

PUBLIC BANKS FOR RACIAL EQUITY

Democratizing Finance to
Build Community Wealth

Dēmos & New Economy Project

Table of Contents

01	About Dēmos
01	About New Economy Project
02	Executive Summary
04	Key Findings
05	Recommendations for Advocates & Policymakers
06	The Widening Wealth Divide
07	Why Wealth Matters
08	Commercial Banks Fuel the Racial Wealth Divide
11	Why Public Banking?
13	Public Banking Defined
14	Key Characteristics of Public Banks
15	Key Structural Differences in Public & Commercial Banks
16	Public Banking & Racial Justice
16	Investing Public Dollars for the Public Good
18	Spotlight on Community Wealth Building: A Framework for Addressing the Racial Wealth Divide
19	Five Pillars of Community Wealth Building
20	The Potential of Public Banks: Insights from the Field & Recommendations for Policymakers
22	01. Accountable Governance
27	02. Partnership Lending that Builds Community Wealth
32	03. Scale: Realizing the Potential of Public Banks to Address Wealth Inequality
36	Conclusion
37	Appendix
37	Glossary
38	Overview of Public Banking Proposals
39	Methodology
40	Endnotes
45	Acknowledgements

About Dēmos

Dēmos is a nonprofit public policy organization working to build a just, inclusive, multiracial democracy and economy. We work hand in hand to build power with and for Black and brown communities, forging strategic alliances with grassroots and state-based organizations. For nearly 25 years, Dēmos has worked at the intersection of democracy reform, economic justice, and racial justice—drawing on our expertise in policy solutions, research, legal advocacy, and narrative strategies. Dēmos has moved progressive issues—such as debt-free college, voting rights access at public agencies, and strong credit card protections for consumers—from the movement to the mainstream.

In today's critical moment for democracy, Dēmos recognizes that building and sustaining power for Black and brown communities is essential for lasting systemic change. We pioneer bold, progressive ideas and reinforce them through original research, analysis, and strategic partnerships. Our approach emphasizes strengthening grassroots movements, developing power-building strategies grounded in lived experiences, advancing structural changes alongside our partners, and reshaping narratives about what's possible in our democracy and economy. Through these coordinated efforts, we work to counter threats to equity and justice while creating concrete opportunities for political access and economic opportunity for systematically marginalized communities.

About New Economy Project

New Economy Project's mission is to build an economy that works for all, rooted in cooperation, racial and neighborhood equity, and ecological sustainability. Based in New York City, New Economy Project works with community groups to challenge corporations that harm communities and perpetuate inequality and poverty, and to advance cooperative and community-led development through public banking, community land trusts, worker and financial cooperatives, and other democratically controlled initiatives. New Economy Project combines coalition organizing, legal and policy advocacy, community and popular education, and other strategies to secure lasting, transformational change.

Founded in 1995, New Economy Project has coordinated state and local campaigns that have secured fair lending and foreclosure prevention legislation, protected New Yorkers' wages and public benefits from predatory lending and debt collection, expanded community land trusts and support for community development financial institutions, and more. Among its initiatives, New Economy Project convenes Public Bank NYC and the NYS Community Equity Agenda, two broad-based coalitions organizing for public banking in New York.

EXECUTIVE SUMMARY

The racial wealth divide is vast and growing. Black households today hold just \$15 in wealth for every \$100 held by white households.

The disparities are rooted in centuries of systemic injustice, from slavery and land grabs to Jim Crow segregation, from lending and employment discrimination to how we structure housing and tax policies. These factors continue to concentrate wealth at the top. Commercial banks have played a major role driving and perpetuating racial wealth inequality. For generations, banks have systematically deprived Black and brown communities of affordable loans and financial services needed to purchase homes, start businesses, and build wealth.



At the same time, the federal government confers extraordinary backing and support to banks—from low- and no-interest loans to deposit insurance and even bailouts. Many state laws mandate that governments deposit public funds exclusively in commercial banks, giving Wall Street a virtual monopoly to hold more than four trillion dollars in state and local deposits each year. Banks leverage these deposits to finance lucrative but destructive industries, such as fossil fuels and speculative real estate development, that disproportionately harm Black and brown communities and undermine the public good.

Through public banks, cities and states can responsibly steward public deposits and leverage them to expand fair banking access.

Growing support for public banking presents an opportunity for a transformative shift. Public banks—created by state or local governments and chartered to serve the public interest—can manage public deposits and partner with local lenders to make loans and investments in under-

served communities and sectors. Through public banks, cities and states can responsibly steward public deposits and leverage them to expand fair banking access, build wealth in historically marginalized communities, and advance other policy objectives.

More than 900 public banks exist around the world, collectively controlling \$55 trillion in assets. In the U.S., the Bank of North Dakota has operated for over a century, with powerful results as the most diverse and resilient banking system in the U.S. According to the Public Banking Institute, more than half of U.S. states and many cities have introduced or enacted public banking proposals since 2010—spurred by the urgent need for investments in affordable housing, renewable energy, and other pressing needs.

In this report, we discuss how stark racial disparities have long pervaded our financial services system, fueling and entrenching inequality. We explore public banks as an alternative to catalyze transformative loans and investments, at scale, to reduce the racial wealth divide and foster economic cooperation. Our analysis is informed by interviews with community development and public banking professionals, advocates, and experts from the U.S. and Canada. We analyze nine U.S. state and local public banking proposals, as well as the federal Public Banking Act and several public banks in operation today, to identify governance, operations, and transparency frameworks best positioned to advance racial and social equity outcomes. We offer recommendations for policymakers and advocates seeking to advance public banks as a solution to systemic inequality.



As the second Trump administration pursues an agenda of regulatory rollbacks, federal funding cuts, and attacks on racial equity initiatives, the need for resilient state and local institutions—like public banks—is greater than ever. Our findings highlight the vast untapped potential for governments to leverage public deposits toward deep, long-term investments in the very communities that are bearing the brunt of federal retrenchment—through well-designed, mission-driven public banks.

Key Findings

- 01** Commercial banks continue to fuel the racial wealth divide, excluding and extracting wealth from low-income and Black and brown communities.
- 02** Public banks, if intentionally designed, offer a transformative alternative—capable of scaling investment in historically excluded communities to build wealth and help close the racial wealth divide.
- 03** Public banks can help catalyze community wealth building by supporting shared ownership of land, housing, and businesses; promoting locally rooted finance; and aligning public money with equity goals.
- 04** To be effective in addressing racial wealth inequality, public banks must be built on three key pillars:
 - **inclusive, accountable, and independent governance** with a clear public-purpose mission rooted in social, economic, and racial justice;
 - **mission-driven lending in partnership with community development lenders** that serve historically marginalized communities; and
 - **robust capitalization and appropriate regulatory frameworks** enabling public banks to operate at a scale that can meaningfully reshape capital flows toward historically excluded communities.

Across the country, public banking proposals are advancing a partnership model—one in which public banks work alongside local lenders, especially nonprofit community development financial institutions (CDFIs) and credit unions. By providing liquidity for loans, credit enhancements, and other support, public banks can help CDFIs and other mission-driven lenders deepen their impact in historically redlined communities of color.

For full citations, please see the full report.



Recommendations for Advocates & Policymakers

01

Inclusivity and Accountability

Ensure inclusive and accountable governance of public banks—including a clear public-purpose mission, rooted in social and racial justice—with checks and balances to maintain public banks’ independence, financial soundness, and public accountability.

02

Expand Local Lending

Engage CDFIs and other mission-driven lenders to co-design public bank partnership models that expand local lending capacity and address unmet capital needs in Black and brown communities.

03

Maximize Impact

Capitalize public banks at scale to maximize their impact. Remove unnecessary regulatory constraints that limit public banks’ lending capacity.

