on favorable terms and prevents the municipal balance sheet from being too debt burdened.

Illinois doesn’t have an organized movement for public banks as compared to New York, Pennsylvania and Massachusetts. California is on the leading edge as the state Legislature in 2019 passed the California Public Banking Act, paving the way for cities and municipalities to create public banks. The city of Los Angeles hired a consultant to draft a viability study covering mission, mandates, governance and capitalization, but that work still needs to be funded, says Trinity Tran, co-founder and executive director of the California Public Banking Alliance.

Illinois has explored some variations on the theme. For example, the Illinois Finance Authority operates the Illinois Climate Bank, established in 2021 to fund clean energy projects.

The Illinois state treasurer’s office administers an investment pool for local governments, enabling them to earn better returns on their funds. Treasurer Michael Frerichs earlier this year backed a similar program for nonprofit organizations, but the measure was vetoed by Gov. JB Pritzker.

Some advocates also want public banks to serve retail customers, primarily low-income workers without bank accounts who are forced to pay fees to cash checks, reload a debit card or pay a utility bill. Democratic state Rep. Kevin Olickal, whose district includes Skokie, Lincolnwood and North Side Chicago neighborhoods, for the past two years has introduced bills to provide public options for no-fee debit accounts. Such accounts help people receiving funds under government guaranteed income programs, such as one being revised by Cook County.

Movements to create public banks face stiff opposition from commercial banks, which fear losing lucrative municipal deposits. But advocates say cuts in federal funding for projects in large cities provide fresh impetus for public banks.

“We’ve got a litany of funding streams that are going to be impacted by the volatility of the federal government, so the conversation around public banking has never been more relevant,” says Tran of the California Public Banking Alliance.

Where does the money come from?

Many activists advocating for public banks are looking to a wholesale model where funds can be pooled and leveraged for the public good, whether affordable housing, infrastructure or small business loans. The key questions, Michael Reese’s Pawar says, are how do you capitalize these institutions and what guardrails are in place to properly manage the influence of politics in lending decisions?

Proponents say a public bank should hold all municipal funds and use those in concert with community bank partners for the public good — a shift that’s roundly opposed by commercial banks.

“Our members definitely have a fundamental opposition to competition from the government,” says Ben Jackson, executive vice president of the Illinois Bankers Association. One alternative is to keep municipal funds in commercial banks and capitalize a public bank with a bond issue, but that results in a more limited enterprise.

In Los Angeles, the goal is to recapture the public funds that are siphoned out of communities and redirect that back into cities, Tran says. A public bank would start small and then scale up as loans are repaid so there’s a

sustainable pool of capital locally. “The power of a public bank is that you can maximize the impact of public dollars at scale,” she says.

Los Angeles has a nearly \$14 billion budget, but a large chunk of that is parked in treasury bills earning a low yield, she adds. A public bank could put those funds to use for projects such as affordable housing or green energy. And with California in a deficit situation, “we need to figure out a way to maximize the use of our public funds, or we’re looking at eternal budget deficits,” Tran adds.

In New York, public banking advocates expect a boost with Zohran Mamdani’s decisive win in November’s mayoral election. As a member of the New York State Assembly from Queens, Mamdani was a co-sponsor of the New York Public Banking Act, but the bill, as of earlier this year, was short of a majority in the assembly. Last year, assembly leaders proposed a pilot in Rochester, N.Y., where the mayor, city council and state delegation supported the effort, but the enabling legislation stalled in the Senate.

There’s a huge opportunity to build community wealth by redirecting more than \$100 billion in municipal deposits from private banks to a city-owned institution, says Andy Morrison, associate director of the New Economy Project and an organizer with the New York Public Banking Coalition. More than three-quarters of the city’s funds are at megabanks JPMorgan Chase, Bank of America and Citibank, according to the publication Gothamist.

Morrison says small banks and credit unions will benefit from a partnership model because more capital will be available for them to sell more loans and larger credits. “You’re getting the economic development and you’re helping those local banks and credit unions, but in doing so, you’re helping to expand their footprint so that they can reach more New Yorkers with quality, affordable financial services,” he says.

The [concept of public banks](#) dates back to before the American Revolution, when every British colony except Virginia had public banks that operated under charters requiring such banks to serve the public. Last month a Harvard Law School professor convened a summit to promote public banking as a tool for community development and economic justice.

