City of Santa Fe

Agenda

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Public Bank Task Force – Special Public Forum
Monday, November 20, 2017, 5:30 p.m. – 8:00 p.m.
City Council Chambers

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. PUBLIC BANK TASK FORCE CHAIR & SUBCOMITTEE UPDATES TO PUBLIC (Item #1) (5:35-7:00)
   a. Agenda overview & ground rules, Michele Lis, Facilitator
   b. Overview, David Buchholtz, Chair
   c. Legal Subcommittee update
   d. Citizen questions on legal issues
   e. Regulatory Subcommittee update
   f. Citizen questions on regulatory issues
   g. Capitalization Subcommittee update
   h. Citizen questions on capitalization issues
   i. Governance Subcommittee update
   j. Citizen questions on governance issues
5. ADDITIONAL CITIZEN COMMUNICATION FROM THE FLOOR (7:00-8:00)
   Questions: Santa Fe has compelling needs to efficiently provide government services and to create economic opportunity and prosperity for our residents. Do you believe the formation of a public bank would address these needs and provide needed services? Would a public bank provide our existing banking community (community banks and credit unions) and governments the tools to render more effective services? Would a public bank provide added value to the economic health of Santa Fe? What risks or hazards do you believe a public bank might create? *With your input, the Task Force can move toward clarifying what the purpose of a public bank for Santa Fe would be.*
6. ADJOURNMENT

Persons with disabilities in need of accommodations, contact the City Clerk's office at 955-6520 five (5) working days prior to meeting date

SS002 pmd-11/02

SUMMARY OF ACTION
PUBLIC BANK TASK FORCE - SPECIAL PUBLIC FORUM
CITY COUNCIL CHAMBERS
MONDAY, NOVEMBER 20, 2017, 5:30 PM

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CITY COUNCIL CHAMBERS
MONDAY, NOVEMBER 20, 2017, 5:30 PM

1. CALL TO ORDER

The meeting of the Public Bank Task Force was called to order by Chair Buchholtz at 5:30 pm, on Monday, November 20, 2017, in the City Council Chambers, Santa Fe, New Mexico.

2. ROLL CALL

MEMBERS PRESENT
David Buchholtz, Chair
Brad Fluetsch for Adam Johnson, Finance Director
Randolph Hibben
Darla Brewer
Judy Cormier
Elaine Sullivan
Robert Mang
Kelly Huddleston

MEMBERS ABSENT
J. Wayne Miller

OTHERS PRESENT
Elizabeth Martin for Frances Lucero, Stenographer

3. APPROVAL OF AGENDA

MOTION A motion was made by Ms. Sullivan, seconded by Ms. Brewer, to approve the agenda as presented.

VOTE The motion passed unanimously by voice vote.

4. PUBLIC BANK TASK FORCE CHAIR AND SUBCOMMITTEE UPDATES TO PUBLIC

A. AGENDA OVERVIEW AND GROUND RULES

Chair Buchholtz said thank you all for coming. Our facilitator is ill and not here tonight so please bear with us. He introduced himself and said he is an attorney with the Rodey Law Firm.

Chair Buchholtz continued by saying this is a public forum meeting of the Public Bank Task Force. This Task Force was established by the City Council in coordination with the Mayor in order to study the question of having the City of Santa Fe move forward on a Chartered Public Bank. We were given 6 months to complete this task. We have been meeting for 3 months now. All of our meetings have been open sessions. He encouraged everyone to look for meeting notices and attend. It is required by Resolution and we thought it would be useful to have this public session dedicated specifically to letting the community know of our work to date and to take comments and questions.

The Task Force members introduced themselves.

Chair Buchholtz said he would like to let everyone know what we have done to date and what the ground rules are for tonight.

B. OVERVIEW

Chair Buchholtz said this Task Force was formed by a Resolution of the Council with appointments made by the Mayor to study the issue of a public bank for the City of Santa Fe. The City Attorney's Office determined that we are a public body under the Open Meetings Act. In order to accomplish our work we broke ourselves down into subcommittees. The subcommittees are legal matters, regulatory matters, capitalization and governance. Each of them will present a report of their work to date tonight followed by brief 2 minute questions to the subcommittee on their topics. After that each member of the audience can take several minutes to give us your thoughts on public banks. On the agenda you will find some questions developed by members to give you things to think about.

C. LEGAL SUBCOMMITTEE UPDATE

Chair Buchholtz said most of the work accomplished has been through the City Attorney's office and outside council. He thanked the City Attorney for offering her budget and for having the outside council study the issue for us. The outside council is Najjar and Brown. They prepared a lengthy document that is part of the record and is posted on web pages and available. The legal subcommittee concluded that there are a number of challenges related to legal questions regarding the operation of a public bank, but no specific challenge to cause it not to be done. Not to minimize the seriousness of the challenges or the work that would have to be done. One of the questions the study yielded was around home rule authority. There is not a State statute that says cities can form a public bank. There are statues around home rule powers. Santa Fe is a home rule entity. The questions here are, is there anything under State law that says the City cannot do this, is this is a public purpose of a government and should a government be in the business of operating a public bank. The government can do many things, with some limitations, that its Governing Body allows them to do. There are issues related to the Anti Donation Clause and similar constitutional provisions regarding investment of funds. Those are outlined in the study report. His view is the Anti Donation Clause restricts a government from being a guarantor and donating its money or paying someone debt. It does not restrict government from entering into contracts. Also there are statutory restrictions about how government can invest their funds. That has to be studied. There is the possibility of looking at legislation. That is also in the report. In order to be a chartered bank we have to be so under State or Federal law. There are a series of regulations under both that would need to be taken into consideration. The report covers those matters.

D. CITIZEN QUESTIONS ON LEGAL ISSUES

Berl Brechner asked regarding the terminology in the report, is it an opinion or a memorandum.

Chair Buchholtz said it is a detailed memorandum. When a lawyer gives a technical legal opinion they are saying they believe this is what the law is. A memo is a more studied writing on what are the issues and how could they likely be decided. There is nothing in the memorandum that gave an opinion that anything in there was prohibitive.

Nichole Lichen said she would like an update on the idea that the Attorney General might be asked to give an opinion on the public bank and the Anti Donation Clause. Is that necessary.

Chair Buchholtz said the public or members of task force do not have the authority to go to the Attorney General and ask for a formal opinion. Only members of the Legislator or State elected officials can do that. Can City Council. He is not sure. It would be easy enough for them to ask to pursue that. If that is the case then the Attorney General would be charged with answering questions based on certain facts. Advisory opinions and some more formal published opinions. The weight of an Attorney General's opinion is not as strong as a decision by a court, but is impressive evidence to a court. Lawyers often rely on Attorney General's opinions short of going to court. Courts can say in making their determination that they have reviewed Attorney General opinions. Some courts have said they do not agree with an Attorney General opinion.

The Governing Body may seek an Attorney General's opinion by asking members of the local legislation delegation.

James Trujillo said he is a realtor from Colorado who recently moved here. When he hears of a city owned bank the first thing he thinks is will this bank accept legal marijuana deposits. There is a huge banking crisis in Colorado where businesses do not have a place to deposit their money.

Chair Buchholtz said we did not address that in any detail. There is a lot of tension between State law and Federal law. We don't have general use of marijuana here in New Mexico. Federal law still treats it as a controlled substance. That is a tangled question. There are some considerations in other jurisdiction about that.

Mr. Trujillo asked are you considering accepting that money.

Craig O'Hare said he will refer the issue to his other members as we go forward. To date that has not been addressed.

Mr. O'Hare said it seems we leaped into the weeds without the big picture.

Chair Buchholtz said we wanted to inform the public about what we are doing first. We are going to follow up with that. Please stay.

Mr. O'Hare said it seems it would have been helpful to know your charge as a Task Force and what the Resolution charges you to do.

Chair Buchholtz said fair enough.

Chair Buchholtz said we are charged with limited work to study particular areas that will allow us to make a report to the Governing Body on the question of if the Governing Body should proceed to work on a public bank. We have been given 6 months to do it. We are to report to the Finance Committee at the half way mark and will do that the first week of December. Some issues have come up regarding what the Council is specifically looking for. A question we have is, are we to give them a recommendation or a report of pros and cons. We are hoping to raise that at the Finance Committee in December. The Resolution calls for 3 things. It calls for an opinion of the City Attorney, a report from the Finance Department, which was delivered in June of this year and is part of the public record and for the Task Force to meet and to address questions that we broke down into 4 subcommittees.

Charles Koenig asked would a public bank have to secure public deposits with collateral.

Mr. Hibben said at present deposits have to be collateralized at 102% of face value. Statue allows collateral to go to 50% with named institutions. At present we would have to seek a variance on that.

Chair Buchholtz said he and Kelly Brennan, City Attorney, are the members of the legal matters subcommittee.

E. REGULATORY SUBCOMMITTEE UPDATE

Chair Buchholtz said Mr. Hibben and Ms. Cormier are the members of the regulatory subcommittee. They are both retired bankers and have worked very hard on this for us.

Mr. Hibben presented his report on slides and it is incorporated herewith to these minutes as Exhibit "1".

Ms. Cormier said once one has a bank then the operations of the bank are looked at depending on what the functions of the bank will be including staffing the bank. Operating costs are the people who run the bank and the systems of the bank. We don't have a definitive number. We did a quick look at smaller banks and overhead costs. The majority of the percentages were from 2 % to 2 3/4 % of assets that went towards non income expense. This is not an absolute number. That is one of the hurdles we have to look at.

Mr. Hibben said it is also a regulatory concern. There is a 5 year study that says we would need 4 ½ full time positions. There is some concern about that. Regulators expressed concern.

Ms. Cormier said their expectations of any bank are oversight function and operations as they should be. Until we have a more full expectation of the functions of the bank we can't answer that question about what staffing is needed to be in compliance and effective.

Mr. Hibben said there have been some concerns that Santa Fe is well banked at this point.

F. CITIZEN QUESTIONS ON REGULATORY ISSUES

Angela Merkert asked is it clear that FDIC regulations are required since the bank will be doing work with organizations, not individuals.

Mr. Hibben said the State requires some form of that. Typically FDIC. It could be the full backing of the State.

G. CAPITALIZATION SUBCOMMITTEE UPDATE

Chair Buchholtz said Mr. Mang is a venture capitalist and experienced in raising dollars.

Mr. Mang said we don't have a presentation on slides but he and Wayne Miller serve on this subcommittee. Wayne was not able to be with us due to back pain. There are copies being handed out if you wish to look at our report. That is the basis for his remarks. That report is incorporated herewith into these minutes as Exhibit "2".

Mr. Mang said we assume funds would have to come from the City of Santa Fe. There are 3 ways to collateralize using City resources. There are caveats and restraints to all. General obligation bonds of City liquid assets would jeopardize the City bond rating. Revenue bonds are a possibility based on the banks viability. The other way is to go to a City vote and have the citizens of Santa Fe stand behind it by a possible increase of property taxes if the bank is not able to perform on the bond. A third way is investment funds. That could be made available from the $160 million the City has invested. Much of it is restricted and could not be used to capitalize the public bank. There is about $50 million that could conceivable be invested in a public bank. If the trustees who oversee those funds were agreeable that the bank is worth investing in. Without a business plan to present we cannot determine at this point if it would be viable at this time. It would be an individual decision by the Board of each fund. Our conclusion is if the public bank had a business plan or an offering or prospectus that demonstrate a compelling value to Santa Fe then it may be worthwhile to pursue this. We can't make any further determinations until we have that.

H. CITIZEN QUESTIONS ON CAPITALIZATION ISSUES

Paul Goblet said thank you for going through this exercise. This challenges you to think about all the issues, impediments, risks and rewards. At this point you have to focus on the City as provider of capital and if the FDIC would accept that as permanent capital. He has known the Chair for a very long time. If anyone can figure out a way to legally structure this David Buchholtz can. This is fools gold. He knows there are a lot of well intentioned people here. Still this is the stupidest idea he has ever heard. He thinks there are enough road blocks and impediments to this that it cannot happen. He is an investment banker. He applauds the well intentioned people, but without a business plan and a P and L it is a moot point.