THE WIDENING WEALTH DIVIDE

The racial wealth divide is persistent and widening.¹ If current trends hold up, it would take Black Americans nearly eight centuries to amass the same level of wealth as non-Black households.²

Even as Black wealth has increased,³ so too has the racial wealth divide—indicating that even during periods of economic growth, Black households do not receive their fair share of economic gains relative to other racial groups.⁴ Similarly, the wealth divide between Hispanic and white households grew by nearly \$33,000 from 2019 to 2021.⁵ Asian American and Pacific Islander communities, which have the greatest intraracial wealth divides of any ethnic group, also face persistent wealth disparities.⁶ Wealth is defined as the sum of a family's assets minus its debts, and wealth is critical to achieving financial stability and growth. Without wealth, families are vulnerable to economic downturns or costly emergencies, and they miss out on opportunities to invest their money and increase its value.



While previous policy interventions narrowed the racial wealth divide—most notably following the enactment of fair housing, labor, and other civil rights legislation in the 1960s⁷—racial wealth inequity has steadily increased in recent decades. Much of today’s wealth divide reflects persistent disparities in homeownership, the primary source of wealth for Black and brown families. Despite decades of fair housing legislation, Black Americans’ access to homeownership has worsened relative to white Americans’. In 2022, the Black-white homeownership gap was six percentage points higher than it was in 1970, just two years after racial discrimination in housing was made illegal through the 1968 Fair Housing Act.⁸ Moreover, white families benefit from generations of wealth held in diversified sources such as stock accounts, which have appreciated at five times the rate of housing since the 1950s.⁹

Despite decades of fair housing legislation, Black Americans’ access to homeownership has worsened relative to white Americans’.

a higher effective rate because on average they receive more income from wages and less income from dividends and capital gains.¹¹ State and local tax systems in most states overly rely on consumption taxes like sales taxes to raise revenue, which places a disproportionate cost burden on people of color since they are more likely to have lower incomes.¹²

Our tax system also worsens the racial wealth divide. It privileges income from wealth over wage income, which disproportionately benefits white taxpayers who hold almost every type of wealth-bearing asset at higher rates than Black or brown households.¹⁰

Black households are also more likely to be taxed at

Why Wealth Matters

Wealth ensures that families and communities have lasting agency over their standards of living and outcomes.¹³ However, Black and brown communities in America have been systematically excluded from wealth building opportunities. Historical policies—ranging from slavery and Jim Crow laws to the exclusion of Black workers from social safety nets like Social Security—generated incredible wealth for the American economy and for white families by exploiting and extracting wealth from Black people. Many reparations promised to former slaves were never paid. Even when work opportunities arose, jobs accessible to Black people, like sharecropping, domestic labor, and service work, were grossly underpaid and deliberately structured to ensure financial dependency by preventing wealth accumulation and/or economic mobility.¹⁴

Higher net wealth is associated with better health outcomes, such as lower mortality rates, higher life expectancy, and decreased risk of chronic conditions like hypertension and smoking.¹⁵ Schools in low-income neighborhoods, predominantly serving Black and brown students, frequently suffer from underfunding, overcrowding, and lack of resources.¹⁶ Wealth also plays a crucial role in political representation and power. The wealthiest Americans wield disproportionate influence over political outcomes through campaign financing exacerbated by Supreme Court decisions like *Citizens United*.¹⁷ Without wealth, communities of color face increasingly high barriers to democratic participation and representation, demonstrating the problematic dependency between economic and political power in America.¹⁸

Wealth is a lifeline to individuals and families in hard times. It cushions against unplanned events such as medical emergencies, layoffs, and economic recessions, and it enables families to recover faster in the wake of adversity. But wealth is also critical to well-being and growth. Wealth allows for what economist Darrick Hamilton terms “financial agency” —the freedom to make choices that improve quality of life.¹⁹ And when individuals and families build wealth, they increase local spending, entrepreneurship, and civic engagement, which strengthens community infrastructure and opportunity. The systemic exclusion of communities of color from wealth building opportunities thus represents not just an economic injustice but a fundamental barrier to achieving economic and political power for Black and brown communities.

Commercial Banks Fuel the Racial Wealth Divide

Commercial banks continue to play a central role in creating and maintaining the racial wealth divide by facilitating—or curtailing—access to credit and fair financial services. Where banks invest, they drive homeownership, business growth, and wealth creation. Where they withhold services and credit, they fuel disinvestment, property devaluation, and economic decline. A large body of research has documented banks’ failure to equitably serve low-income and Black and brown communities, contributing to persistent neighborhood segregation, poverty, and inequality.²⁰ Terri Friedline, a historian of banking and professor at the University of Michigan whom we interviewed for this report, puts it bluntly: *“There’s no evidence in the history of banks, since they came into existence, that they have been able to promote the public welfare equally, equitably, and fairly. There’s just not a time in the 150-year-plus history [of modern banks] when they have equally and fairly extended credit to the general population. That’s a pretty long time to be allowed to continue to fail in that particular way.”*



The roots of our unequal banking system are deep and intertwined with centuries of unjust and exclusionary government policies—from slavery, which banks financed in the antebellum South, to New Deal and post-war housing programs that subsidized white homeownership, fueled redlining, and segregated the country's housing stock.²¹ Most notoriously, the federal Home Owners' Loan Corporation (HOLC), established in 1933, created mortgage risk maps that codified patterns of segregation and disinvestment that persist to this day.²² Black neighborhoods deemed "hazardous" were color-coded in red on the maps, generating the term "redlining." Lenders used the maps to systematically deny loans to Black communities, preventing them from building wealth through homeownership and entrepreneurship.²³

"There's no evidence in the history of banks, since they came into existence, that they have been able to promote the public welfare equally, equitably, and fairly."

TERRI FRIEDLINE, Professor, University of Michigan

Bank consolidations and financial deregulation beginning in the 1980s further entrenched a two-tiered banking system,²⁴ one that serves to generate wealth in affluent and white communities and extract it from low-income Black and brown communities. As banks grew larger and more complex, laws like the 1977 Community Reinvestment Act failed to keep up.²⁵ Federal preemption of state fair lending and consumer protection statutes has further shielded banks from accountability.²⁶

Leading up to the 2008 financial crisis and Great Recession, mortgage lenders flooded Black and brown neighborhoods with subprime loans—high-cost loans that stripped equity and pushed 1 in 5 borrowers into foreclosure.²⁷ Commercial banks fueled and profited from the subprime boom by purchasing and securitizing trillions of dollars' worth of loans. The ensuing mortgage meltdown nearly collapsed the global economy and extracted massive amounts of wealth from the same neighborhoods that banks had redlined for generations.²⁸ Homeowners in high-income Black neighborhoods were twice as likely as homeowners in low-income white neighborhoods to receive subprime loans.²⁹ As millions of families faced displacement and bankruptcy, the federal government bailed out the banks deemed "too big to fail."³⁰ Corporate investors, meanwhile, purchased foreclosed properties en masse at deeply discounted prices.³¹ This systematic wealth transfer further concentrated assets in corporate portfolios while driving up housing costs.³²

Following the crisis, the federal government enacted financial reforms to address elements of the broken regulatory system. Notably, the Dodd-Frank Act created the Consumer Financial Protection Bureau, a watchdog agency that has used its enforcement and supervisory actions to return \$21 billion to people harmed by financial schemes.³³ The post-2008 reforms failed, however, to address the concentrated power of big banks, which have grown exponentially larger and more profitable.³⁴

Today, banks continue to place fewer branches and reinvest fewer dollars in Black and brown neighborhoods, creating vacuums filled by payday lenders, pawn shops, check cashers, and other high-cost and predatory entities.³⁵ As Al Scott of the Public Bank NYC coalition and the East New York Community Land Trust (ENYCLT) relates: *“My community is a banking desert. Whenever there are more check cashing places than regular bank branches, that’s a problem.”* Banks disproportionately deny loans—and charge higher loan interest rates—to Black borrowers, controlling for income, credit scores, and other factors.³⁶ These and other inequities are reflected in people’s credit reports and scores, which can in turn block them from securing favorable loans, housing, insurance, and even jobs. Nearly a century later, neighborhoods deemed hazardous on HOLC maps continue to suffer from low rates of public and private investment, high poverty, poor health outcomes, a dearth of parks and green spaces, and environmental injustice.³⁷

Saqib Bhatti of Action Center on Race and the Economy (ACRE) explains how the growing dominance of Wall Street banks and corporate financial institutions has made inequality worse: *“At the end of the day, banks are middlemen, intermediaries who are supposed to match up people’s savings with people’s credit needs. But with the*

financialization of the economy, the actual business model [of banking] is based on extraction and on maximizing their share of the extraction from the communities of color. They’re not a productive player in the modern economy.”