In Massachusetts, a public banking coalition has set its sights on a statewide bank rather than institutions in Boston and other cities, says co-chair Ruth Caplan. And unlike plans in New York and Los Angeles, the bank wouldn’t hold all state funds. Instead it would be capitalized at \$50 million a year from state funds over four years toward a goal of \$200 million and be used primarily for small business loans.

But like its counterparts in L.A. and New York, Massachusetts Public Banking looks to the model in North Dakota to open participation with community banks. The larger goal, Caplan says, is to make loans to sectors that are not being served by private banks. “We particularly look at small businesses owned by people of color and by women,” she says. “Businesses in rural communities also have a more difficult time.”



Credit: Michelle Kaffko - Jose Cerda III, chief of staff at the nonprofit community development finance institution IFF in Chicago.

Illinois assesses the landscape

A coalition in Illinois has yet to take hold, in part because progressives have their eye on other remedies. The issue bubbled up following Chicago Mayor Brandon Johnson’s 2023 election. Activist Saqib Bhatti, co-executive director of the Chicago-

based Action Center on Race & the Economy, called on Johnson to establish a public bank. Pawar teamed with colleagues on a survey to gauge public interest.

But the idea hasn't galvanized players that are otherwise proponents of more equitable lending practices. Horacio Mendez, CEO of the Chicago nonprofit Woodstock Institute, which aims to advance economic justice, recalls a previous job where he worked with a Native American tribe in Montana to establish a bank. They came to find that the very rules they had complained limited lending — covering overhead and providing a margin for reserves — were necessary obligations.

"There are so many different hooks into the provision of financial products and services that eventually you end up becoming what you hate," Mendez says.

It's true that commercial banks aren't providing the services and products the residents and businesses of Illinois need, Mendez says. "But you have to ask, why aren't they providing them, and what can we do to provide an incentive?" he adds. "There are alternatives to creating an entirely new entity, because that's expensive and requires a lot of subsidies."

Jose Cerda III, chief of staff at the nonprofit community development financial institution IFF in Chicago, notes that the government is notoriously risk averse. "One of the hardest things to do is to get government, when it's sitting on a pile of the public's money, to be comfortable both mitigating risk and getting that money out on the street," he says. "When people tell me the government is going to create a bank and get out there and take the risk, it does make me a little skeptical."

As a community development financial institution, IFF is part of a network of mission-driven lenders supporting nonprofits and filling niches not served by traditional banks. "That system could be improved with better funding from government in the form of equity grants or debt because we have limited amounts of debt we can get from the private market," Cerda says. The government could team with CDFIs, capitalizing a fund to support them, or give money directly to nonprofit operators to partner with CDFIs on their capital projects, he adds. The state of Michigan in October [authorized the formation of a fund](#) for CDFIs that support small business and housing projects.

Economic Security for Illinois, a nonprofit working to mitigate the effects of income inequality, hasn't pushed for a public bank like the advocacy groups in California and New York. But it supports a public option for no-fee debit accounts, which would use public dollars to ensure consumers have access to bank accounts, says Erion Malasi, director of policy and advocacy. His group has collaborated with Rep. Olickal on his bill to create a public banking option — a marketplace where consumers could apply for a no-frills account.

Olickal says he supports the idea of public options for services such as for banking, health care and home insurance — areas where private companies leave the market when they can't earn an adequate profit. Finance companies charge "absurd" rates for debt, check cashing and paycheck services, he says, adding, "You can't make it in America in 2025 without access to these financial institutions."

These accounts would complement guaranteed income programs such as the Cook County Promise Guaranteed Income Pilot, which leveraged \$42 million in federal funds from the American Rescue Plan Act, known as ARPA. Over two years, it provided payments of \$500 to more than 3,200 households through prepaid debit cards or direct deposit to bank accounts. Last month, the Cook County Board of Commissioners voted to [establish permanent funding](#) for its guaranteed income program, making it the first in the country to do so.

The Illinois Climate Bank is a small step in the direction of a public bank. It was established in 2021 under the Climate & Equitable Jobs Act, which provides for the phase-out of carbon emissions in the energy and transportation sectors. It's part of the Illinois Finance Authority, which issues bonds for public projects.