Chair Buchholtz said Paul is an old friend. He can come back at the end of the session and speak again if he wants to.

Jim Lodes said regarding capitalization. The unrestricted funds you are speaking about investing in the public bank, are you talking about a grant of money. This is not really an investment. It is giving money to the bank.

Mr. Mang said that is not the way we looked at it. It would be an investment with return.

Mr. Lodes asked would they be able to choose to liquidate that investment or withdraw funds from the bank if they wish.

Mr. Mang said it will be highly liquid until the money is paid back. One way to structure this is if the bank was profitable year after year you would use some of that to return the capital to the investor. Another way it would be liquid going forward, but there would be a return from profits each year. Or it could be a grant, but that is not very attractive to raise the capital.

I. GOVERNANCE SUBCOMMITTEE UPDATE

Chair Buchholtz said Ms. Sullivan and Ms. Brewer serve on this subcommittee. They worked very hard on this important part. They are working on protecting the money if it is public money.

Ms. Sullivan said we talked to a good number of experts in our community.

Ms. Sullivan said she has been involved in this for several years. One of the things clear from the beginning is the importance of a governance model that would assure the public that the City would not be asked to run a public bank, but rather a governance model created that would put in the right relationship with the various entities required. We are still interviewing people and trying to establish the right relationship between a Bank Board, a Citizens Advisory Board, the bank management itself, the City Council and City staff. There is no model out there that gathers those 4 entities. We had to begin creating a draft model from people's experience about how this could happen.

Ms. Sullivan gave her presentation with a slide presentation. The presentation is herewith attached to these minutes as Exhibit "3'.

J. CITIZEN QUESTIONS ON GOVERNANCE ISSUES

Mr. Brechner asked do you envision that members of the Advisory Board and Bank Board would be covered by Directors Liability.

Mr. Sullivan said we have not addressed that yet.

Mr. Brechner said this City government and it's agencies have at least 60 Task Forces, Boards and Commissions that include members of the public. A lot of people who volunteer for this sort of thing are tapped out. Keep that in mind. Finding talent to serve on these Boards will not be easy.

Chair Buchholtz said his sense is he does not envision paying or insuring those persons who are experts who will vet people for Board members. Under our constitution the way we pick judges is that a volunteer committee is appointed by the Governor, the majority and minority members and other specified groups. They serve without pay and vet applications for people who want to be judges. The people charged with being directors of the bank and who would have pay and insurance would have to be studied and protected.

Ms. Brewer said in the regulations the Board does have to have D and O insurance.

Jim Lodes said this is not under any of he 4 committees. In the original feasibility study they were using figures like $220 million invested by the City and they would borrow $50 million with a rate of interest of 3% and get 2% on their $220 million and the other interest would cover the administration of the bank. Are you studying if the City is going to deposit $220 million. Are you studying if the City is going to borrow $50 million. A figure mentioned was that it may cost 2 3/4 % of assents to operate the bank. That is almost 3 times the estimated operating costs in the feasibility study. Is anyone looking at if the numbers even remotely work out before you go to a lot of hoop jumping.

Mr. Hibben said yes, he has been looking at that. The broad brush approach used by 5 year model in his opinion is not accurate. When you say the City was going to borrow $50 million the idea was for the City to deposit their money which is not available and they would borrow the money to pay off their existing bonds. There are questions about the models accuracy.

Mr. Lodes said the City has prepaid certain loans and bonds. He doesn't know how much that is. One of the mysteries in the original study is what the City would use the $50 million for and that they would borrow back from the public bank. It was never really clear where that $50 million was going to go or even if the City would do that.

Mr. Hibben said fundamentally are those funds available that are unrestrained. That is where the $50 million would go. In terms of operating expenses, staffing levels for a bank dedicated to the City would not be the same as small banks.

Mr. Lodes said the question is are you looking at the financial feasibility of the whole thing. You are doing a lot of good work, but if you get to the end of the road and the dog don't hunt then you have wasted a lot of time.

Mr. Hibben said the City has to have the unrestrained liquidity to make this work and he does not believe it does.

Chair Buchholtz said we come from different backgrounds and expertise. We are teaching each other. We are working on a basic building block level. What money does the City have. How has the City dealt with its financing over the years. When we say the City has repaid some of it's debt we are saying the City has borrowed at lower rates in order to repay a higher rate debt.

Mr. Lodes said the $17 million from the water fund was hard cash.

Chair Buchholtz said part of that repayment also adjusted the collateral that would be in place to make repayment of the debt. It was also to free up GRT for other purposes. We studied all that. If we find the money and the legal ability to capitalize the bank it will not be a gift or donation but return on capital. We are deep into that. Part of this forum is to test us and make sure we are moving in the right direction and see what the public has to say. We still have time to address questions in detail.

Mr. Fluetsch said he read the June 5th letter from Adam to the Council which details what the City staff has done in addressing the feasibility study. When that was written the outstanding debt of the City was over $300 million. Since then we have refinanced and paid off a large chunk of the water department and defeased the GO Bond. Now the city has $248 million of outstanding debt and is now earning in excess of 1 1/4 %. The City has done a lot in the last 3 years.

Mr. Lodes said he has read it and that is part of his reason for the question. The landscape has changed dramatically from the original feasibility study. He encouraged the Task Force to do a new performa on the whole proposition. Can the public bank generate efficient revenues to run itself and pay interest and meet other obligations. It would behoove you to do that before spending more money.

Mr. Mang said he wanted to point out that the Resolution for this has one other aspect which was after looking at the information we gather to put together a performa/business plan. The questions you are asking are in terms of moving to the next step.

Michael Collins said he is a proponent and is concerned about liability. Who are the eligible borrowers. Are they strictly within the City limits only.

Chair Buchholtz said we have been exploring the question of what people think this bank is supposed to do. There are 2 functions. One is if the borrower is limited to the City of Santa Fe or perhaps other public institutions. Do those institutions need a chartered bank. The other kind of bank is an altruistic bank. There is a sense in some sectors of our community that the community is not served by the national banking system and that the existence of a bank owned by the government for a more broad community will bring us back to a day where the banking system is not so challenging to the general public. We have not made any decisions about that or who is limited to using the services. We do understand there is a variety of ideas about who a bank like this would serve. The Jimmy Stewart bank where you walk in and everyone knows your name is something people would like. We are thinking about those things, but have no consensus.

Mr. Collins said competition. Banks that are more well heeled and compete with us with lower interest rate will be rough competition. This is like a distant cousin of the public bank system in North Dakota.

5. ADDITIONAL CITIZEN COMMUNICATION FROM THE FLOOR

Chair Buchholtz said now we will have general comments from the audience. While we take a break for a few minutes please come up and sign in with Ms. Martin and she will call the names in order. We may have to cut off some discussion, but we don't want to do 2 minutes and a bell. Everyone interested in engaging the Task Force in listening to your thoughts please sign in.

James Trujillo. Mr. Trujillo said thanks for all your hard work. He was wondering why there is no mention of the marijuana industry and if people here are for or against. There is a huge amount of money in that industry, but that money is stashed under mattresses in Colorado and not being used. In Oakland and LA they are doing the same thing we are doing here. In Oakland they want to funnel money to low income housing. He was wondering if the community bank will serve low income people to find housing. There is a severe problem in this town with that issue. He would like to see that.

Alston Lundgren. Mr. Lundgren said he is has been a full time resident of Santa Fe for 20 years. Thank you for your good work in investigating a non conventional idea. One of his degrees is a Masters of Business in Finance. The Fractional Reserved Bank is a mechanism to allow chartered banks to make loans larger. A chartered public bank does seem a way that the City can leverage their funds to make an improvement in their financial picture. Pay close attention to cash flow. That is critical; however, the cost of funds to loan would be low. Retained earnings could go up so more substantial loans could be made in the future. He is puzzled why fractional reserved banking is not considered.

Chair Buchholtz said he heard you say a chartered bank would have the ability to lend well beyond their capitalization. Where would they get the money to lend and repay the funds.

Mr. Lundgren said the funds they can lend include the deposits not just the capital. In this case if Santa Fe puts a number into the bank and the bank could lend that money back to the City.

Chair Buchholtz said those deposits would have to be capitalized then the protection of the deposited funds would come into play.

Mr. Hibben said to have funds available to lend, the funds have to be available from the City. We are still not sure that is the case that funds are available.

Mr. Lundgren asked is that under investigation right now.

Chair Buchholtz said yes.

Nichoe Lichen. Ms. Lichen handed out an updated draft model for public banking. This draft is herewith incorporated into these minutes as Exhibit "4".

Ms. Lichen said while you can use your deposits to cover your loans you can also borrow on the overnight market and that is where liquidity comes from with a charter bank. We used to have that $220 million and the City made good use of it to get rid of our debt, but now we don't have that money anymore. If we had a bank we might have been able to leverage the money. She understands from the last meeting that there was a conversation about financial literacy and banking and education on the benefits of banking. She wants to remind the Task Force that many people in our community have been shamed away from using banks. It is generational. We need to find a way to make banks more friendly and approachable for people in our community.

Ms. Lichen said we are the Brass Tacks Team. We are trying to understand what advantage that would be. We looked at refinancing City debt. A bank refinancing the City's existing debt is a good way to get a bank up and running. Also we could use the bank for shovel ready simpler projects and a portion could be recommended to use for partnership lending through CDFIs that want to lend for affordable housing. It would be good to look at the debt the City has. Most banks have to look at running in the red for the first 2 or 3 years. We are fortunate to have debt that we can refinance and be profitable in the first year. The numbers are before you. A public bank can help reduce the City's existing debt. The money stays in the community to be reinvested. It can increase access to affordable credit through the leveraging of capital. A public bank has access to overnight borrowing that the City does not have access to. They can make a profit by lending. It saves the City money as well. The thing is infrastructure may sound boring but it creates jobs, boosts the economy and puts money in pockets. It is relatively easy to establish. More complex measurements are needed to show the benefits of affordable housing and economic development. The impact of the lending and how does it create potential in the community. A public bank can request the City to do its due diligence when it comes to borrowing. A public bank might help local financial institutions to manager some of the regulatory burdens. It could be a think tank. The altruistic public bank model could be used. There is a model from Germany. It was set up because people did not have access to banks. The municipalities and individuals put their money into those public banks. Profits go to benefit the community as a whole. It is a great idea to consider partnering with local governmental entities and is something we could look at to make more liquidity for our bank. There is less cash on hand than when the last study was done, but where there is a will there is a way.

Mr. Fluetsch said you mentioned that the public bank would lend money for infrastructure. Those projects typically are paid back over a longer time. We have all seen the investment market where the Federal Reserve said they are going to raise interest rates. They will probably raise them again soon. We know interest rates are at a historic all time low. His concern is you suggest we borrow short term and lend at a long term. How do you address the risk knowing that those short term rates will be raising.

Ms. Lichen said the bonds have terms from 5 to 15 years remaining on them. That is not particularly long term. In terms of refinancing debt those are relatively short term. We are talking about shovel ready projects and having more capacity to do more shorter term lending. Definitely it should be short term or not really long term.

Ms. Cormier said in this document, on the upper management salaries she does not know if the anticipation is partnering with another institution to do the more hourly level work or if the public bank will do it. If the public bank does it there are a significant number of salaries not accounted for. The hourly work force includes data processors, reconcilers, the compliance team, auditors and others. Those are not accounted for in this model that you gave us.

Ms. Lichen said that is one of the things we looked at. Subcontracting. Like for credit card service. When you look at it you see the year end balance. We don't know what the hidden costs are so we don't have a profit number. We also don't have any kind of handle on regulatory requirements for a simply structured bank.

Ms. Cormier said at the end of the day whether it is a limited bank or consumer bank there will be regulatory requirements. Even for the subcontracting the regulatory view is if you pay someone else to do it you still own the problems. She just wanted to sound that out with you.

Ms. Cormier said she knew those were questions, but did not know the answers. This is just a possible model and way forward.

Ms. Lichen said as we further define what the bank will and won't do then we can extrapolate what the costs will be.

Ms. Lichen said thank you for the work you are doing. We appreciate it.

Chair Buchholtz said thank you and for the work the Brass Tacks does.

Ms. Cormier said she would like to meet with him.