“My community is a banking desert. Whenever there are more check cashing places than regular bank branches, that’s a problem.”

AL SCOTT, Public Bank NYC coalition and the East New York Community Land Trust

WHY PUBLIC BANKING?

In the wake of the 2008 financial crisis, many began to see public banking as a strategy to reshape our financial system around public priorities rather than private profit.

This renewed attention sparked a deeper reckoning with the power banks hold—and how they wield it. Banks do not merely hold and distribute money—they multiply it. Every dollar deposited in a bank can be leveraged into many more dollars through lending, shaping the flow of capital in the economy.³⁸ This financial power has historically been used to entrench racial and economic inequality, through redlining, predatory lending, and other forms of discrimination and extraction.

“For too long, the big banks have maintained a lucrative monopoly on public deposits, making obscene profits as they continue to perpetuate racial and economic injustice. With public banking, we can start to flip the script, taking back our public deposits and reinvesting in low-income communities and communities of color.”

TOUSIF AHSAN, Public Bank NYC Coordinator,
New Economy Project



Courtesy of New Economy Project



“We can really imagine the possibilities if public funds were channeled locally instead of being funneled out. The current system really is rooted in extraction, in draining resources and profits from our cities, and deepening inequality. So, we need a banking model, a public banking model, where interest and profit and resources belong to the community, and where wealth is reinvested.”

TRINITY TRAN, Co-founder, Public Bank LA



A national movement for public banking has emerged to fight for an alternative vision, building grassroots state and local coalitions and advancing legislation to establish public banks rooted in racial and social justice.³⁹ In New York City, the Public Bank NYC coalition has shown how sustained grassroots organizing—rooted in communities most harmed by Wall Street—and broad-based coalition building can lay the groundwork for public banking campaigns that challenge entrenched financial power.⁴⁰ Despite vehement opposition from the banking lobby, grassroots efforts have begun to break through, most notably in California, which enacted legislation authorizing the formation of local public banks in 2019.

Throughout our interviews with public banking advocates and experts driving this movement, these themes emerged repeatedly: Commercial banks don't passively reflect racial and economic inequality—they actively reproduce and deepen it. Yet banking also holds transformative potential. If harnessed for the public good, it can become a tool for ameliorating structural inequities rather than reinforcing them.

Public Banking Defined

A public bank is established by a government entity—such as a city, state, or tribal nation—to serve the public interest. More than 900 public banks operate in diverse countries and economies across the world, and studies show they frequently outperform commercial banks in terms of safety and profitability.⁴¹ Public banks can take a variety of forms.⁴² In this report, we focus on public banks that manage public deposits—revenues collected by a state or municipality through taxes, fees, and other sources—and leverage them to make targeted investments in local economies.⁴³

In the U.S., most state and local governments are required by law to deposit public funds in commercial banks, entangling trillions of dollars of public money in a system that often directly undermines local interests.⁴⁴ Rather than lending to support affordable housing, small businesses, and community development, banks finance extractive industries that drive inequality—from fossil fuels to speculative real estate that drives up rents and reduces affordability. As ENYCLT’s AI Scott pointedly asked, *“Are we financing our own displacement?”*

Through public banking, governments can divest public deposits from banks that fail to serve, or actively harm, communities and invest instead in urgent community needs. Public Bank LA co-founder Trinity Tran shared that the public banking movement in LA and California *“emerged from the divestment to investment framework that came out of the Dakota Access Pipeline and the fight at Standing Rock in 2017, where activists were driven by the need for an alternative financial institution that aligned with our environmental and social objectives for our communities.”* Public banking advocates from campaigns across the country told us they were animated by a shared vision: not only divesting from Wall Street extraction but actively reinvesting in communities and building a financial system that serves the public interest.



Key Characteristics of Public Banks

Ownership & Governance

Public banks are established by governments and accountable to the public. They are typically governed by independent boards and subject to robust regulatory oversight. Well-designed public banks include strong guardrails to ensure they adhere to mission and remain independent from political interference—such as via expert- and community-led boards, professional management, transparent decision-making processes, and clearly defined mandates. They also create channels for meaningful community input and oversight—through governing boards, public assemblies, advisory committees, and other mechanisms—to help shape the public bank’s priorities.

Public Purpose

Unlike commercial banks that seek to maximize profits for shareholders, public banks can be chartered to serve the public interest. They align their activities with public priorities, such as expanding affordable housing, strengthening small businesses, and developing climate infrastructure. And they return profits to local governments or reinvest them back into the bank to expand lending and other activities.

Deposits

Public banks can be structured in many ways. In this report, we examine proposals that primarily envision public banks holding government deposits, leveraging them for public benefit.

Lending

Public banks can make loans that stimulate local economic development and address community needs, prioritizing long-term benefit over short-term profits. Public banks can partner with community development financial institutions (CDFIs) and other responsible lenders to expand access to fair and affordable credit—for example, to create and preserve affordable housing, ensure living-wage jobs, and support other local priorities. This approach leverages the scale of public deposits and the local knowledge, relationships, and underwriting expertise of established community lenders.

Through partnership lending and by providing secondary markets, credit enhancements, and other supports, public banks strengthen small banks and credit unions and keep credit flowing during financial downturns.^{45 46}



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Other Fiscal Impact

Local governments in the U.S. spend an estimated \$160 billion annually in interest payments on loans from commercial banks.⁴⁷ Public banks can finance government debt at lower costs than commercial banks, to support public infrastructure projects and “critical public goods persistently undersupplied by the private profit-driven financial system.”⁴⁸

For example, public banks can purchase bonds issued by municipalities, reducing cities’ borrowing costs while recapturing interest payments currently extracted by commercial banks.⁴⁹ Much as racial disparities in bank lending were codified and institutionalized through redlining, the interest rates for municipal bond issues continue to be deeply affected by systemic racial bias.⁵⁰ Public banks can also charge lower commissions to underwrite bonds, saving governments on fees that normally make up about half of issuance expenses.⁵¹

Key Structural Differences in Public & Commercial Banks

	PUBLIC BANKS	COMMERCIAL BANKS
Ownership	Owned by the public, through their local or state government	Owned by private shareholders
Purpose	Primary goal is to advance a public purpose mission that addresses local needs	Primary goal is to return profits to shareholders
Deposits	Hold government deposits and revenues Can be structured to hold other deposits as well	Hold deposits primarily from private individuals and businesses In the absence of public banks, currently hold government deposits
Lending	Finance sectors and projects that maximize social and environmental impact Partner with responsible lenders to finance affordable housing, local business, green economy, community development	Finance industries that generate maximum return Finance fossil fuel extraction and speculative real estate investments, among other harmful industries
Other Fiscal Impact	Finance large-scale public projects at low rates, reducing borrowing costs for cities and states	Finance public projects to maximize profits, extracting funds from state and municipal budgets

PUBLIC BANKING & RACIAL JUSTICE

Investing Public Dollars for the Public Good

Public banking represents a fundamental reimagining of how money moves through our communities. When governments establish public banks, they reclaim control over public dollars that commercial banks have long used to fuel racial and economic inequality. When communities of color have agency over their financial resources, they gain the power to shape their economic futures. When designed with the public good at the forefront, public banks offer a transformational alternative to a system where political power depends on economic wealth—a reality that has long disadvantaged communities of color who have been systematically denied opportunities to build wealth.