It's a type of public bank, but it's not dependent on the state for deposits or other funds, says Pawar, who was appointed to the IFA board in 2022. "What we do, on a near monthly basis, is create the conditions to track private capital into projects that otherwise would not flow into those projects. That's not central planning. That's simply being the stimulus, or the enzyme that makes things happen."

Another small step is a bill supported by Treasurer Frerichs that would create an investment pool so that nonprofit organizations could earn better returns than those offered by commercial banks. The treasurer's office has a similar pooled investment program, The Illinois Funds, that serves hundreds of cities, towns, special taxing districts, colleges and universities.

In a letter to Pritzker in support of the bill, Mendez of the Woodstock Institute noted that the inability of nonprofits to earn better returns and pay lower fees hampers their ability to establish multiyear plans, attract and retain staff, and achieve financial sustainability.

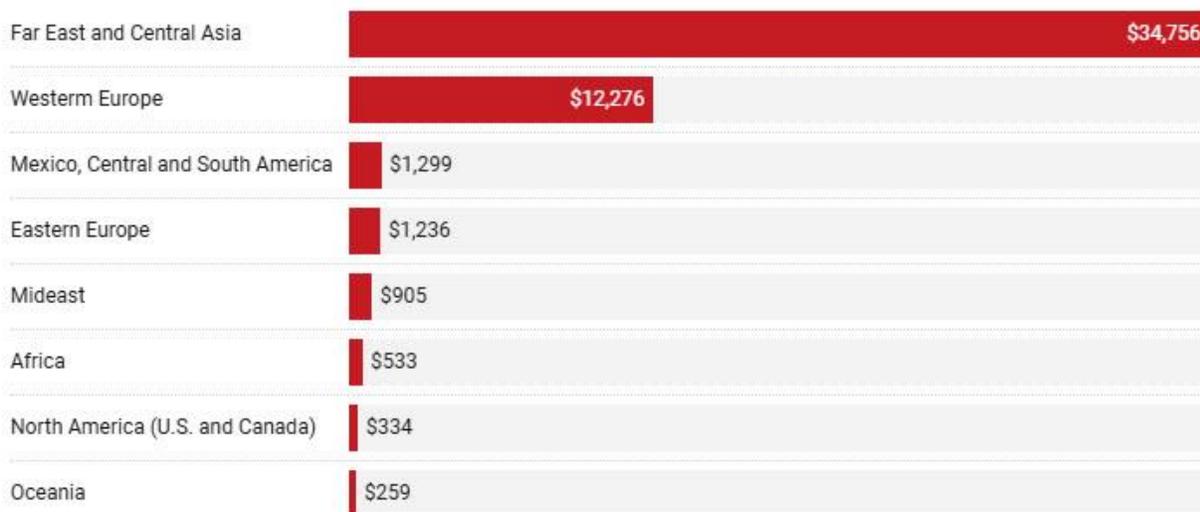
The bill was passed by both houses of the General Assembly in May but vetoed by Pritzker in August on the grounds that it could allow Illinois financial investments to be used by fringe and extremist groups. Frerichs aims to work with the governor's office to develop a new bill in the spring, a spokesman for the treasurer says.

The solution to inequitable financing lies in cooperation between the public and private sectors, advocates say. "This cannot be 'public banks are good and private banks are bad' because public banks don't (yet) exist," Pawar says. "There is always going to be a concern about the role of government and politics in the markets. How do you create the condition such that they're complementary?"

Global reach

Public banking may not be prevalent in North America, but it's common around the world and widely used in the Far East and Central Asia as well as Western Europe.

2020 assets in billions of U.S. dollars



Source: Public Banking Institute • Created with [Datawrapper](#)

In this state, a public bank boasts big returns on investments

Judith Crown - <https://www.chicagobusiness.com/elevate/public-banking-pioneer-helps-build-community-wealth>



Credit: bnd.nd.gov

Today the Bank of North Dakota, or BND, is the only public bank in the country.

A hundred years ago, farmers in North Dakota couldn't raise the capital they needed to purchase equipment, seed and livestock. Commercial interest rates in the state were prohibitive, and local bankers were indifferent.