Mr. Hibben said on the balance sheet you show $44 million in Federal funds. The amount of borrowing one can do in the overnight market is limited to capital and surplus. You couldn't get that much in what we are discussing here.

Ms. Lichen said she will take that question back to her organization for an answer.

Berl Brechner. Mr. Brechner said thank you. He has 4 points to make. He appreciated the Task Force work. First he is in favor of this project and has been from the start. He was in support back to 2014 when the Mayor and Councilor Maestas were participants in a symposium supporting this. That organizations President is now a member of the Task Force appointed by the Mayor. Before the Task Force was created $50,000 was spent to have a feasibility study done by the organization and the Mayor was involved. The Mayor had to recuse himself from the vote on that. Is was a surprise that it supported the major concept. There are people saying it is wrong and impractical for the City of Santa Fe. Reports from State agencies make clear that it could not be done. In an August memo from State Regulation and Licensing it finds it impractical. Dan Najjar issued a 201 page report suggesting that it would be difficult to impossible to potentially illegal. A public bank created in 1919 in North Dakota. Public bank supporters will tell you that the idea is catching on. Perhaps 5 to 10 years from now when one is created in Santa Fe we can look at that. Santa Fe taxpayers should not be a Guienie pig. He has no interest in investing in a City Bank or the City using taxpayer money in an experiment. He fails to see that the City has explored the issues around this issue. Have they explored if there are better options are out there. Has the City taken into account what the harm might be if it closed or fails. What is the impact on City Reserves or the impact on it's bond rating. The city did not even have a clue of what it would take to run a bank. They were naive. Santa Fe has not proven it can or should take on the fiduciary duty to run a bank. There are issues already with the bank. A recent independent accounting study showed issues not resolved. Too frequently plans are off target. Citizens have lost confidence in the City to properly take care of our money. The City should not be in charge of a bank. This issue has gone far further than it ever should have. It is time that the City resources be recognized and that the Task Force and the Governing Body end this process.

Charles Koenig. Mr. Koenig said the Bank of North Dakota has returned a profit every year. It is using money that went out of the state of North Dakota. If we can establish a public bank in Santa Fe we can generate profits for the City. Capitalization. Would there be an opportunity for citizens to invest in their public bank.

Mr. Hibben said no. That was not part of the plan initially.

Mr. Koenig said there might be citizens who might want to do that.

Mr. Hibben said he thinks what he is hearing is a cry for a real community bank. That is unrelated to the City.

Mr. Koenig asked this bank would have an opportunity to participate with a community bank correct. We need a public bank that private citizens can invest in. Why does it have to be black or white. Why not a combination from other sources.

Chair Buchholtz said the charter we were given asked us to investigate a bank owned by the City of Santa Fe, not the City of Santa Fe and others. That raises a number of other questions that we have not explored. He takes what you are saying seriously. The sense of what the Council was asking for was a bank owned by the City of Santa Fe.

Mr. Mang said we are assuming that the public bank would be similar to the way the North Dakota bank is structured. We only have one community bank left in Santa Fe. We would like to see how to get more back. The relationship of community banks to the population in North Dakota is 4 times what it is in other parts of the United States. The North Dakota bank had been a source to help defray some of the regulatory costs. The bank of North Dakota has helped pull them into a kind of cooperative to share the costs. It behooves us to look at what kind of community banks do we want to have that would be from local stockholders.

Mr. Koenig said when he moved to Santa Fe in 2002, 65,000 people lived in the City and 65,000 in the County. Not a lot of people . Have you looked at collaborating with the County for economy of scale. Now there are 75,000 people in the City.

Chair Buchholtz said that is beyond the charter given to us.

Mr. Koenig said there is non interest income and expense to consider. It seems we would want to look at the City's RFPs to global banks. If it is public information we could see what services are provided by them to the City. That might be an opportunity for income for a public bank to step in and provide those services.

Mr. Fluetsch said the city just went through an RFP process and it is on line and on the website. We did pose that question to the attorneys regarding what would be the issue if the County, City, School District and Community College came together. The attorneys said the City of Sant Fe is home ruled. They would not have the same regulatory questions on what they can do as the City as the other partners would have. That question was evaluated.

Dee Gamble. Ms. Gamble said thank you so much for the work you are doing on this idea. Thank you to the Brass Tacks Team and anyone who is looking into these ideas. No idea is stupid.

Jim Lodes. Mr. Lodes said we need a cost benefit analysis. He does not think you have taken into consideration the uniqueness of this. If you are talking about getting into lending you will need loan loss reserve. That creates more costs. To start this up you talked about $1.5 million, but that will be a significant cost to the City. There is the issue of operating every year. A figure thrown around is $1 million. It is going to be significant expense in order for the City to use a public bank. One of the benefits is to improve the City cash management and better utilize and invest it's own money. That need has been met without the need of a public bank. Other benefits are savings from prepaying loans and undertaking capital improvements using bank money. The City is already doing that internally. The question is the need and the interest paid. He is not sure the bank can afford to pay the City 1% and there are other investment opportunities the City has other than the public bank. It has been said the funds would stay local. In order to colleratalize funds the public bank is going to have to invest in government instruments and those are not local. Local community banks will lend $60.00 to $70.00 out of $100.00 out to the community. Not a public bank. Transparency is an issue. We would be changing from open meeting requirements to a private Bank Board appointed by the City. They would not necessarily be open meetings so the Transparency is considerably poorer. For small business loans, it has been said the public bank can do small business loans. It can, but the feasibility study says there is no unmet need for that and strongly recommended that the public bank not do that. Lastly he has a wish that we get out of Wells Fargo. We might do that unless you out source services back to Wells Fargo again. Borrowing from the Federal Reserve, they lend against your mortgage portfolio and the public bank would have none of that. You need to check and see about that.

Ms. Sullivan said you talked about costs and that the benefits proposed would not work. She is curious if you have considered any benefit analysis that is harder to quantify.

Mr. Lodes said he does not understand the question.

Ms. Sullivan asked did you consider any benefits that were not quantifiable.

Mr. Lodes said that was not the direction of his presentation. He does not see any other intangible benefits that justify the expenditures the City is considering taking here.

Neva Van Peski. Ms. Van Peski said she was an economist at the Federal Reserve Board. The Task Force needs reliable informtion. There was a claim that the public bank can expand the capital invested in it. The Brass Tacks Team put out a flyer to that effect. It says that can be done up to 10 times. This is just flat out wrong. If the public bank wants to make loans they have to make them out of funds deposited in the bank by the City. She thinks this statement is based on confusion rather than a deliberate attempt to mislead. When a bank makes a loan it makes a deposit for the borrower and the borrower will write checks on it and the public bank has to cover those while drawing down its other assets. Once you understand that credit can be extended by the public bank only out of City deposits there is a real question if a public bank can add anything useful in the banking of the City.

Chair Buchholtz said thank you for coming to all our meetings Ms. Van Peski and we really do appreciate your presentation.

Ken Mayers. Mr. Mayers said thank you for all your hard work and the Brass Tacks group for their work. His interest is in the challenge it is for the minority business community to obtain funding. It is interesting that the public bank falls into the area of if this is to be a limited bank or an altruistic bank or a beneficial bank. It should be a socially responsible bank in contrast to the global banks of the world. Most hopeful is the opportunity to cooperate with community banks and others to ensure projects for the benefit of the community or minority or small business enterprises. To deny our funds to Wells Fargo is a benefit as well.

Karen Helmeyer. Ms. Helmeyer said thank you all and the many members of the public who have contributed their expertise to this. She is sure the Council appreciates it as well. She has 2 issues. One is there are limitations on City funds. The reality is statutorily they are put into silos and there are certain things you can and cannot use the money for. It is not all just a big pile of money. It is a bunch of little piles of money. We have to be careful of what goes where. There is still confusion in the public about what it is that a public bank would do. Is it intended to partner with local community banks or with NGOs. Or to provide something to individuals in the community. You run into higher risk and less security. Given the lack of trust of City government handling money you want to have the highest level of confidence in the public if you are going to have a public bank. If you are getting into things that are more risky or less safe that will increase the lower confidence in the community. We have seen enough homes foreclosed on and cars repossessed with pay day loans. The City has to think about the risk as a government. In economic development they have to think about potential risk. You can have the best Board in the world, but mistakes can be made and the economy could change and where does that leave the City. We need to think about the potential positives and negatives.

Chair Buchholtz thanked Ms. Helmeyer for her service.

Angela Merket. Ms. Merket said thanks for the intense and comprehensive work you are doing on this project. She was on the first group that worked on this and is still interested in the progress. In the financial discussions she is not hearing a lot of attention being paid to the cost of obtaining bonds. Those fees are major. She thinks Brass Tacks has considered that, but it is a part of the cost of doing business. Also for her, one of the primary interests all along was how do we obtain more control over our revenues locally and not support the funding of major projects that may not align with our values or don't support the local communities. The local control through a public bank is attractive. The North Dakota bank does that. There is an opportunity for local control and local enhancement.

Chair Buchholtz said we appreciate you coming up from Albuquerque.

Mr. Fluetsch said the City, when it invests it's funds, invests in US Treasury government agency debt. That is all the statutes allow us to invest in. We do not invest in Wells Fargo. We are precluded in investing in corporate paper. We can invest in prime money market funds. We use money market funds that include paper from banks around the world.

Ms. Merket said thank you for clarifying that.

Mr. Mayers said we do pay fees and interest to Wells Fargo.

Mr. Fluetsch said fees to Wells Fargo, yes. Very little. We pay our bond holders.

Mr. Mayers said the money we deposit in Wells Fargo enables them to make their loans to all kinds of business that we have no control of. They may not be businesses we want to help.

Mr. Koenig asked what is the average ledger balance of Wells Fargo today.

Mr. Fluetsch said roughly $35 million. We are earning a compensating balance on that. Accounts are collateralized at 102%.

Mr. Koenig said so those more than cover the fees we pay Wells Fargo. Wells Fargo gets the difference. What would that be.

Mr. Fluetsch said he doesn't know. Probably 1 1/4%.

Chair Buchholtz said these questions are going beyond what the Task Force is here for. The records you are asking about are now available on this desk.

Chair Buchholtz thanked the audience for staying with us tonight. There was a diversity of views. He learned a lot this evening. We will continue our work. We are meeting on the 29th and meeting with Finance on December 4th. They are all public meetings and you are all welcome to attend.

6. ADJOURNMENT

There being no further business before the Task Force, the meeting adjourned at 8:15 pm.

David Buchholtz, Chair

Elizabeth Martin, Stenographer

Public Bank Task Force – Public Forum

November 20, 2017 5:30-8:00 p.m.

EXHIBIT 1

Agenda

- CALL TO ORDER
- ROLL CALL
- APPROVAL OF AGENDA
- PUBLIC BANK TASK FORCE CHAIR & SUBCOMITTEE UPDATES TO PUBLIC (Item #1) (5:35-7:00)
  - Agenda overview & ground rules, Michele Lis, Facilitator
  - Overview, David Buchholtz, Chair
  - Legal Subcommittee update
  - Citizen questions on legal issues
  - Regulatory Subcommittee update
  - Citizen questions on regulatory issues
  - Capitalization Subcommittee update
  - Citizen questions on capitalization issues
  - Governance Subcommittee update
  - Citizen questions on governance issues
- ADDITIONAL CITIZEN COMMUNICATION FROM THE FLOOR (7:00-8:00)

Questions: Santa Fe has compelling needs to efficiently provide government services and to create economic opportunity and prosperity for our residents. Do you believe the formation of a public bank would address these needs and provide needed services? Would a public bank provide our existing banking community (community banks and credit unions) and governments the tools to render more effective services? Would a public bank provide added value to the economic health of Santa Fe? What risks or hazards do you believe a public bank might create? *With your input, the Task Force can move toward clarifying what the purpose of a public bank for Santa Fe would be.*

- ADJOURNMENT

Ground Rules for Discussion

- Please observe time limits and be concise
- All points of view are valid and deserve our respect and attention
- Listen to understand
- Agree to disagree respectfully

Legal Sub-committee – Who have we contacted?