Public banks build wealth in ways that are distinct from, and complement, other racial equity policy interventions. Public banks can multiply the impact of municipal or state deposits many times over, through fractional reserve banking, credit creation, deposit leverage, and the compounding effects of lending.⁵² Through targeted and equitable lending and investments, public banks can ensure that capital not only flows to low-income and Black and brown communities but that it stays and grows there.⁵³

Advocates and policymakers are confronted with deeply entrenched racial inequities and communities in need of solutions that match the scale of the problem. Public banking offers such a solution—not by making incremental improvements to a fundamentally extractive system but by building an alternative that aligns financial power with community needs. By establishing public banks, governments can transform finance into an engine for shared prosperity, helping to close a racial wealth divide that would otherwise persist for centuries to come.

“Redlining created this system of not allowing communities like ours to create generational wealth, to buy a home.”

MYCHAL JOHNSON, member of the Public Bank NYC Coalition and co-founder of South Bronx Unite and the Mott Haven Port Morris Community Land Stewards

Our research and interviews with public bank advocates underscore the potential for public banking to address the continued effects of redlining and systemic racial inequality. **Public Bank NYC** seeks to divest public funds from banks that fuel racial wealth extraction and inequality in each sector of the economy—and channel those funds instead to endeavors that build enduring assets in frontline communities.

Mychal Johnson, member of the Public Bank NYC Coalition and co-founder of South Bronx Unite and the Mott Haven Port Morris Community Land Stewards, which work to address economic and environmental injustice, noted: *“Redlining created this system of not allowing communities like ours to create generational wealth, to buy a home. A public bank could help us create these self-determined projects like community land trusts and open-space initiatives that address our community’s needs.”*

By rooting campaigns in an analysis of local economic conditions and history, advocates are ensuring that communities of color are at the table from the outset to co-design and fight for a public bank. This focus is also reflected in public banking policies that campaigns are putting forward. For example, **Massachusetts’** public banking bill instructs the bank to “address the historic and current disadvantages experienced by the state’s minority and women-owned enterprises by providing affordable financing.” **New York’s** bill also requires the bank to prioritize lending to minority and women-owned businesses, as well as Indigenous communities.



Other bills also require a racial justice lens when composing the bank's governance structure. **Philadelphia's** bill requires that directors be appointed to the Policy Board who have experience working on racial justice issues. The **California Public Banking Option** bill also requires individuals with expertise in racial justice and cultural competence to be appointed to the founding board.

Across the movement for public banking, racial equity is increasingly being foregrounded as a major principle of institutional design, governance, and mandate. Highlighting the history of commercial banking's pattern of disinvestment and discrimination, and the ongoing needs faced by the communities it continues to harm, helps make a powerful case for the need for a public alternative.

SPOTLIGHT ON COMMUNITY WEALTH BUILDING

A Framework for Addressing the Racial Wealth Divide

Black and brown people across the country are advocating for economic solutions that come from within their communities to achieve economic security, mobility, and justice. One proven framework for achieving this type of community-centered policy change is known as "community wealth building," an economic development approach that transforms local economies through democratic ownership and control of assets, addressing wealth inequality at its core to produce broadly shared prosperity and racial equity.⁵⁴ Community wealth building is about not just taking democratic control over local economies but also wielding that control to benefit the public good.⁵⁵

The Democracy Collaborative has identified the following five foundational pillars of community wealth building, each of which is core to advancing racial equity. Public banking serves as both a strategic tool and catalyst for advancing these pillars by building generational assets in the very communities that have historically been locked out of wealth building opportunities. Many advocates embrace community wealth building as a transformational response to the legacy of redlining.

While community wealth building models offer powerful tools for equitable community development, they struggle to access the capital they need to scale. Through partnership banking, public banks can collaborate with CDFIs and other mission-driven lenders to provide low-cost capital that aligns public resources with community needs—advancing democratic control over productive capital, finance, labor, land, and government purchasing power in historically underserved communities.

Five Pillars of Community Wealth Building

(DEMOCRACY COLLABORATIVE)⁵⁶

01 Inclusive and Democratic Enterprise

Policy should support the creation of multiple forms of worker and consumer cooperatives, social enterprises, municipal enterprise, and more, based on the recognition that the ownership of productive capital is at the heart of where power lies in any political-economic system.

02 Locally Rooted Finance

Finance should redirect money in service of the real economy through public banks, credit unions, community development financial institutions, targeted public pension investments, and new forms of community investment vehicles.

03 Fair Work

Institutions and businesses should ensure that every worker receives a living wage, real power in and control of their workplace for decent work and conditions, and trade union rights.

04 Just Use of Land and Property

Localities should mobilize land and property assets to build real wealth in communities, bring local land and real estate development back under community control, and combat speculation and displacement, through models such as CLTs and non-speculative, resident-controlled housing.

05 Progressive Procurement

Local governments and place-based “anchor institutions” should lead with procurement practices that relocalize economic activity, build local multipliers, and end financial leakage and extraction.

THE POTENTIAL OF PUBLIC BANKS

Insights from the Field & Recommendations for Policymakers

Our research identified three critical provisions for public banks to advance racial equity and democratic representation:

- Inclusive and accountable governance with a clear public purpose mission
- Partnership lending that builds community wealth
- Capitalization of public banks at scale to meaningfully address wealth inequality

Using a mixed-methods approach—a literature review of banking impacts, analysis of public bank legislation and models, and in-depth interviews with more than a dozen advocates and practitioners from across the U.S. and Canada—we sought to determine public banking’s potential impact on community asset ownership and how these institutions can best be structured to advance racial equity. Our goal is to equip organizers and policymakers with tools to create state and local public banks that effectively address the racial wealth divide.

Key Provisions for Public Banks to Build Wealth & Democratic Representation for Communities of Color

01 Accountable Governance

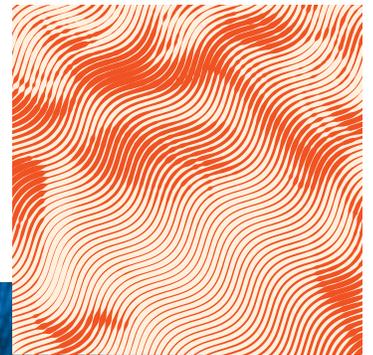
A public bank must establish clear public purpose missions rooted in racial, social, and economic justice, with independent and diverse boards, community representation, and robust mechanisms for ongoing community input and oversight.

02 Partnership Lending that Builds Community Wealth

Public banks should partner with CDFIs, including community credit unions, and other responsible lenders serving historically marginalized communities to increase the supply of capital for affordable housing, small businesses, and democratic ownership models that build lasting community assets.

03 Scale that Meaningfully Impacts Racial Wealth Inequality

Public banks require robust capitalization and appropriate regulatory frameworks that enable them to operate at a scale needed to meet capital needs in historically excluded communities.



01 Accountable Governance

Governance refers to the set of rules, practices, and processes that direct the bank and define its relationships with stakeholders. Governance policy specifies who is responsible for the different functions of the bank and how those bodies are held accountable to the public. A bank's governance is fundamentally shaped by its mandate – i.e., the agenda of social challenges the bank is set up to address – and its mission – i.e., the concrete strategic objectives for achieving its mandate.⁵⁷

Insights from Interviews & Analysis

PUBLIC PURPOSE MISSION

A key takeaway from our research is the importance of grounding the public bank in a clear public mission, which in turn informs the bank's governance structure, lending, and other activities.⁵⁸ As political economist and public banking scholar Dr. Thomas Marois told us, *"Public banks are dynamic institutions—they are not inherently good or bad, but only as good as society makes them to be."* They *"function as socially contested, dynamic institutions in the public sphere."*⁵⁹ A public bank, in other words, can be a powerful tool for advancing social and racial equity—if it is designed to do so.