A group of farmers formed the Nonpartisan League that eventually won control of the North Dakota House of Representatives. In 1919 the legislature created the Bank of North Dakota "for the primary purposes of providing low-cost rural credits, financing state departments and enterprises, and serving as a clearinghouse and rediscount agency for banks throughout the state."

Today the Bank of North Dakota, or BND, is the only public bank in the country. All of the state's tax and fee revenue is deposited in the bank. It's prohibited from competing with private banks and operates no branches or ATMs. It functions primarily as a wholesale or "bankers bank." That is, it teams with community banks to make loans, spreading the risk and enabling small local institutions to punch above their weight. BND reports assets of \$10.8 billion and posted net income of \$200.4 million last year, with a return on investment of 15.8%. It originated \$2.5 billion in business, commercial and student loans for its fiscal year that ended June 30.

That no other public bank has been created in the past 106 years could suggest that BND is an anomaly. The state's population is less than 800,000, a fraction of the size of Chicago, Los Angeles or New York. But advocates of public banking say BND offers a template that could be widely replicated.

Participation loans involving community banks, credit unions and other lenders have strengthened the local banking sector in North Dakota, says Andy Morrison, associate director of the New Economy Project and an organizer with the New York Public Banking Coalition. North Dakota leads the country in the number of community banks per capita, according to the nonprofit Institute for Local Self-Reliance, which advocates for building local power. During the pandemic, BND worked with such financial institutions to distribute more federal Paycheck Protection Program loans per capita than any other state, according to an [analysis by The Washington Post](#).

Organizers in California also look to the North Dakota model. A July [report](#) by researchers at the University of Michigan explored how the BND partnership model can be scaled to expand access to capital for local banks and credit unions in California, enabling them to offer loans at lower interest rates. "Expanding access to large amounts of low-cost capital can lead to outcomes like more affordable housing as a result of cheaper building costs — a high priority for California residents facing expensive housing markets, which are further threatened by disasters like floods and wildfires," the report says.

The report by Terri Friedline, a professor of social work, and associates at the University of Michigan noted cautionary lessons where politics came into play. BND invests in fossil fuels, and it sided with law enforcement against Native Americans protesting the Dakota Access Pipeline in 2016.

But BND offers an example of how public banks can deliver on commitments to supporting small businesses, affordable housing development and community wealth building, according to the report. For example, its affordable housing programs, with low interest rates, provided \$160 million in loans for real estate rental and leasing over a 10-year period. Business loans account for more than one-third of BND's assets, and the bank has helped build community wealth by participating in school construction, water projects, disaster relief and sustainable energy.

Commentary: Public options are how we fight back against broken markets

By Sarah Saheb - <https://www.chicagobusiness.com/elevate/public-options-are-alternative-broken-markets-opinion>



Sarah Saheb is a former labor organizer and the current executive director at Economic Security Illinois, an affiliate of the national organization Economic Security Project, which works to build economic power for all Americans.

In almost two decades of organizing workers across the country, one thing I learned was always true: I couldn't catch up with folks to talk about the challenges they faced on the job when it was payday. Not because they were heading to happy hour, but because they were rushing out the door to cash their checks.

This inconvenient errand after a long week of work is a symptom of a bigger issue. More than 700,000 Illinoisans are unbanked or underbanked, meaning they lack access to traditional banking services. Instead, they rely on check-cashing stores, payday lenders, and other predatory financial products. Hard working members of our communities end up paying at least 10% of their earnings in fees just to access their cash and pay their bills. For people who literally count every dollar to make ends meet, those fees add up. They could cover a trip to the grocery store, a tank of gas, or contribute to rising utility bills.

One way we can start to change this situation is through public banking. By offering fee-free debit accounts, a public bank would keep millions of dollars in workers' pockets and offer a new path to financial security.

A public banking model could also give Illinois a powerful tool to finance public priorities from affordable housing to local infrastructure, community grocery stores and small businesses. Instead of relying solely on Wall Street banks that prioritize shareholder profit, a public bank can reinvest public dollars back into the very same communities that corporations have left behind. We can build our own nice things.

We know public banking can work because it already has. The fee-free banking program in Los Angeles has already helped 38,000 households access traditional banking and avoid the predatory marketplace. The Bank of North Dakota has provided small business loans and infrastructure financing to communities for more than a century, returning \$1 billion in profit to the state.