- City Attorney, Kelly Brennan - Review of relevant legal issues
- Mark Chaiken and Richard Virtue, Virtue & Najjar, PC - Review of legal opinion required by Resolution 2017-32

Legal Sub-committee – What are key considerations?

- Home Rule Authority
- Public Purpose Issues
- Borrowing Considerations
- Investment Authority
- Anti-Donation and Similar Constitutional Provisions
- Financial Institution Regulations

Regulatory Sub-committee – Who have we contacted?

- Dr. Christopher Erickson, co-author of the Public Bank Feasibility Study
- Mary K. Root, Director NM Regulation & Licensing Department
- Christopher Moya, Acting Director, Kevin Graham & Rebecca Moore, Regulation & Licensing-Federal Institutions Division
- Adam Johnson, Christina Keyes & Bradley Fluetsch, City of Santa Fe Finance Division
- Mike McGonagle, retired banker Santa Fe

Regulatory Sub-committee – What did we learn?

- Regulatory Issues & Concerns
  - Anti Donation Clause
  - Collateralization of City Deposits
  - FDIC Insurance
  - Federal Reserve Membership
  - No Limited Purpose Charters
  - Open Meetings Act
  - Independence of Management & Board of Directors
  - The Election Cycle
  - Dedicated Long Term Capital
- Available Liquidity, City of Santa Fe
- Best Practices, City of Santa Fe Treasury Division

Regulatory Sub-committee – What are the key opportunities and challenges?

- Interpretations of or Changes to Existing Law required for a Charter Application
  - "Anti Donation" Clause
  - Permissible Investment
  - Home Rule Powers
  - Collateral requirements for Public Monies
  - Open Meetings Act
- Cost of preparing the Various Applications Including a Detailed 5 Year Business Plan
- Operating Costs of a Public Bank
- Industry Opposition

CAPITALIZATION SUBCOMMITTEE REPORT

- We assume that capital for a City of Santa Fe Public Bank would have to come from or be collateralized by the City of Santa Fe. Thus, we have limited our search for capital to discussions with the City's Finance Department.
- The Finance Department advises that raising capital by:
  - Using General Obligation Bonds and/or the City's liquid assets would jeopardize the City's bond rating;
  - Using Revenue Bonds are a possibility based on the public bank's viability and probably requiring City voters approving use of property taxes as a backup; and
  - Investment from the City's few funds that are not restricted, would require an offering that t he different boards, who are fiduciaries for the different funds, to study and decide whether to invest or not.
- **Our conclusion at this point is that if the public bank has a business plan that demonstrates a compelling value to Santa Fe then it would be worthwhile to pursue this further. But not until then.**

Submitted by Sub-Committee Members: Wayne Miller and Bob Mang

EXHIBIT 2

Capitalization Sub-committee

- Updates & Questions

Governance Sub-committee – Who have we contacted?

- State Legislators
- Current and Former County Commissioners
- Former City Councilors
- Not-for-profit Executive Directors
- Leaders and retired leaders of the Financial Community
- Business Owners
- Public Banking Advocates Outside of Santa Fe
- Involved Community Members

Governance Sub-committee – What did we learn?

- The Governance Model must create a relationship among the City (Staff and Council) and the Bank Oversight/Policy Board and the Citizens Advisory Board that is connected with the Bank Management to create an appropriate accountability.
- Though these separate Governance bodies must be deeply accountable and communicative, they also must be independent of one another.
- Bank Oversight/Policy Board and Citizen Advisory Board members are vetted by professional groups and/or community organizations in keeping with role/job descriptions provided by the City Council Ordinance.
- Final selection of members of the Bank Boards must include public input and be free of political influence.

EXHIBIT 3

Governance Sub-committee – What are the key challenges?

1. How to ensure transparency
2. Current lack of understanding/trust in what a public bank could accomplish, apart from what can be accomplished by existing entities
3. Organization of an effective vetting process and qualified, available volunteers who reflect our entire community
4. Acceptance of public banking by city staff
5. Stepping outside the norm to do something that hasn't been done before
6. Maintaining commitment by community leaders to have the Public Bank move forward (when there are changes in elected officials)

Governance Sub-committee – What are the key opportunities?

1. Having a transparent institution handling our public funds
2. Greater involvement of the public in determining how our public funds will be put to work in our community.
3. Long-term partnering with other local institutions, with more capital circulating and meeting community needs.
4. A reduction in fees and costs that are paid to financiers who do not live within our community, which keeps more of our tax dollars local.
5. Our neighbors, friends, colleagues and community members will be involved in oversight and operation of the bank, which makes it easier to find out what is happening and holds people more accountable.

Community Input Questions

Santa Fe has compelling needs to efficiently provide government services and to create economic opportunity and prosperity for our residents.

- Do you believe the formation of a public bank would address these needs and provide needed services?
- Would a public bank provide our existing banking community (community banks and credit unions) and governments the tools to render more effective services?
- Would a public bank provide added value to the economic health of Santa Fe?
- What risks or hazards do you believe a public bank might create?

With your input, the Task Force can move toward clarifying what the purpose of a public bank for Santa Fe would be.

November 17. 2017

Dear Members of the Public Banking Task Force:

Thank you for providing us the opportunity to present our Six-Year Model Supporting a Public Bank for Santa Fe. The Brass Tacks Team (BTT) created this model in order to have a tool that could be used to support meaningful discussions about how a Public Bank could be viable for the City of Santa Fe.

BTT believes that a public bank for Santa Fe is a bank owned by the people through their local government. The City would be the sole customer and through the bank would be able to generate loan interest that would be recycled back to the city rather than being lost to private investors. That is money the city would "keep on the table". Additionally, the public bank would have access to the benefits of leveraging their public funds in a manner enjoyed by private banks.

BTT is opposed to any alternative concept that competes with private commercial banks. In creating our model, we adhered to advice of Eric Hardemeyer, President of the Bank of North Dakota: Start small, start your lending for projects you know, hire Bankers to run the bank, and do not compete with your local community banks. Rather, let your public bank support them.

Here is our request. We ask that the Task Force or a Committee of the Task Force review our model and, thereafter, one or more of you meet with us to help us understand why our model cannot work or how it might work. Please understand this is a MODEL and therefore, disagreement about specific dollar amounts in accounts are of secondary concern to the broader conceptual strictures of our model.

It is our hope that we can have a respectful and meaningful discussion so that we on the BTT can walk away with a clear understanding of why our model may or may not be workable and will then be able to share that information with others who have similar questions.

Again, thank you for the opportunity to present this model to you. Also, thank you to each of you for all the work you are doing on the Public Banking Task Force.

The Brass Tacks Team

Draft Six-Year Start-Up Model for
a Public Bank for the
City of Santa Fe, New Mexico

EXHIBIT 4

Brass Tacks Team
Public Banking Facts That Stick!

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D. Income on Assets (see back-up for interest rates in Tab 3)

E. Operating Expenses (see back up for operating costs on Tab 4)

F. Regulatory Metrics (see back up in Tab 5)

A. Approach

We have designed this side-by-side hypothetical balance sheet and income statement in a way that can be understood by those unfamiliar with such documents. For those well acquainted with the subject we invite helpful suggestions.

We created this Public Bank Business within the compliance "box" required by the Regulatory Metrics identified on Lines 34 through 37 of the Balance Sheet. (See Tab 5 for the back-up for these formulas)

The first balance sheet is a Beginning Balance Sheet – start 7/1/2018 – for the Bank after assets have been invested, funds deposited and a loan made. The second Balance Sheet is the Ending Balance Sheet after the first year of operation – end 6/30/2019. For simplicity, this hypothetical model approximates a loan portfolio with a single multiyear loan.

B. 1. Hypothetical Balance Sheets and Income Statements – 2018-2023 - Following this narrative.
2. Cashflow Forecast – 2018-2023 – follows the Balance Sheets

Cash flow is the lifeblood of all businesses. For example, it is anticipated that the City will make semi-annual payments to the Bank; however, the staff must be paid every month. Therefore, it is essential that management predict what is going to happen to cash flow so the cash is available as needed.

C. Assumptions

1. We assume that initial core capital (stockholder's equity) for the Bank will be funded by the City at $9M. In addition, approximately $1M will be needed for operating expenses during the first year. (See Operating Expense projections at Tab 4.)

2. Guided by the City of Santa Fe's 2016 Comprehensive Annual Financial Report (CAFR), the City has a carrying balance of time deposits, savings and checking deposits in the amount of $95M, and investments in the amount of $99M.

3. Therefore, we assume city deposits of $100M will be transferred to the Bank. All revenue collected by the city will be deposited in the Bank and city checks will be drawn from those accounts.

4. The bank will focus on lending primarily to the city for infrastructure projects with a small amount available to respond to opportunities to do partnership lending. **Loans will be limited to projects that are exempted from the State of New Mexico Anti-donation Clause.**

5. The Bank will be chartered and operated as a regular bank with a bank charter from the State of New Mexico and will have access to the Federal Reserve Payments System. Also, the Bank will abide by all capital ratios required by the Fed based on the Basel III rules. After a few years, a substantial fraction of profits will be distributed back to the city unless proscribed by the bank regulators.

6. Currently, public deposits in private banks are required to be collateralized at 50%. A small public bank cannot operate under this constraint as it would limit resources needed for loans or repurchase agreements necessary for bank operations. We assume this constraint will be lifted because the City will be the borrower from its own bank.

For Discussion: This may be a stretch. However, why do governmental entities require public money be collateralized when placed in a private bank? Response: To mitigate the risk of loss by the private bank. However, if the public bank is funding a loan for the same project with the same income stream for which the city had issued a bond, why would collateral be required for a loan when it wasn't required for a bond?

7. During the first year of operation, the city will operate like a revolving loan fund and fund its first loans of $28,489,455 out of its cash. In the second year, the new loan issued in the amount of $23,325,000 will be funded out of cash and the new loan issued in the amount of $6,200,000 will be funded by borrowing in the interbank overnight markets. In years 3 through 6, all loans will be funded through the interbank overnight markets.

D. Income on Assets (see back-up for interest rates in Tab 3)

The Bank's financial assets comprise its capital and the reserves that accompany City deposits. The Bank loans are also assets invested in notes from the City.

The primary source of income for the Bank is interest on its loans. We have set the interest rate at 3% as it is the lower of the interest rates the City pays on the bonds that the Bank refinanced. Also, it gives us a reasonable 2% spread relative to the interest the Bank pays to the City.

Per the Fed – Open Market Operations website, FOMC's target federal funds rate as of June 15, 2017 is 1.25% on our demand deposits at the Fed. Therefore, we keep balances close to the regulatory requirements of 3% for up to $115.1M and 10% above that amount of demand deposits. The remaining assets are invested at 1.4% in 2- to 5-year treasuries, which have no risk and can be readily converted to demand deposits when needed. See Tab 3 for the basis for Treasury the rate selected.

E. Operating Expenses (see back up for operating costs on Tab 4)

1. Furnishings, equipment and software are purchased prior to opening and are estimated at $200,000. (See Line 4 on the Balance Sheet)

2. First year costs: Costs for salaries and benefits are included for the President, Investment Officer, Compliance Officer and two Account Specialists. Staff costs start at $500,000 for the first year with 2% raises each year for years 2019-23. We estimate the cost of web-based IT services at $70,000 per year. Rent for office space is estimated at $25,000 per year.

3. We estimate loan loss expense as a necessary element even though the potential for this expense is very low.

4. We expect to pay 1% on City time deposits at the Bank.

5. We include a space for debt service for any mid- to long-term borrowing by the Bank.

6. Profit is the difference between expenses and income. Non-interest income from fees and ancillary services will add to income but are ignored in this exercise.

7. We estimate taxes at 15% of profit to obtain Net Profit, which can be divided between retained earnings and return of profit to the City.

8. As you will see on the 2018 Beginning Balance Sheets, on Line 28, there is $1,000,000 for start-up capital. This is a loan to the Bank and is repaid by Year Ending 2020.

F. Regulatory Metrics (see back up in Tab 5)

We created this Public Bank Business within the compliance "box" required by the Regulatory Metrics identified on Lines 34 through 37 of the Balance Sheet.