Moreover, intentional design is needed to ensure that public banks do not, inadvertently or otherwise, exacerbate inequality through their lending and other activities. Under **The New York Public Banking Act**, municipal banks may prohibit loans that "may benefit any type of designated business including the fossil fuel industry, weapons or gun manufactures, military systems companies, private prisons, immigration detention facilities, companies engaged in offshore tax avoidance or exploitative business or labor practices, or the tobacco industry ..."

The **Bank of North Dakota**, founded in 1919, has a mission of "... encouraging and promoting agriculture, commerce, and industry" in North Dakota.⁶⁰ The legislation's preamble explains: "The reasons for establishing a bank owned and operated by the people are to be found in the industrial history of the State. So far as yet developed, the resources of North Dakota are chiefly agricultural; more than 80 percent of the population is rural and the remaining less than 20 percent is chiefly dependent upon agricultural activities."⁶¹ Similarly, the bank adopted an early mission of partnering, and not competing with, existing lenders. More than a century later, over half of the bank's loans are for local businesses and agriculture,⁶² and most of the bank's loans are made in partnership with local banks and credit unions.

The Native American Bank, a federally chartered community development bank and CDFI founded in 2001 by twenty Tribal Nations and Alaska Native Corporations, has a primary mission to "provide access to financial services for Alaska Native and Native American communities creating economic independence, development and sustainability."⁶³ Today, approximately 95 percent of the bank's loans are in Indigenous communities.⁶⁴



“Public banks are dynamic institutions — they are not inherently good or bad, but only as good as society makes them to be.”

DR. THOMAS MAROIS

Courtesy of New Economy Project

Many of the public bank proposals we analyzed outlined clear public purpose missions that include transitioning energy use to renewable sources, building affordable housing, and supporting community development in historically marginalized communities.

The **New York State** bill directs local public banks “to provide access to low-cost capital and/or credit to small businesses, minority- and women-owned business enterprises, entrepreneurs, start-up businesses, farmers and below-average-income communities and individuals of this state to further economic growth, create jobs and build and sustain affordable housing.”

The **Massachusetts** bill directs the public bank to “address the historic and current disadvantages experienced by the state’s minority and women-owned enterprises by providing affordable financing” and “support non-profit and community-based organizations that work to address the results of racial injustice and/or to promote women’s economic and social equity.”

The **Philadelphia** bill mandates the public financing authority be dedicated to “improving the social and economic conditions of all Philadelphians, with a preferential directive to serve the financial needs of underserved residents, small businesses and

economically distressed areas by: 1) providing stability, additional capacity and resources in the financing of community economic development entities and small businesses; 2) supporting the local financial ecosystem to address the lack of fair financial products and services and available credit; 3) responding appropriately to the private financing market and exogenous market conditions; and 4) improving the equitable distribution of investment capital available in the City of Philadelphia across all communities.”

COMMUNITY INPUT & REPRESENTATION

In our interviews, advocates discussed the importance of ensuring meaningful community input and oversight of public banks, and shielding the banks from political interference. This balance of engaging stakeholders while preserving independence was described as essential to inform the bank’s decision-making, facilitate democratic participation, and build public trust.

Costa Rica’s Banco Popular offers a particularly robust governance model. Most of the bank’s board of directors is appointed by a Workers Assembly, a body of 290 workers representing labor unions, worker cooperatives, community development practitioners, and other workforce sectors. The

Assembly is also unique in that it requires gender parity: 50 percent of the representatives from each sector and 50 percent of the Assembly must be women.⁶⁵

Some of the current public bank proposals we examined give marginalized communities a direct say in how the bank is designed and how it carries out the public mandate, through apportioned seats on the bank's governing board of directors. Other proposals provide for advisory councils, public assemblies, or a combination thereof.⁶⁶

The **New York Public Banking Act** designates board seats for people representing key sectors being served by the public bank, as well as community-based organizations and labor unions, and people with community banking experience. In **Philadelphia**, the Policy Board must include "representatives from the worlds of community development, banking or finance, and various substantive areas including environmental justice, racial justice, public economic education and health, co-operative development, neighborhood-based small business development, gender justice, or public transportation."

The **Public Bank LA** campaign has proposed a public engagement strategy that includes public assemblies to identify broad investment priorities, research juries to investigate poorly understood areas for potential investment, and people's investment panels to oversee specific segments of the bank's mandate and portfolio.⁶⁷ **Philadelphia** and **Massachusetts** propose diverse community representation through advisory boards that inform public bank boards of community conditions and needs.

INDEPENDENCE

In the proposed structure of most public banks discussed by respondents, democratic control happens through the careful composition of public bank boards, which are designed to have autonomous authority insulated from day-to-day changes in elected political leadership. Establishing robust safeguards is vital to ensure the institution adheres to its mandate and builds confidence and trust among the public.

The **New York Public Banking Act** provides for an independent board of directors, with the mayor or executive appointing three members, the local legislature appointing two, and the treasurer or controller appointing one. In a city like New York City, where the mayor and legislature often have distinct policy objectives, this ensures a balanced approach to setting priorities more representative than a board appointed unilaterally by the executive. After the initial six board members are appointed, they nominate and approve, by a two-thirds majority, three or five additional board members, creating an additional degree of separation from the elected officials to ensure independence.

The **Philadelphia** public bank proposal empowers the city council to nominate nine individuals to the board of directors, all of whom must be approved by the mayor. The board of directors then appoints a nine-member "policy board," like an advisory council, with diverse voices and experiences in banking, racial justice, and community economic development. The policy board, which has two degrees of separation from the elected officials, can establish lending and investment priorities in line with the bank's mission.

THE CHALLENGE OF DEMOCRACY

We found, across our interviews and policy analysis, an interesting and sustained engagement with the question of meaningful democratic participation in the governance design of public banks.

Representation of authentic community voices is an important principle in many of the efforts we analyzed, bringing those most excluded—and harmed—by the private banking system into the room, with a seat at the table. In practice, this means boards that are themselves either constructed to ensure that communities are represented directly or making sure these board members are answerable to community advisory boards with real authority over mission and vision.

The **East Bay Public Bank (EBPB)** in California, an initiative that is closer to a new functional public bank than any of the other efforts we investigated, already has a board seated and operational. Spanning multiple cities and the surrounding county in a cooperative structure, EBPB has reserved board seats for elected officials from each of those member jurisdictions but has still built its governance in a way that subordinates elected authority to representation from the community finance sector and the communities to be served by the bank's lending. As EBPB's Susan Harman notes, *"we're really clear that we want community people to have the majority of the seats on the board, and that's what we have at the moment."*

Other possibilities came up in our research—the assembly model, for instance, inspired by the robust participatory governance of **Costa Rica's Banco Popular**, and grassroots experiments in the U.S. like the **Boston Ujima Project's** community investment model. But Trinity Tran of **Public Bank LA** notes, *"that what we're also having to reconcile as a movement is the need to create a governance plan that is democratic, that does include community representation, but there's also the need to balance that with something that's viable and that's going to be realistically approved by state and by federal regulators."*

As critical as governance design is, many respondents emphasized that even having a public entity subject to transparency requirements, with mandated exposure to public feedback, would be an advance for democracy. David Jette of **Public Bank LA** notes that what ultimately matters is *"public scrutiny on the actual operations of the bank and not just the leadership,"* explaining that *"we have public utility here, LA DWP,⁶⁸ that is our water and power. They have regular meetings where the public is invited to yell at them about rates and about what power plants are online and not online—and that means that there's no secrets at the LA DWP, at least as far as the public is concerned. [...] Banks don't generally operate like that, but public banks will have to. That will be a big thing that disciplines them away from making big loans to the friends of the mayor or making really stupid loans that are wasting money."*

Similarly, Saqib Bhatti of **ACRE** notes that *"we want something that actually lends itself to community organizing, like having a regular town hall. If the bank has regular meetings [...] folks [can] go and voice their concerns and priorities. This would be useful, both for ensuring the public mission but also ensuring that people stay engaged and that the bank stays accountable to the people."*



ACCOUNTABLE GOVERNANCE

Recommendations

01 Establish a Public Purpose Mandate

Policymakers and advocates must establish a clear public purpose mission to guide a public bank's activities, ensuring it meets local needs and advances social and racial equity.