Public banking is what's called a "public option." It's a model that deserves exploration in markets that are broken or when corporations have failed to meet communities' needs. Public options are government-supported services that exist alongside private markets to ensure everyone has affordable, high-quality access to essential goods and services.

Some public options are so standard to our way of life that you probably don't realize you rely on them. Public libraries, insurance coverage, and even the post office are reliable, essential public options that shape our communities.

Public options offer us an alternative to relying solely on private industries. Increasingly, corporations have consolidated to grow their power, which means less competition and less incentive to keep costs down, fewer

choices for working families on where to spend their money, and more gaps in communities where corporations choose not to do business at all. Public options are a way the government can help intervene in these broken markets and introduce an alternative that consumers and communities need — and can afford.

Recently, we've seen exciting new public options have emerged across the country to do just that. Chattanooga's publicly run broadband network is delivering some of the fastest internet speeds in the nation at competitive prices. California's CalRx program will provide insulin at just \$11 a pen, a nearly 90% reduction that saves patients thousands of dollars per year. What's more, it will force other manufacturers to bring their costs down to compete on price, and proves that a public drug option can be a much needed check on price-gouging pharmaceutical monopolies.

Some of these innovative efforts are happening closer to home. Our organization, Economic Security Illinois, has championed an effort to bring public option grocery stores to Illinois. Through funding from the Illinois Grocery Initiative, Venice, Ill., broke ground on the state's first municipally owned grocery store this fall. For a small Metro East town that had no full-service grocery store for miles, the new store offers hope, represents a commitment to residents, and declares that access to food is not optional. This public option intervention means we're bringing reliable grocery access to communities the private market has written off and – quite literally – left to starve.

In a moment when everything is unaffordable, and it feels like no one is fighting for us, public options offer a real way forward. They fill gaps where corporations see no profit, but where people still have real needs. They introduce competition where monopolies have grown comfortable. Most importantly, they give families choices where there are none today.

Commentary: The rise of public banking is a civic response to Wall Street extraction

Walt McRee - <https://www.chicagobusiness.com/elevate/chicago-ripe-give-public-banking-try-opinion>



Walt McRee is president and chair at the Public Banking Institute.

In the wake of the 2008 financial collapse, a quiet revolution began. As Wall Street banks were bailed out and public budgets were gutted, a growing number of civic leaders, economists and grassroots organizers began asking a fundamental question: Why should public money be managed by private banks?

That question sparked a national movement to create publicly owned banks — institutions chartered by cities, counties or states to hold public revenues and reinvest them locally. These banks would operate with professional banking standards but be governed by public interest, not shareholder profit. The goal: to redirect the hundreds of billions in annual public deposits now siphoned off by commercial banks toward infrastructure, housing, small business lending and climate resilience.

Today, more than 30 states and municipalities are actively studying or developing public banks. From California to New York, legislation has been introduced, feasibility studies commissioned, and campaign platforms shaped around the promise of financial sovereignty. In states and cities including New Mexico, Los Angeles, New York City, San Francisco, and Philadelphia, public banking has moved from fringe idea to policy agenda.

The model isn't theoretical. The Bank of North Dakota — established in 1919 — is the nation's only state-owned bank, and also its most stable and profitable. By partnering with local banks and credit unions, it has helped North Dakota weather economic downturns, expand access to credit, and keep capital circulating within the state. During the 2008 crisis, while other states slashed budgets, North Dakota posted a surplus.

Internationally, public banks are even more common. Over 900 public financial institutions worldwide manage roughly 25% of global banking assets. These banks have played pivotal roles in post-crisis recovery, green investment and long-term infrastructure planning.

In the U.S., the public banking movement is still in its early adoption phase, facing resistance from entrenched financial interests and regulatory inertia. But the momentum is building. As cities grapple with rising debt, climate shocks, and housing crises, the appeal of owning a bank — of reclaiming the power to direct credit — has never been stronger.

Chicago, with its deep financial history and urgent infrastructure needs, is well-positioned to lead. A public bank here could finance affordable housing, modernize transit, and support minority-owned businesses — without Wall Street fees or speculative risk. The question is no longer whether public banking is viable. It's whether we can afford to wait.