Hypothetical Beginning Balance Sheet - 2018-19

	Balance Sheet		Income Statement	
Line	**Assets**	**Amount**	**Interest Rate**	**Income**
1	Cash and due from other banks	$ 2,000,000	1.25%	
2	Federal Funds sold & reverse repo			
3	Securities	$ 107,800,000	1.40%	
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans		2-3%	
6	Loan Loss allowance			
7	Net loans			
8	Trading account assets			
9	Other Assets			
10	**Total Assets**	**$ 110,000,000**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans			
16	Time deposits	$ 70,000,000	1.00%	See interest on deposits on Line ~~28~~ 27
17	Federal funds purchased & repo		1.00%	See interest on deposits on Line ~~28~~ 29
18	Trading Liabilities			
19	Other borrowed funds		Interest Income	
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 100,000,000***	**Income**	
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 9,000,000	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	
25	Retained Earnings (Tier 1)		IT support & supplies	
26	Undistriuted Income		Rent	
27	AOCI		Interest on deposits	
28	Start-up capital	$ 1,000,000	Loan Loss Expense	
29	Other		Fed Funds/Repo interest	
30	***Subtotal - Owner's Equity***	***$ 10,000,000***	Debt service	
31	**Total Liabilities and Owner's Equity**	**$ 110,000,000**	**Total Operating Costs**	
32				
33	**Regulatory Metrics**		**Profit**	
34	Line 1 = 3% x Lines 5+14 or (Line 1/5+14)		Taxes @15%	
35	Capital Adequcy Ratio = Tier 1(Line 23)/ Risk Weighted Assets(Line 5 x.50) >10.5%		**Net Profit**	
36	Leverage Ratio = Tier 1(line 23)/Total Assets(Line 10) >3%		**Retained Earnings**	
37	Liquidity - Loan to Deposit Ratio = (Line 5/14+16) >31% per Section 109		**To City**	
38				

Hypothetical Ending Balance Sheet and Income Statement - 2019				
	Balance Sheet		Income Statement	
Line	Assets	Amount	Interest Rate	Income
1	Cash and due from other banks	$ 2,000,000	1.25%	$ 25,000
2	Federal Funds sold & reverse repo			
3	Securities	$ 79,560,545	1.40%	$ 1,113,848
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 28,489,455	2-3%	$ 713,657
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 28,364,455		
9	*Trading account assets*			
9	Other Assets			
10	**Total Assets**	$ **110,125,000**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 28,489,455		
16	Time deposits	$ 41,635,545	1.00%	**See interest on deposits Line ~~28~~ 27**
17	Federal funds purchased & repo		1.00%	**See interest on deposits Line ~~28~~ 29**
18	Trading Liabilities			
19	Other borrowed funds		Interest Income	$ 1,852,505
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	$ ***100,125,000***	**Income**	$ 1,852,505
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 9,566,227	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	$ 550,000
25	Retained Earnings (Tier 1)		IT support & supplies	$ 70,000
26	Undistriuted Income		Rent	$ 25,000
27	AOCI		Interest on deposits	$ 416,355
28	Start-up capital	$ 433,773	Loan Loss Expense	$ 125,000
29	Other		Fed Funds/Repo interest	
30	***Subtotal - Owner's Equity***	$ ***10,000,000***	Debt service	
31	**Total Liabilities and Owner's Equity**	$ **110,125,000**	**Total Operating Costs**	$ **1,186,355**
32				
33	**Regulatory Metrics**		**Profit**	$ **666,149**
34	Line 1 = 3% x Lines 5+14 or (Line 1/5+14)	3.4%	Taxes @15%	$ 99,922
35	Capital Adequacy Ratio = Tier 1(Line 23)/Risk Weighted Assets(Line 5 x.50)>10.5%	67.2%	**Net Profit**	$ 566,227
36	Leverage Ratio = Tier 1(Line 23)/Total Assets(Line 10) >3%	8.7%	**Retained Earnings**	
37	Liquidity - Loan to Deposit Ratio = (Line 5/14+16) >31% per Section 109	39.8%	**To City**	$ 566,227
38				
39				

Hypothetical Beginning Balance Sheet - 2019-20				
	Balance Sheet		**Income Statement**	
Line	**Assets**	**Amount**	**Interest Rate**	**Income**
1	Cash and due from other banks	$ 2,000,000	1.25%	
2	Federal Funds sold & reverse repo			
3	Securities	$ 79,560,545	1.40%	
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 28,489,455	2-3%	
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 28,364,455		
8	Trading account assets			
9	Other Assets			
10	**Total Assets**	**$ 110,125,000**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 28,489,455		27
16	Time deposits	$ 41,635,545	1.00%	See interest on deposits Line ~~28~~
17	Federal funds purchased & repo		1.00%	See interest on deposits Line ~~28~~ 29
18	Trading Liabilities			
19	Other borrowed funds		Interest Income	$ -
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 100,125,000***	**Income**	$ -
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 9,566,227	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	
25	Retained Earnings (Tier 1)		IT support & supplies	
26	Undistriuted Income		Rent	
27	AOCI		Interest on deposits	
28	Start-up capital	$ 433,773	Loan Loss Expense	
29	Other		Fed Funds/Repo interest	
30	***Subtotal - Owner's Equity***	***$ 10,000,000***	Debt service	
31	**Total Liabilities and Owner's Equity**	**$ 110,125,000**	**Total Operating Costs**	$ -
32				
33	**Regulatory Metrics**		**Profit**	$ -
34	Line 1 = 3% x Lines 5+14 or (Line1/5+14)	3.4%	Taxes @15%	
35	Capital Adequacy Ratio = Tier 1(Line 23)/ Risk Weighted Assets(Line 5 x.50) >10.5%	67.2%	**Net Profit**	$ -
36	Leverage Ratio = Tier 1 (Line 23)/Total Assets (Line 10) >3%	8.7%	**Retained Earnings**	$ -
37	Liquidity - Loan to Deposit Ratio = (Line 5/14+16) >31% per Section 109	39.8%	**To City**	$ -
38				
39				

Hypothetical Ending Balance Sheet and Income Statement - Yr Ending 2020**

	Balance Sheet		Income Statement	
Line	Assets	Amount	Interest Rate	Income
1	Cash and due from other banks	$ 3,000,000	1.25%	$ 37,500
2	Federal Funds sold & reverse repo			
3	Securities	$ 83,600,000	1.40%	$ 1,170,400
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 56,190,459	2-3%	$ 1,530,526
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 56,065,459		
8	Trading account assets			
9	Other Assets			
10	**Total Assets**	**$ 142,865,459**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 49,990,459		27
16	Time deposits	$ 46,675,000	1.00%	See interest on deposits Line ~~28~~
17	Federal funds purchased & repo	$ 6,200,000	1.00%	See interest on deposits Line ~~28~~
18	Trading Liabilities			29
19	Other borrowed funds		Interest Income	$ 2,738,426
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 132,865,459***	**Income**	**$ 2,738,426**
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 10,000,000	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	$ 561,000
25	Retained Earnings (Tier 1)	$ 780,642	IT support & supplies	$ 70,000
26	Undistriuted Income		Rent	$ 25,000
27	AOCI		Interest on deposits	$ 466,750
28	Start-up capital		Loan Loss Expense	$ 125,000
29	Other		Fed Funds/Repo interest	$ 62,000
30	***Subtotal - Owner's Equity***	***$ 10,780,642***	Debt Service	
31	**Total Liabilities and Owner's Equity**	**$ 143,646,101**	**Total Operating Costs**	**$ 1,309,750**
32				
33	**Regulatory Metrics**		**Profit**	**$ 1,428,676**
34	Line 1 = 3% x Lines 5+14 or (Line 1/5+14)	3.5%	Taxes @15%	$ 214,301
35	Capital Adequacy Ratio = Tier 1(Line 23)/ Risk Weighted Assets(Line 5 x.50) >10.5%	35.6%	**Net Profit**	**$ 1,214,375**
36	Leverage Ratio = Tier 1 (Line 23)/Total Assets (Line 10) >3%	7.0%	**Retained Earnings**	$ 780,642
37	Liquidity - Loan to Deposit Ratio = (Line 5/14&16) >31% per Section 109	73.3%	**To City**	$ 433,773
38				
39				
40	**Balance Sheet does not balance because closing journal entry for Retained Earnings to Securities has not been made			

Hypothetical Beginning Balance Sheet - 2020-21

	Balance Sheet		Income Statement	
Line	Assets	Amount	Interest Rate	Income
1	Cash and due from other banks	$ 3,000,000	1.25%	
2	Federal Funds sold & reverse repo			
3	Securities	$ 84,380,642	1.40%	
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 56,190,459	2-3%	
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 56,065,459		
8	*Trading account assets*			
9	Other Assets			
10	**Total Assets**	**$ 143,646,101**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 49,990,459		27
16	Time deposits	$ 46,675,000	1.00%	See interest on deposits Line ~~25~~
17	Federal funds purchased & repo	$ 6,200,000	1.00%	See interest on deposits Line ~~28~~
18	Trading Liabilities			29
19	Other borrowed funds		Interest Income	$ -
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 132,865,459***	**Income**	$ -
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$10,780,642	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	
25	Retained Earnings (Tier 1)		IT support & supplies	
26	Undistriuted Income		Rent	
27	AOCI		Interest on deposits	
28	Start-up capital		Loan Loss Expense	
29	Other		Fed Funds/Repo interest	
30	***Subtotal - Owner's Equity***	***$ 10,780,642***	Debt Service	
31	**Total Liabilities and Owner's Equity**	**$ 143,646,101**	**Total Operating Costs**	$ -
32				
33	**Regulatory Metrics**		**Profit**	$ -
34	Line 1 = 3% x Lines 5+14 or (Line 1/5+14)	3.5%	Taxes @15%	$ -
35	Capital Adequacy Ratio = Tier 1(Line 30)/ Risk Weighted Assets(Line 5 x.50) >10.5%	38.4%	**Net Profit**	$ -
36	Leverage Ratio = Tier 1 (Line 30)/Total Assets (Line 10) >3%	7.5%	**Retained Earnings**	
37	Liquidity - Loan to Deposit Ratio = (Line 5/14&16) >31% per Section 109	65.2%	**To City**	
38				

Hypothetical Ending Balance Sheet and Income Statement - Yr Ending 2021**

	Balance Sheet		Income Statement	
Line	Assets	Amount	Interest Rate	Income
1	Cash and due from other banks	$ 3,000,000	1.25%	$ 37,500
2	Federal Funds sold & reverse repo			
3	Securities	$ 97,705,642	1.40%	$ 1,367,879
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 67,571,697	2-3%	$ 1,861,680
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 67,446,697		
8	Trading account assets			
9	Other Assets			
10	**Total Assets**	**$ 168,352,339**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 57,051,491		21
16	Time deposits	$ 60,000,000	1.00%	See interest on deposits Line 28
17	Federal funds purchased & repo	$ 10,520,206	1.00%	See interest on deposits Line 28
18	Trading Liabilities			29
19	Other borrowed funds		Interest Income	$ 3,267,059
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 157,571,697***	**Income**	**$ 3,267,059**
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 10,780,642	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	$ 572,220
25	Retained Earnings (Tier 1)	$ 1,504,191	IT support & supplies	$ 70,000
26	Undistriuted Income		Rent	$ 25,000
27	AOCI		Interest on deposits	$ 600,000
28	Start-up capital		Loan Loss Expense	$ 125,000
29	Other		Fed Funds/Repo interest	$ 105,202
30	***Subtotal - Owner's Equity***	***$ 12,284,833***	Debt Service	
31	**Total Liabilities and Owner's Equity**	**$ 169,856,530**	**Total Operating Costs**	**$ 1,497,422**
32				
33	**Regulatory Metrics**		**Profit**	$ 1,769,637
34	Line 1 = 3% x Lines 5+14 or (Line 1/5+14)	3.1%	Taxes @15%	$ 265,446
35	Capital Adequacy Ratio = Tier 1(Line 23)/ Risk Weighted Assets(Line 5 x.50) >10.5%	31.9%	**Net Profit**	$ 1,504,191
36	Leverage Ratio = Tier 1 (Line 23)/Total Assets (Line 10) >3%	6.4%	**Retained Earnings**	$ 1,504,191
37	Liquidity - Loan to Deposit Ratio = (Line 5/14&16) >31% per Section 109	75.1%	**To City**	
38				
39				
40	**Balance Sheet does not balance because closing general entry for Retained Earnings to Securities has not been made.			