02 Ensure Independent & Accountable Governance

Establish an independent board of directors with a balance of stakeholders represented, including community development lending professionals and representatives of communities and sectors the public bank will serve. The board should prioritize diversity and representation from communities that mainstream banks have historically excluded.

03 Ensure Public Oversight

Establish mechanisms for meaningful, ongoing community input and oversight of the bank's activities, such as advisory committees and public assemblies, public hearings, and town halls.

02 Partnership Lending that Builds Community Wealth

Many public banks are being structured to partner with local lenders – particularly CDFIs with successful track records serving low-income and Black and brown communities. This model leverages the scale of public deposits and the skillsets and relationships held by local lenders. Rather than establish government-run retail branches in communities, public banks enable community-driven lenders to grow and deepen their impact.

Insights from Interviews & Analysis

The century-old Bank of North Dakota (BND) provides a powerful example of partnership lending, with most of BND’s \$5.8 billion loan portfolio consisting of loans – for local businesses and farms, for instance – originated in partnership with local banks and credit unions.⁶⁹ This collaboration is widely credited with making North Dakota the community banking capital of the country. North Dakota has four times the number of local community banks per capita than the national average, and 60 percent of deposits in the state are held in community banks, compared to just 16 percent nationally.⁷⁰

During the COVID-19 pandemic, BND’s partnership approach enabled North Dakota small businesses to secure more Paycheck Protection Program funds, relative to the state’s workforce, than any other state, as BND helped local lenders navigate PPP rules and even purchased PPP loans to reduce their risk.⁷¹ Similarly, the public bank was credited with helping North Dakota weather the 2008 financial crisis better than other states, as the state maintained “a low foreclosure rate and abundant credit for entrepreneurs looking for loans.”⁷² Public banks across the globe have played similar roles as backstop lenders during natural disasters and other crises.⁷³

Building on the BND model, many public bank proposals we examined envision public banks partnering with CDFIs to deepen their racial

equity impact. A growing network of 1,400 CDFIs, including loan funds and credit unions, across the fifty states collectively manage \$468 billion in assets—a 615 percent increase over the past decade. CDFIs are designed specifically to serve low-income communities, and many are rooted in Black, brown, and historically marginalized neighborhoods around the country.

Despite their proven impact, CDFIs often struggle to reach a large enough scale to make transformative change.⁷⁴ In a partnership lending model, public banks could operate as wholesale lenders, providing liquidity, loan participations, credit enhancements, and other support to experienced CDFI lenders. Much like the Federal Reserve supports commercial banks at the federal level, public banks can support community-based financial institutions at the local level—strengthening them and expanding their reach and impact. In this way, public banks can help ensure that investment reaches communities long denied access to fair and affordable financial services.

The campaign for a public bank in **New York**, driven by the Public Bank NYC coalition that report co-author New Economy Project has played a lead role convening and stewarding, has embraced this approach from the start, centering CDFIs—especially CDFI credit unions, or Community Development Credit Unions (CDCUs)—as the heart of its vision

for a just and equitable financial system.⁷⁵ The coalition includes CDFIs in its steering committee and secured the endorsement of the New York Credit Union Association, a trade association representing 300 credit unions statewide. Coalition members include Lower East Side People’s Federal Credit Union and the Brooklyn Cooperative Federal Credit Union, as well as Inclusiv, a national network of community development credit unions. CDFIs serve every county in New York state, with a strong concentration in New York City.

Recently, the Lower East Side People’s Federal Credit Union, a co-founder of the **Public Bank NYC** coalition, launched the first CDCU branch in the Bronx in more than a decade. Partnering with the Bronx Financial Access coalition, the credit union has made public banking a part of its broader campaign to expand community-based financial services in communities shut out by commercial banks. As coalition members Gregory Jost and Linda Levy put it: *“A public bank could provide secondary capital loans, for example, to help us grow our deposits and bring in new members. It also would serve as a lending partner to smaller institutions like ours, enabling us to make more and larger loans—for affordable housing, small businesses and other needs—than we could on our own.”*⁷⁶

This model is gaining traction elsewhere.

Massachusetts legislation identifies partnering with CDFIs as a lending priority for the public bank. Similarly, the **California Public Bank Act** requires public banks to conduct retail banking in partnership with local financial institutions. Trinity Tran, a member of **Public Bank LA**, shared with us that: *“by utilizing the branches and the networks of community banks, credit unions, and CDFIs, public banks can help ensure that residents have access to the essential financial services they need, like savings accounts and loans and mortgages.”*

COMMUNITY WEALTH BUILDING

Many of the public banking bills we analyzed include a focus on community wealth building models, including community land trusts (CLTs), worker-owned businesses, and community solar initiatives. Many of these models, embodying principles of equity and self-determination, have a long history in struggles for Black freedom⁷⁷ and continue to benefit and build economic power in low-income communities of color.

The **New York Public Banking Act** requires banks to “maximize and prioritize loans supporting worker cooperatives, community land trusts” in addition to “low-income and affordable housing, renewable energy, infrastructure development, small businesses, small farms, minority- and women-owned business enterprises,” and student loans. This focus reflects the rapidly growing landscape of CLTs, worker-owned businesses, and other cooperative ventures in New York, many of which are actively involved in the public bank campaign.

Likewise, the **Philadelphia** legislation encourages the bank to lend to “cooperative business development ... (and) ... land trusts” in addition to renewable energy projects, affordable housing, businesses to support new employment opportunities, and “other enterprises and activities filling needs of marginalized communities.”

The **Massachusetts** bill directs the bank to “assist workers and communities in creating jobs by supporting cooperative business models including worker-owned coops ... family-owned farms and rural businesses that serve them ... (and) ... provide economic support to state-based public or quasi-public agencies including CDFIs, community development corporations and economic development corporations.”

What Can a Public Bank Do? _

01 **TRANSFORM INVESTMENTS**

Across our interviews, public banks were seen as a powerful tool for making community investments, either directly or in partnership with CDFIs and other responsible lenders. As a baseline, respondents envisioned public banks expanding credit access to make it more **inclusive and equitable**. Rei Fielder of the Boston Ujima Project, for instance, explained that in their vision, *“our public bank would focus on stimulating our economy through financial services to small businesses, specifically ones that are BIPOC and women-owned.”*

Some respondents envisioned public banks actively engaging in **reparative** action to address and reverse the impacts of historically inequitable financing. As Trinity Tran of Public Bank LA and the California Public Banking Alliance explains, *“Banks could support affordable housing programs in communities that have been affected by redlining, providing financial support to Black and brown immigrant-owned businesses that have been historically disadvantaged and sidelined by Wall Street banks.”*

Finally, some respondents highlighted the potential of public banks to drive investment into **transformative** investments that advance community wealth building models like cooperatives and CLTs. Al Scott, of the ENYCLT and Public Bank NYC Coalition, for instance, envisions a public bank that would invest *“in economic entities that could reshape or encourage community control, whether it’s cooperatives, CLTs, CDFIs, or credit unions.”*

Courtesy of New Economy Project

Other respondents highlighted ***specific kinds of lending*** a public bank could specialize in. Public bank scholar Thomas Marois, for instance, highlighted the way in which committing a public bank to a specialized focus of lending could enable both clearer rules for governance and the possibility of unlocking higher levels of collaborative scale, offering the example of ***“a Municipal Climate Bank, where you pull together many hundreds of municipalities to create a new public financial institution that is tasked with municipal regeneration and climate transformation.”***

Finally, we heard from multiple respondents about the role public banks could play in helping cities reduce reliance on the private bond market. Saqib Bhatti of ACRE notes, ***“Cities and states could underwrite their own loans—a municipal bank could help them do that. If the municipal bank is set up so that it could access the Fed’s discount window, they could actually even make available very low-cost loans as a pass-through available to cities and states in lieu of bonds.”***

02 PROMOTE EQUITABLE BANKING ACCESS

In addition to changing the patterns of where municipal deposits are ***invested***, respondents highlighted the ***discriminatory and exploitative financial services*** that the unbanked and underbanked are forced to rely on, and the ability of public banking to address these issues. Maria Maldonado, the director of SEIU’s Fast Food Union in California, highlighted the gauntlet of financial exploitation and insecurity arrayed against low-wage immigrant workers and people of color generally, and how those experiences have left them to support the CalAccount campaign for a public retail banking option.