Hypothetical Beginning Balance Sheet - 2021-22

Line	Balance Sheet		Income Statement	
Line	**Assets**	**Amount**	**Interest Rate**	**Income**
1	Cash and due from other banks	$ 3,000,000	1.25%	
2	Federal Funds sold & reverse repo			
3	Securities	$ 99,209,833	1.40%	
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 67,571,697	2-3%	
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 67,446,697		
8	Trading account assets			
9	Other Assets			
10	**Total Assets**	**$ 169,856,530**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 57,051,491		27
16	Time deposits	$ 60,000,000	1.00%	See interest on deposits Line 28
17	Federal funds purchased & repo	$ 10,520,206	1.00%	See interest on deposits Line 28
18	Trading Liabilities			29
19	Other borrowed funds		Interest Income	$ -
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 157,571,697***	**Income**	$ -
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 12,284,833	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	
25	Retained Earnings (Tier 1)		IT support & supplies	
26	Undistriuted Income		Rent	
27	AOCI		Interest on deposits	
28	Start-up capital		Loan Loss Expense	
29	Other		Fed Funds/Repo interest	
30	***Subtotal - Owner's Equity***	***$ 12,284,833***	Debt Service	
31	**Total Liabilities and Owner's Equity**	**$ 169,856,530**	**Total Operating Costs**	$ -
32				
33	**Regulatory Metrics**		**Profit**	$ -
34	Line 1 = 3% x Lines 5+14 or (Line 1/5+14)	3.1%	Taxes @15%	$ -
35	Capital Adequacy Ratio = Tier 1(Line 23)/ Risk Weighted Assets(Line 5 x.50) >10.5%	36.4%	**Net Profit**	$ -
36	Leverage Ratio = Tier 1 (Line 23)/Total Assets (Line 10) >3%	7.2%	**Retained Earnings**	$ -
37	Liquidity - Loan to Deposit Ratio = (Line 5/14&16) >31% per Section 109	75.1%	**To City**	
38				
39				
40				

Hypothetical Ending Balance Sheet and Income Statement - Yr Ending 2022**

Line	Balance Sheet		Income Statement	
Line	**Assets**	**Amount**	**Interest Rate**	**Income**
1	Cash and due from other banks	$ 3,500,000	1.25%	$ 43,750
2	Federal Funds sold & reverse repo			
3	Securities	$ 108,709,833	1.40%	$ 1,521,938
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 83,444,297	2-3%	$ 2,309,633
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 83,319,297		
8	Trading account assets			
9	Other Assets			
10	**Total Assets**	**$ 195,729,130**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 53,495,863		27
16	Time deposits	$ 70,000,000	1.00%	**See interest on deposits Line ~~28~~**
17	Federal funds purchased & repo	$ 29,948,434	1.00%	**See interest on deposits Line ~~28~~**
18	Trading Liabilities			29
19	Other borrowed funds		Interest Income	$ 3,875,321
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 183,444,297***	**Income**	**$ 3,875,321**
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 12,284,833	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	$ 583,664
25	Retained Earnings (Tier 1)	$ 1,761,346	IT support & supplies	$ 70,000
26	Undistriuted Income		Rent	$ 25,000
27	AOCI		Interest on deposits	$ 700,000
28	Start-up capital		Loan Loss Expense	$ 125,000
29	Other		Fed Funds/Repo interest	$ 299,484
30	***Subtotal - Owner's Equity***	***$ 14,046,179***	Debt Service	
31	**Total Liabilities and Owner's Equity**	**$ 197,490,476**	**Total Operating Costs**	**$ 1,803,148**
32				
33	**Regulatory Metrics**		**Profit**	$ 2,072,172
34	Line 1 = 3% x Lines 5+14 or (Line 1/5+14)	3.1%	Taxes @15%	$ 310,826
35	Capital Adequacy Ratio = Tier 1(Line 23)/ Risk Weighted Assets(Line 5 x.50) >10.5%	33.7%	**Net Profit**	$ 1,761,346
36	Leverage Ratio = Tier 1 (Line 23)/Total Assets (Line 10) >3%	6.3%	**Retained Earnings**	$ 1,761,346
37	Liquidity - Loan to Deposit Ratio = (Line 5/14&16) >31% per Section 109	83.4%	**To City**	
38				
39				
40	**Balance Sheet does not balance because closing general journal entry for retained earnings to Securities has not been made.			

Hypothetical Beginning Balance Sheet - 2022-23

	Balance Sheet		Income Statement	
Line	**Assets**	**Amount**	**Interest Rate**	**Income**
1	Cash and due from other banks	$ 3,500,000	1.25%	
2	Federal Funds sold & reverse repo			
3	Securities	$ 110,471,179	1.40%	
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 83,444,297	2-3%	
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 83,319,297		
8	Trading account assets			
9	Other Assets			
10	**Total Assets**	**$ 197,490,476**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 53,495,863		27
16	Time deposits	$ 70,000,000	1.00%	See interest on deposits Line ~~28~~
17	Federal funds purchased & repo	$ 29,948,434	1.00%	See interest on deposits Line ~~28~~
18	Trading Liabilities			29
19	Other borrowed funds		Interest Income	$ -
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 183,444,297***	**Income**	$ -
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 14,046,179	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	
25	Retained Earnings (Tier 1)		IT support & supplies	
26	Undistriuted Income		Rent	
27	AOCI		Interest on deposits	
28	Start-up capital		Loan Loss Expense	
29	Other		Fed Funds/Repo interest	
30	***Subtotal - Owner's Equity***	***$ 14,046,179***	Debt Service	
31	**Total Liabilities and Owner's Equity**	**$ 197,490,476**	**Total Operating Costs**	$ -
32				
33	**Regulatory Metrics**		**Profit**	$ -
34	Line 1 = 3% x Lines 5+14 or (Line 1/5+14)	3.1%	Taxes @15%	$ -
35	Capital Adequacy Ratio = Tier 1(Line 23)/ Risk Weighted Assets(Line 5 x.50) >10.5%	41.6%	**Net Profit**	$ -
36	Leverage Ratio = Tier 1 (Line 23)/Total Assets (Line 10) >3%	7.1%	**Retained Earnings**	$ -
37	Liquidity - Loan to Deposit Ratio = (Line 5/14&16) >31% per Section 109	83.4%	**To City**	
38				
39				
40				

Hypothetical Ending Balance Sheet and Income Statement - 2023**				
	Balance Sheet		Income Statement	
Line	**Assets**	**Amount**	**Interest Rate**	**Income**
1	Cash and due from other banks	$ 12,000,000	1.25%	$ 150,000
2	Federal Funds sold & reverse repo			
3	Securities	$ 101,971,179	1.40%	$ 1,427,597
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 86,566,604	2-3%	$ 2,400,931
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 86,441,604		
8	*Trading account assets*			
9	Other Assets			
10	**Total Assets**	**$ 200,612,783**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 49,841,022		27
16	Time deposits	$ 70,000,000	1.00%	**See interest on deposits Line ~~28~~**
17	Federal funds purchased & repo	$ 36,725,582	1.00%	**See interest on deposits Line ~~28~~**
18	Trading Liabilities			29
19	Other borrowed funds		Interest Income	$ 3,978,528
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 186,566,604***	**Income**	**$ 3,978,528**
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 14,046,179	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	$ 595,338
25	Retained Earnings (Tier 1)	$ 1,781,544	IT support & supplies	$ 70,000
26	Undistriuted Income		Rent	$ 25,000
27	AOCI		Interest on deposits	$ 700,000
28	Start-up capital		Loan Loss Expense	$ 125,000
29	Other		Fed Funds/Repo interest	$ 367,256
30	***Subtotal - Owner's Equity***	***$ 15,827,723***	Debt Service	
31	**Total Liabilities and Owner's Equity**	**$ 202,394,327**	**Total Operating Costs**	**$ 1,882,594**
32				
33	**Regulatory Metrics**		**Profit**	$ 2,095,934
34	Line 1 = 10% x Lines 5+14 or (Line 1/5+14)	10.3%	Taxes @15%	$ 314,390
35	Capital Adequacy Ratio = Tier 1(Line 23)/ Risk Weighted Assets(Line 5 x.50) >10.5%	36.6%	**Net Profit**	$ 1,781,544
36	Leverage Ratio = Tier 1 (Line 23)/Total Assets (Line 10) >3%	7.0%	**Retained Earnings**	$ 1,781,544
37	Liquidity - Loan to Deposit Ratio = (Line 5/14&16) >31% per Section 109	86.6%	**To City**	
38				
39				
40	****Balance Sheet does not balance because closing general journal entry for retained earnings to Securities has not been made.**			

Hypothetical Beginning Balance Sheet - 2023-24

	Balance Sheet		Income Statement	
Line	**Assets**	**Amount**	**Interest Rate**	**Income**
1	Cash and due from other banks	$ 12,000,000	1.25%	
2	Federal Funds sold & reverse repo			
3	Securities	$ 103,752,723	1.40%	
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 86,566,604	2-3%	
6	Loan Loss allowance	$ (125,000)		
7	Net loans	$ 86,441,604		
8	*Trading account assets*			
9	Other Assets			
10	**Total Assets**	**$ 202,394,327**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 49,841,022		27
16	Time deposits	$ 70,000,000	1.00%	See interest on deposits Line 28
17	Federal funds purchased & repo	$ 36,725,582	1.00%	See interest on deposits Line 28
18	Trading Liabilities			29
19	Other borrowed funds		Interest Income	$ -
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 186,566,604***	**Income**	$ -
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 15,827,723	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	
25	Retained Earnings (Tier 1)		IT support & supplies	
26	Undistriuted Income		Rent	
27	AOCI		Interest on deposits	
28	Start-up capital		Loan Loss Expense	
29	Other		Fed Funds/Repo interest	
30	***Subtotal - Owner's Equity***	***$ 15,827,723***	Debt Service	
31	**Total Liabilities and Owner's Equity**	**$ 202,394,327**	**Total Operating Costs**	$ -
32				
33	**Regulatory Metrics**		**Profit**	$ -
34	Line 1 = 10% x Lines 5+14 or (Line 1/5+14)	10.3%	Taxes @15%	$ -
35	Capital Adequacy Ratio = Tier 1(Line 30)/ Risk Weighted Assets(Line 5 x.50) >10.5%	36.6%	**Net Profit**	$ -
36	Leverage Ratio = Tier 1 (Line 30)/Total Assets (Line 10) >3%	7.8%	**Retained Earnings**	$ -
37	Liquidity - Loan to Deposit Ratio = (Line 5/14&16) >31% per Section 109	86.6%	**To City**	
38				
39				
40				

Hypothetical Ending Balance Sheet and Income Statement - 2024**

	Balance Sheet		Income Statement	
Line	**Assets**	**Amount**	**Interest Rate**	**Income**
1	Cash and due from other banks	$ 12,000,000	1.25%	$ 150,000
2	Federal Funds sold & reverse repo			
3	Securities	$ 103,752,723	1.40%	$ 1,452,538
4	Bank premises, furnishings, equipment and software	$ 200,000		
5	Loans	$ 89,734,851	2-3%	
6	Loan Loss allowance	$ (125,000)		$ 2,487,001
7	Net loans	$ 89,609,851		
8	Trading account assets			
9	Other Assets			
10	**Total Assets**	**$ 205,562,574**		
11				
12	**Liabilities and Owner's Equity**			
13	**Liabilities**			
14	Demand deposits	$ 30,000,000		
15	Non-Interest Bearing Demand Deposits-Loans	$ 46,084,133		21
16	Time deposits	$ 70,000,000	1.00%	See interest on deposits Line 28
17	Federal funds purchased & repo	$ 43,650,718	1.00%	See interest on deposits Line 28
18	Trading Liabilities			29
19	Other borrowed funds		Interest Income	$ 4,089,539
20	Other liabilities		Non-int. Income	
21	***Subtotal - Liabilities***	***$ 189,734,851***	**Income**	**$ 4,089,539**
22	**Owner's Equity**			
23	Stock (Tier 1 Capital)	$ 15,827,723	**Expenses**	
24	Surplus (Tier 1)		Salaries & benefits	$ 607,244
25	Retained Earnings (Tier 1)	$ 1,806,920	IT support & supplies	$ 70,000
26	Undistriuted Income		Rent	$ 25,000
27	AOCI		Interest on deposits	$ 700,000
28	Start-up capital		Loan Loss Expense	$ 125,000
29	Other		Fed Funds/Repo interest	$ 436,507
30	***Subtotal - Owner's Equity***	***$ 17,634,643***	Debt Service	
31	**Total Liabilities and Owner's Equity**	**$ 207,369,494**	**Total Operating Costs**	**$ 1,963,751**
32				
33	**Regulatory Metrics**		**Profit**	**$ 2,125,788**
34	Line 1 = 10% x Lines 5+14 or (Line 1/5+14)	10.0%	Taxes @15%	$ 318,868
35	Capital Adequacy Ratio = Tier 1(Line 23)/ Risk Weighted Assets(Line 5 x.50) >10.5%	35.3%	**Net Profit**	$ 1,806,920
36	Leverage Ratio = Tier 1 (Line 23)/Total Assets (Line 10) >3%	7.7%	**Retained Earnings**	$ 1,806,920
37	Liquidity - Loan to Deposit Ratio = (Line 5/14&16) >31% per Section 109	89.7%	**To City**	
38				
39				
40	****Balance Sheet does not balance because closing general journal entry for retained earnings to Securities has not been made.**			

A Public Bank for Santa Fe
Cashflow Forecast: 2018-2023

	A	B	C	D	E	F	G
1		**7/1/2018 - 6/30/2019**	**7/1/2019 - 6/30/2020**	**7/1/2020 - 6/30/2021**	**7/1/2021 - 6/30/2022**	**7/1/2022 - 6/30/2023**	**7/1/2023 - 6/30/2024**
2	**Opening Balance**	-	1,366,228	2,580,603	4,084,794	5,846,141	7,627,685
3							
4	**Money In**						
5	Core Capital	9,000,000					
6	***Subtotal - Capital***	***9,000,000***					
7	Start-up Capital	1,000,000					
8	Interest - Loans	713,657	1,530,526	1,861,680	2,309,633	2,400,931	2,487,001
9	Interest-Reserves	25,000	37,500	37,500	43,750	150,000	150,000
10	Interest -Securities	1,113,848	1,170,400	1,367,879	1,521,938	1,427,597	1,452,538
11	Federal Funds sold						
12	***Total Money In***	***2,852,505***	***4,104,654***	***5,847,662***	**7,960,115**	**9,824,669**	***11,717,224***
13	***Total Money In plus capital***	**11,852,505**	**4,104,654**	**5,847,662**	**7,960,115**	**9,824,669**	**11,717,224**
14							
15	**Money Out**						
16	Salaries and Benefits	550,000	561,000	572,220	583,664	595,338	607,244
17	IT Support	70,000	70,000	70,000	70,000	70,000	70,000
18	Equipment and Software	200,000					
19	Rent	25,000	25,000	25,000	25,000	25,000	25,000
20	Loan losses	125,000	125,000	125,000	125,000	125,000	125,000
21	Interest on time deposits	416,355	466,750	600,000	700,000	700,000	700,000
22	Interest on Repos		62,000	105,202	299,484	367,256	436,507
23	***Total Money Out***	**1,386,355**	**1,309,750**	**1,497,422**	**1,803,148**	**1,882,594**	**1,963,751**
24	***Total Money In minus Total Money Out***	1,466,150	2,794,904	4,350,240	6,156,967	7,942,075	9,753,472
25	Taxes	99,922	214,301	265,446	310,826	314,390	318,868
26	**Closing Balance**	1,366,228	2,580,603	4,084,794	5,846,141	7,627,685	9,434,604

Tab 2. Loan Portfolio: 2018-2023

BTT refinanced eight bonds that were callable between 2018 and 2023 into loans that were the beginning portfolio of the Public Bank. As a result of this refinancing, annual debt service was reduced by $951,702 and total city debt was reduced by $10,358,351.

The first year the Bank had a total portfolio of $28,499,455 with three loans and a $3,000,000 set aside for participation lending. By 2023, the Bank had a total of 13 loans with a total portfolio of $89,734,851.

NOTE: BTT restricted loans to projects that are currently exempted under the Anti-Donation Clause.

	A	B	C	D	E	F	G	H	I	J	K	L
1	**Chart No**	**Series No**	**Project**	**Call Date**	**Currrent Bond -Years Remain**	**Current Annual Payment - Principal, Interest & Fees**	**Existing Debt Balance - Principal, Interest & Fees**	**Public Bank Loans "Callable Bonds Refinanced As Loans"**				
2								**Rate**	**Term**	**Annual Payment - Principal & Interest**	**Outstanding Balance-Total Principal & Interest**	**Reduction (Increase) in Total City Debt**
3	1	2008	PPRF Buckman Diversion	Current	12	926,445	11,120,361	2	12	919,263	11,031,157	89,204
4	2	2013	DW#4-2696 Green Water	Current	17	153,194	2,604,287	2	17	152,028	2,584,481	19,806
5	3	2010	GO Bonds	8/19	10	763,594	7,537,740	3	10	718,412	7,184,119	353,621
6	4	2009	NMFA PPRF Loan-College	9/19	17	2,224,461	37,785,985	3	17	1,753,223	29,804,788	7,981,197
7	5	2010B	Sub Lien GRT Ref Rev Bonds	6/20	6	1,071,650	5,554,150	3	6	886,095	5,316,571	237,579
8	6	2012A	GRT IMP & Ref Rev Bonds	6/21	5	2,465,575	12,315,900	3	5	2,314,727	11,573,634	742,266
9	7	2013B	Sub Lien GRT Ref Rev Bonds	6/22	14	970,275	13,604,151	3	14	935,177	13,092,487	511,664
10	8	2013	GO Bonds	8/23	9	889,319	7,927,988	3	9	833,886	7,504,974	423,014
11	**Totals**					9,464,513	98,450,562			8,512,811	88,092,211	10,358,351
12												
13						***Lowers Annual Debt Service***				951,702		
14						***Lowers Total Debt***						10,358,351

	A	B	C	D	E	F	G	H	I	J	K	L
15	Chart No	Series No	Project	Call Date	Currrent Bond -Years Remain	Current Annual Payment - Principal, Interest & Fees	Existing Debt Balance - Principal, Interest & Fees	**Public Bank Loans "Callable Bonds Refinanced As Loans"**				
16								Rate	Term	Annual Payment - Principal & Interest	Outstanding Balance-Total Principal & Interest	Reduction (Increase) in Total City Debt
17	1	2008	Buck Div	**6/18**	12	926,445	11,120,361	2	12	919,263	11,031,157	89,204
18	2	2013	DW#4-2696	**6/18**	17	153,194	2,604,287	2	17	152,028	2,584,481	19,806
19					***Subtotal***	1,079,639	13,724,648			1,071,291	13,615,638	109,010
20						***For 2018, Lowers Annual Debt Service***				8,348		
21							***Lowers Total Debt***					109,010
22	3	2010	GO Bonds	**8/19**	10	763,594	7,537,740	3	10	718,412	7,184,119	353,621
23	4	2009	NMFA PPRF Loan-College	**9/19**	17	2,224,461	37,785,985	3	17	1,753,223	29,804,788	7,981,197
24					***Subtotal***	2,988,055	45,323,725			2,471,635	36,988,907	8,334,818
25						***For 2019, Lowers Annual Debt Service***				516,420		
26							***Lowers Total Debt***					8,334,818
27	5	2010B	Sub Lien GRT Ref Rev Bnds	**6/20**	6	1,071,650	5,554,150	3	6	886,095	5,316,571	237,579
28	6	2012A	GRT IMP & Ref Rev Bnds	**6/21**	5	2,465,575	12,315,900	3	5	2,314,727	11,573,634	742,266
29	7	2013B	Sub Lien GRT Ref Rev Bnds	**6/22**	14	970,275	13,604,151	3	14	935,177	13,092,487	511,664
30	8	2013	GO Bonds	**6/23**	9	889,319	7,927,988	3	9	833,886	7,504,974	423,014
31					***Subtotal***	5,396,819	39,402,189			4,969,885	37,487,666	1,914,523
32						***For 2020-23, Lowers Annual Debt Service***				426,934		
33							**Lowers Total Debt**					1,914,523
34					***Totals***	9,464,513	98,450,562			8,512,811	88,092,211	
35						***For 2018-23, Lowers Annual Debt Service***				**951,702**	***Total Debt***	**10,358,351**