Other respondents proposed more partnership-driven models for expanding equitable banking access, like Al Scott of Public Bank NYC, who said, ***“credit unions—I want them on every corner if it’s possible”*** and identified the support of a public bank as a key way to expand the footprint of these cooperative financial institutions.



PARTNERSHIP LENDING THAT BUILDS COMMUNITY WEALTH

Recommendations

01 Identify and Engage CDFIs and Other Responsible Lenders

Advocates and policymakers should build partnerships early on with local financial institutions serving low-income and communities of color. Involving these institutions from the start helps generate buy-in and ensures public banks are designed to work effectively in partnership with trusted, community-based lenders.

02 Define Clear Lending Priorities

Advocates and policymakers should identify core lending priorities—such as affordable housing creation and preservation, small and worker-owned business development, climate justice investments, and community wealth building models—and ensure these goals are reflected in the bank’s structure and mission from the start.

03 Identify Strategic Public Bank Functions

Determine how the public banks can best leverage new loans and investments—for example, through secondary capital investments in low-income designated credit unions, participation loans, secondary market purchases, loan guarantees, and other credit enhancements.

03 Scale that Meaningfully Impacts Racial Wealth Inequality

Responsible lenders, including CDFIs, have proven that equitable, community-based lending is not only viable but effective. Yet for all their success, CDFIs simply do not control the level of capital required to close the racial wealth divide – let alone reverse centuries of wealth extraction. Public banks offer a structural response. Designed with a clear mandate, strong governance, and equitable lending priorities, public banks can help reshape capital flows at scale, building the kind of financial infrastructure that keeps money circulating within communities rather than extracting it from them.

Insights from Interviews & Analysis

Across our interviews and analysis of public banking proposals, one point became clear: **Public banks' effectiveness in helping to close the racial wealth divide will ultimately be proportional to their scale.** Without sufficient capitalization—and without the legal authority to fully leverage public deposits—public banks will be unable to reach their transformative potential. On the other hand, well-capitalized public banks can play a catalytic role, directing large-scale investment to historically redlined communities and shifting the flow of capital toward long-term community wealth building.

One study illustrates this vividly: In **Michigan**, researchers found that allocating just 0.5 percent of the state's expenditures to a public bank, compared to 0.1 percent, would mean a \$200 million difference in upfront capital. But over time, that gap compounds dramatically. Thirty years later, the higher initial investment would yield more than \$2 billion in additional capital, supporting up to \$20 billion in total assets. This highlights the importance of ambitious capital investment and a regulatory framework that enables full lending capacity—unlocking the full potential of public banking as a tool for addressing racial wealth inequality.

Similarly, a study of the economic impact of a public bank in **New York City** found that a \$500 million initial investment from the city would generate \$6 billion in new loans to Black and brown neighborhoods over the first five years alone.⁷⁸ In the process, the bank would generate tens of thousands of new jobs and build or preserve nearly 18,000 new units of affordable housing.

However, recent public banking efforts have been stymied by statutory and regulatory barriers that prevent public banks from reaching the scale needed to achieve their desired impact. State laws requiring banks to collateralize public deposits pose a particular challenge, effectively forcing public banks to over-secure funds, which severely limits their ability to lend. As David Dubrow, ArentFox Schiff LLP partner and an adviser to the Public Bank NYC coalition, has noted, requiring public banks to collateralize 100 percent of their public deposits *“would defeat the purpose of the [public bank], which is to leverage public funds to promote economic development and leave no monies for making loans and fulfilling the purpose of the bank.”*



At the federal level, the Federal Deposit Insurance Corporation (FDIC) has historically posed a serious obstacle, most notably in **American Samoa**, where the FDIC has denied Territorial Bank deposit insurance⁷⁹ simply because of the government's interest in the bank. These barriers hinder the growth—and in many cases prevent the formation—of public banks and undercut their ability to meet community needs at scale.

If public banks are to serve as true engines of equitable development, policymakers must ensure that legal and regulatory frameworks are designed to support—rather than constrain—their growth and impact. This is an uphill battle, in part because institutional innovation always is; Stan Shapiro of the **Philadelphia Public Bank Coalition**, for instance, notes that *"the [PA] banking statute never contemplated a public bank."*

The **Bank of North Dakota** offers a compelling counterexample. As the only state-owned bank in the U.S., it avoids many of the regulatory barriers that have stymied recent efforts. All state agencies in North Dakota are required to deposit all funds in the bank.⁸⁰ Deposits are backed by the full faith and credit of the state of North Dakota, obviating the

need for FDIC insurance. Nor is the bank required to fully collateralize public deposits—a requirement designed for third-party commercial banks holding public funds that is unnecessary and counterproductive when applied to publicly owned financial institutions.

BND has operated safely and soundly for more than a century and has returned more than \$1 billion to the state's general fund since 1945—precisely because its mission is to serve the public good, not to pursue risky and speculative investments in the name of maximizing shareholder returns. Its success demonstrates that public banks can be both sound financial institutions and powerful tools for equitable, long-term investment—when given the legal and structural freedom to do so.

The federal **Public Banking Act (H.R. 6775)** explicitly creates a new public deposit insurance regime for public banks, ensuring that public banks aren't excluded from essential protections simply because they are publicly governed. It also provides funding for capitalization, startup infrastructure, and liquidity support through the Federal Reserve—tools designed to help local public banks scale quickly and effectively.

In the absence of federal action, some state and local efforts have worked to emulate North Dakota’s model. **New York’s Public Banking Act** relaxes both FDIC and collateralization requirements, allowing public banks to fully leverage deposits without unnecessary restrictions. In **Massachusetts**, proposed legislation authorizes—but does not require—FDIC insurance and backs the bank’s liabilities with the full faith and credit of the Commonwealth. It also outlines an ambitious capitalization plan: a \$200 million equity investment followed by \$1.4 billion in state deposits once the bank reaches operational readiness. This approach builds toward scale from the outset, pairing strong capital with a workable regulatory framework.

By contrast, other efforts have been constrained by regulatory frameworks that treat public banks like private commercial institutions. **California’s Public Banking Act** leaves in place onerous state collateralization requirements—up to 110 percent—and

mandates FDIC insurance, significantly limiting financial flexibility. In **Philadelphia**, these and other barriers led organizers to pursue a public financial authority instead of a full-fledged bank, with the goal of converting it to one in the future. These examples underscore the importance of aligning regulatory design with the unique role and structure of public banks.

At scale, the opportunity presented by public banks is enormous. Collectively, state and local governments take in about \$4 trillion in revenue each year, with roughly \$750 billion in deposits and cash-on-hand on any given day.⁸¹ The vast majority of these deposits are now held by the biggest Wall Street banks. Redirecting even a portion of these public funds through well-designed public banks—operating in partnership with CDFIs and other responsible lenders—could dramatically expand access to affordable capital for Black and brown communities long excluded from wealth building opportunities.

Redirecting even a portion of these public funds ... could dramatically expand access to affordable capital for Black and brown communities long excluded from wealth building opportunities.





SCALE: REALIZING THE POTENTIAL

Recommendations

01 Capitalize Public Banks Ambitiously

Ensure public banks receive substantial upfront equity investments that enable them to fully leverage deposits and scale rapidly—unlocking their potential for deep, long-term investment in racial equity and community wealth building.

02 Design Tailored Regulatory Frameworks

Establish chartering and regulatory frameworks appropriate to public banks' distinct mission, governance, and operating models, while ensuring financial safety and soundness.

03 Remove Structural Barriers to Lending

Eliminate legal and regulatory constraints that limit public banks' ability to hold and leverage public deposits toward lending and investment aligned with their mission—particularly constraints that treat public banks as if they were private, commercial institutions.

CONCLUSION

At the time of this report's publication, the Trump administration had taken unprecedented steps to dismantle federal agencies, such as the CFPB,⁸² charged with creating and enforcing financial regulations.

These actions threaten to embolden predatory lenders and expose communities and our financial system to renewed risks. In this perilous moment, organizers and policymakers dedicated to building a just economic future for **all** Americans, not just those on one side of our country's growing racial wealth divide, need every tool at their disposal.

Public banking—if designed with racial equity and community wealth building at the fore—is one such tool to achieve long-term, transformative impact. Public banking unlocks resources **the public already has** and puts them to work for the common good.

Across the country, a growing movement for public banking has begun to score its first real victories against Wall Street. Our research lays out a path for advocates and policymakers to advance public banks equipped to help close the racial wealth divide. By establishing clear mandates to advance equity, transparent and accountable governance, partnership lending models, and appropriate regulatory frameworks, public banks can direct capital, at scale, to communities long deprived of resources. Public banking—reimagined for the historical challenges we face today—is an idea whose time has come.

Public banking unlocks resources the public already has and puts them to work for the common good.



APPENDIX

Glossary

Wealth: Economic assets accumulated over time.

Public deposits: Funds that governments collect from taxes and other sources and hold in bank accounts until they are needed to pay for public expenditures.

Public bank: A bank that is owned and operated by the government at the local, state, or national level. Public banks typically focus on serving the public interest rather than maximizing profits, often funding public services and community projects.

Commercial bank: A private, for-profit bank that offers loans, deposit accounts, and other financial services to businesses, individuals, and governments.

Retail banking: Services that banks provide to individual, like checking and savings accounts, personal loans, and other everyday financial products.

Community Development Financial Institution (CDFI): A type of financial institution that provides financial services to underserved or economically disadvantaged communities, often focusing on community development and economic growth in these areas.

Partnership banking model: A model where public banks collaborate with CDFIs, credit unions, and other financial institutions to provide loans and services, particularly to underserved communities and businesses.

Reparative: Relating to actions intended to repair or remedy past wrongs, such as efforts to correct disparities in access to services and wealth accumulation.

Transformative: Actions or strategies that lead to significant, positive changes in a system or organization. Transformative strategies can radically improve the accessibility and equity of financial services.

Subprime loans: Loans with above-market interest rates given to consumers who are perceived to be “at risk” by banks. These loans are more expensive to the consumer than traditional loans.

Predatory lending: A practice where lenders impose unfair, deceptive, or abusive loan terms on borrowers. This often targets Black and brown low-income people and can lead to excessive debt, financial harm, and foreclosure.

PUBLIC BANK GOVERNANCE TERMS

Board of directors: The board of directors is typically charged with fiduciary responsibility for stewarding the bank. Board functions may include hiring and firing senior managers, monitoring the bank’s operations, and managing risk to ensure financial soundness and regulatory compliance.

Public assemblies: These bodies enable community members to participate in democratic oversight and guidance of the public bank. Functions may include approving annual reports from the board of directors, proposing high-level priorities for the bank, and forming and participating in oversight committees.

Advisory council: An advisory council can play a similar role as a public assembly, providing general oversight, advice, and approval of decisions and reports submitted by the board of directors. The primary difference in the council might be that it is smaller than a public assembly and includes community members with specific expertise (e.g., community banking) or lived experience (e.g., living in a low-income and historically redlined neighborhood).

Special purpose committees: Committees can be formed with members of the public assembly, advisory council, the board of directors, and other community members to monitor or study specific bank functions.

Overview of Public Banking Proposals

Modified Chart Comparing Public Bank Legislative Proposals

PHILADELPHIA

City of Philadelphia Bill No. 210956-A was proposed on January 28, 2021, and passed on March 3, 2022. The bill creates a Philadelphia Public Finance Authority with stated goals, including bringing financial equity to underserved communities and helping with other justice-oriented goals (City Council of Philadelphia, 2021).

CALIFORNIA

California Public Banking Act, introduced as AB 857 in California's 2019 session. The bill created a framework for establishing regional and municipal public banks throughout California. In 2021, the California Public Banking Option Act (AB 1177) was passed, guaranteeing universal banking access to all Californians (California Public Banking Option Act, 2021).

MASSACHUSETTS

An Act to Establish a Massachusetts Public Bank (H.1223/S.665), introduced in 2021 and heard by the Joint Committee on Financial Services on October 26, 2022 (An Act to Establish a Massachusetts Public Bank, 2021).

NEW JERSEY

Executive Order 91, introduced in 2019, created a Public Bank Implementation Board tasked with developing an implementation plan for a public bank. A public hearing was held in April of 2022 (Office of N.J. Governor, 2019).

NEW YORK

New York Public Banking Act (S.1754), originally introduced in March of 2021, would authorize the NYS Department of Financial Services to issue special-purpose public bank charters to New York cities, counties, and regions (New York Public Banking Act, 2021). In addition, the People's Bank Act that was introduced in September of 2020 lays the foundation for a public bank in New York City. A hearing was held by the New York City Council Committee on Finance in April of 2021 (New York City Council, 2020).

Methodology

We employed a mixed-methods approach to address our primary research question: What impact would the implementation of proposed public banking models have on community asset ownership and governance in communities of color? We addressed this question by conducting a comparative study of five public banking proposals across the U.S., including recently passed legislation in Philadelphia and California, and proposed legislation in Massachusetts, New Jersey, and New York. Although dozens of municipal and state public banking bills have been introduced across more than half of U.S. states since 2010,⁸³ this study focuses on legislation that, during the period of study, had reached a threshold of visibility—either by gaining significant sponsorship, support from legislative leaders or executives, advancing through the legislature, and/or generating notable media and public attention.

Additionally, we analyzed the federal Public Banking Act of 2020 (H.R. 8721), introduced in October of 2020. Although this bill has not been enacted, its provisions could become law if reintroduced in the future. If passed, this groundbreaking legislation would establish a public banking grant program to provide federal funding for the formation, chartering, and capitalization of public banks at the state and local levels.

Our research incorporated both qualitative and quantitative data collection. To inform our analysis, we reviewed each of the proposals and conducted interviews with key public banking and community stakeholders in each of these jurisdictions, as well as experts in the broader field of public banking. We also researched commercial banking outcomes

and reviewed the policies, practices, and outcomes of the three existing public banks operating within the country and its territories (i.e., the Bank of North Dakota, the Native American Bank, and the Territorial Bank of American Samoa). This data has been synthesized into a rubric by which we compare target jurisdictions' policies, bylaws, and community investment and engagement practices, as well as the relative potential of those policies to build wealth in local communities of color.

Literature Review

In preparation for this research, we conducted a comprehensive literature review. The review included a thorough investigation of the history of public banks in the U.S., the community and economic impacts of public banking, the community and economic impacts of corporate banking, the community and economic impacts of CDFIs, and the critiques and analyses of public bank models.

Interviews & Analysis

To inform our analysis, Dēmos and the New Economy Project interviewed 15 experts, including activists, advocates, and academics involved in the public banking movement across the country. The interviewees asked questions about the role of banking in society, the racial impact of past and present banking practices, public banking models, current campaigns for public banking, and the potential impact public banking can have on the racial wealth divide. The responses shaped the analysis in this report.

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