	A	B	C	D	E	F	G	H	I	J	K	L
1		**WORKSHEET - Five Year Projections**										
2			**2018 Loan Portfolio**							For 2019 Beginning Balance Sheet		
3	**Public Bank Loan - See Chart No**	**Yr of Loan**	**Principal**	**Rate**	**Term**	**Total Interest - Balance**	**Outstanding Balance-Total Principal & Interest**	**Annual Payment - Principal & Interest**		**Principal Paid**	**Interest Earned**	**Ending Principal Balance**
4	1	Yr 1	9,800,033	2	12	1,231,124	11,031,157	919,263		729,929	189,334	9,070,104
5	2	Yr 1	2,189,422	2	17	395,059	2,584,481	152,028		109,238	42,791	2,080,184
6	9	Yr 1	13,500,000	3	15	3,281,134	16,781,134	1,118,742		723,638	395,104	12,776,362
7		***Sub-total - City loans - 2018***	***25,489,455***			***4,907,317***	***30,396,772***	***2,190,033***		***1,562,805***	***627,229***	***23,926,650***
8												
9	**The following provides a $3M "set aside" for partnership loans with not-for-profits, CDFI's and community banks for affordable housing and small business projects for which the City is already "Exempted" under the Anti-Donation Clause. This loan amount will not increase the City's debt or the City's annual debt service.**											
10												
11	10		3,000,000	3	10	476,187	3,476,187	347,619		261,191	86,428	2,738,809
12												
13		**Total 2018**	**28,489,455**			**5,383,504**	**33,872,959**	**2,537,652**		**1,823,996**	**713,657**	**26,665,459**
14												
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	A	B	C	D	E	F	G	H	I	J	K	L
21			**2019 Loan Portfolio**							For 2020 Beginning Balance Sheet		
22	**Public Bank Loan-See Chart No**	**Yr of Loan**	**Principal**	**Rate**	**Term**	**Total Interest - Balance**	**Outstanding Balance-Total Principal & Interest**	**Annual Payment - Principal & Interest**		**Principal Paid**	**Interest Earned**	**Ending Principal Balance**
23	1	Yr 2	9,070,104	2	12	1,056,523	10,111,894	919,263		744,662	174,601	8,325,442
24	2	Yr 2	2,080,184	2	17	354,473	2,432,453	152,028		111,443	40,586	1,968,741
25	9	Yr 2	12,776,362	3	15	2,908,040	15,662,392	1,118,742		745,649	373,094	12,030,713
26	10	Yr 2	2,738,809	3	10	397,703	3,128,568	347,619		269,135	78,484	2,469,674
27	3	Yr1	6,200,000	3	10	984,119	7,184,119	718,412		539,794	178,618	5,660,206
28	4	Yr 1	23,325,000	3	17	6,479,788	29,804,788	1,753,223		1,068,079	685,143	22,256,921
29												
30		***Total 2019***	***56,190,459***			**12,180,646**	**68,324,214**	**5,009,287**		***3,478,762***	***1,530,526***	***52,711,697***
31												
32												
33			**2020 Loan Portfolio**							For 2021 Beginning Balance Sheet		
34	1	Yr 3	8,325,442	2	12	896,953	9,192,631	919,263		759,693	159,570	7,565,749
35	2	Yr 3	1,968,741	2	17	316,137	2,280,425	152,028		113,692	38,336	1,855,049
36	9	Yr 3	12,030,713	3	15	2,557,626	14,543,650	1,118,742		768,328	350,414	11,262,385
37	10	Yr 3	2,469,674	3	10	327,405	2,780,949	347,619		277,321	70,298	2,192,353
38	3	Yr2	5,660,206	3	10	821,919	6,465,707	718,412		556,212	162,200	5,103,994
39	4	Yr2	22,256,921	3	17	5,827,131	28,051,565	1,753,223		1,100,566	652,657	21,156,355
40	5	Yr1	4,860,000	3	6	456,571	5,316,571	886,095		750,560	135,536	4,109,440
41	11	Yr 1	10,000,000	3	15	2,430,470	12,430,470	828,698		536,028	292,669	9,463,972
42												
43		***Total 2020***	**67,571,697**			**13,634,212**	**81,061,968**	**6,724,080**		**4,862,400**	**1,861,680**	**62,709,297**
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	A	B	C	D	E	F	G	H	I	J	K	L
47			**2021 Loan Portfolio**							For 2022 Beginning Balance Sheet		
48	**Public Bank Loan-See Chart No**	**Yr of Loan**	**Principal**	**Rate**	**Term**	**Total Interest - Balance**	**Outstanding Balance-Total Principal & Interest**	**Annual Payment - Prinicipal & Interest**		**Principal Paid**	**Interest Earned**	**Ending Principal Balance**
49	1	Yr 4	7,565,749	2	12	752,717	8,273,368	919,263		775,027	144,236	6,790,722
50	2	Yr 4	1,855,049	2	17	280,095	2,128,397	152,028		115,987	36,042	1,739,062
51	9	Yr 4	11,262,385	3	15	2,230,581	13,424,908	1,118,742		791,698	327,045	10,470,687
52	10	Yr4	2,192,353	3	10	265,722	2,433,330	347,619		285,756	61,683	1,906,597
53	3	Yr 3	5,103,994	3	10	676,637	5,747,295	718,412		573,130	145,282	4,530,864
54	4	Yr 3	21,156,355	3	17	5,207,949	26,298,342	1,753,223		1,134,041	619,182	20,022,314
55	5	Yr 2	4,109,440	3	6	343,864	4,430,476	886,095		773,388	112,707	3,336,052
56	11	Yr 2	9,463,972	3	15	2,154,104	11,601,772	828,698		552,332	276,366	8,911,640
57	6	Yr 1	10,735,000	3	5	838,634	11,573,634	2,314,727		2,020,306	294,421	8,714,694
58	12	Yr 1	10,000,000	3	15	793,645	12,430,470	828,698		536,028	292,669	9,463,972
59												
60		***Total 2021***	**83,444,297**			**13,543,948**	**98,341,992**	**9,867,505**		**7,557,693**	**2,309,633**	**75,886,604**
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	A	B	C	D	E	F	G	H	I	J	K	L
75			2022 Loan Portfolio							For 2023 Beginning Balance Sheet		
76	**Public Bank Loan- See Chart No**	**Yr of Loan**	**Principal**	**Rate**	**Term**	**Total Interest - Balance**	**Outstanding Balance-Total Principal & Interest**	**Annual Payment - Prinicipal & Interest**		**Principal Paid**	**Interest Earned**	**Ending Principal Balance**
77	1	Yr 5	6,790,722	2	12	624,124	7,354,105	919,263		790,670	128,593	6,000,052
78	2	Yr 5	1,739,062	2	17	246,394	1,976,369	152,028		118,328	33,701	1,620,734
79	9	Yr 5	10,470,687	3	15	1,927,617	12,306,166	1,118,742		815,778	302,964	9,654,909
80	10	Yr 5	1,906,597	3	10	212,551	2,085,711	347,619		294,447	53,171	1,612,150
81	3	Yr 4	4,530,864	3	10	548,787	5,028,883	718,412		590,562	127,850	3,940,302
82	4	Yr 4	20,022,314	3	17	4,623,260	24,545,119	1,753,223		1,168,534	584,689	18,853,780
83	5	Yr 3	3,336,052	3	6	254,681	3,544,381	886,095		796,912	89,183	2,539,140
84	11	Yr 3	8,911,640	3	15	1,894,538	10,773,074	828,698		569,132	259,566	8,342,508
85	6	Yr 2	8,714,694	3	5	605,662	8,420,273	2,314,727		2,081,755	232,972	6,632,939
86	12	Yr 2	9,463,972	3	15	517,279	11,601,772	828,698		552,333	276,366	8,911,639
87	7	Yr 1	10,680,000	3	14	311,876	13,092,487	935,178		623,302	311,876	10,056,698
88												
89		***Total 2022***	***86,566,604***			**11,766,769**	**100,728,340**	**10,802,683**		**8,401,753**	**2,400,931**	**78,164,851**
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	A	B	C	D	E	F	G	H	I	J	K	L
102			**2023 Loan Portfolio**							For 2024 Beginning Balance Sheet		
103	**Public Bank Loan-See Chart No**	**Yr of Loan**	**Principal**	**Rate**	**Term**	**Total Interest - Balance**	**Outstanding Balance-Total Principal & Interest**	**Annual Payment - Prinicipal & Interest**		**Principal Paid**	**Interest Earned**	**Ending Principal Balance**
104	1	Yr 6	6,000,052	2	12	511,490	6,434,842	919,263		806,630	112,634	5,193,422
105	2	Yr 6	1,620,734	2	17	215,082	1,824,341	152,028		120,716	31,312	1,500,018
106	9	Yr 6	9,654,909	3	15	1,649,465	11,187,424	1,118,742		840,591	278,152	8,814,318
107	10	Yr 6	1,612,150	3	10	168,336	1,738,092	347,619		303,403	44,215	1,308,747
108	3	Yr 5	3,940,302	3	10	438,900	4,310,471	718,412		608,525	109,887	3,331,777
109	4	Yr 5	18,853,780	3	17	4,074,113	22,791,896	7,753,223		1,204,076	549,147	17,649,704
110	5	Yr 4	2,539,140	3	6	189,737	2,658,286	886,095		821,151	64,944	1,717,989
111	11	Yr 4	8,342,508	3	15	1,652,283	9,944,376	828,698		588,443	242,255	7,754,065
112	6	Yr 3	6,632,939	3	5	436,009	6,105,546	2,314,727		2,145,074	169,653	4,487,865
113	12	Yr 3	8,911,639	3	15	257,713	10,773,074	828,698		569,132	259,566	8,342,507
114	7	Yr 2	10,056,698	3	14	224,361	12,157,309	935,178		642,260	292,918	9,414,438
115	8	Yr1	6,570,000	3	9	934,974	7,504,974	883,886		645,615	188,271	5,924,385
116	13	Yr1	5,000,000	3	10	793,645	5,793,645	579,364		435,318	144,047	4,564,682
117												
118		***Total 2023***	**89,734,851**			**11,546,108**	**103,224,276**	**18,265,933**		**9,730,934**	**2,487,001**	**80,003,917**

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Tab 3. Back-up for interest rates for income

1. FOMC's target federal funds rate or range (basis points) and level

2. Daily Treasury Yield Curve

3. Overnight Rates

Policy Tools

Open Market Operations

Open market operations (OMOs)--the purchase and sale of securities in the open market by a central bank--are a key tool used by the Federal Reserve in the implementation of monetary policy. The short-term objective for open market operations is specified by the Federal Open Market Committee (FOMC). Before the global financial crisis, the Federal Reserve used OMOs to adjust the supply of reserve balances so as to keep the federal funds rate--the interest rate at which depository institutions lend reserve balances to other depository institutions overnight--around the target established by the FOMC.

The Federal Reserve's approach to the implementation of monetary policy has evolved considerably since the financial crisis, and particularly so since late 2008 when the FOMC established a near-zero target range for the federal funds rate. From the end of 2008 through October 2014, the Federal Reserve greatly expanded its holding of longer-term securities through open market purchases with the goal of putting downward pressure on longer-term interest rates and thus supporting economic activity and job creation by making financial conditions more accommodative.

During the policy normalization process that commenced in December 2015, the Federal Reserve will use overnight reverse repurchase agreements (ON RRPs)--a type of OMO--as a supplementary policy tool, as necessary, to help control the federal funds rate and keep it in the target range set by the FOMC.

For additional information, see: http://www.federalreserve.gov/monetarypolicy/bst_openmarketops.htm

The Federal Reserve Bank of New York publishes a detailed explanation of OMOs each year in its Annual Report. For a description of open market operations during the 1990s, see the article in the Federal Reserve Bulletin (102 KB PDF).

For additional information on how the Federal Reserve will use ON RRPs during the policy normalization process, see: http://www.federalreserve.gov/monetarypolicy/overnight-reverse-repurchase-agreements.htm

FOMC's target federal funds rate or range, change (basis points) and level

2017 | 2016 | 2015 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | Historical Archive

2017

Date	Increase	Decrease	Level (%)
June 15	25	0	1.00-1.25
March 16	25	0	0.75-1.00

Back to year navigation

2016

Date	Increase	Decrease	Level (%)
December 15	25	0	0.50-0.75

Back to year navigation

2015

Date	Increase	Decrease	Level (%)
December 17	25	0	0.25-0.50

Back to year navigation

2008

Date	Increase	Decrease	Level (%)
December 16	...	75-100	0-0.25
October 29	...	50	1.00
October 8	...	50	1.50
April 30	...	25	2.00
March 18	...	75	2.25
January 30	...	50	3.00
January 22	...	75	3.50

Back to year navigation

2007

Date	Increase	Decrease	Level (%)
December 11	...	25	4.25
October 31	...	25	4.50
September 18	...	50	4.75

Back to year navigation

2006

Date	Increase	Decrease	Level (%)
June 29	25	...	5.25
May 10	25	...	5.00
March 28	25	...	4.75
January 31	25	...	4.50

Back to year navigation

2005

Date	Increase	Decrease	Level (%)
December 13	25	...	4.25
November 1	25	...	4.00
September 20	25	...	3.75
August 9	25	...	3.50
June 30	25	...	3.25
May 3	25	...	3.00
March 22	25	...	2.75
February 2	25	...	2.50

Back to year navigation

2004

Date	Increase	Decrease	Level (%)
December 14	25	...	2.25
November 10	25	...	2.00
September 21	25	...	1.75
August 10	25	...	1.50
June 30	25	...	1.25

Back to year navigation

2003

Date	Increase	Decrease	Level (%)
June 25	...	25	1.00

Back to year navigation

Basis points: 1/100 percentage point Return to Text

Last Update: June 14, 2017

U.S. DEPARTMENT OF THE TREASURY

Resource Center

Daily Treasury Yield Curve Rates

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XML These data are also available in XML format by clicking on the XML icon.

XSD The schema for the XML is available in XSD format by clicking on the XSD icon.

If you are having trouble viewing the above XML in your browser, click here.

To access interest rate data in the legacy XML format and the corresponding XSD schema, click here.

Select type of Interest Rate Data

Daily Treasury Yield Curve Rates ▼ Go

Select Time Period

Current Month ▼ Go

Date	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
11/01/17	1.06	1.18	1.30	1.46	1.61	1.74	2.01	2.22	2.37	2.63	2.85
11/02/17	1.02	1.17	1.29	1.46	1.61	1.73	2.00	2.21	2.35	2.61	2.83
11/03/17	1.02	1.18	1.31	1.49	1.63	1.74	1.99	2.19	2.34	2.59	2.82
11/06/17	1.03	1.19	1.30	1.50	1.61	1.73	1.98	2.17	2.32	2.58	2.80
11/07/17	1.05	1.22	1.33	1.49	1.63	1.73	1.99	2.17	2.32	2.58	2.77
11/08/17	1.05	1.23	1.35	1.53	1.63	1.76	2.01	2.19	2.32	2.57	2.79
11/09/17	1.07	1.24	1.36	1.53	1.63	1.75	2.04	2.20	2.33	2.60	2.81
11/10/17	1.08	1.28	1.37	1.54	1.67	1.79	2.06	2.27	2.40	2.67	2.88

[illegible]

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TreasuryDirect.

FedInvest

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Overnight Rates For:

Nov 1, 2017 to Nov 11, 2017

ISSUE DATE	RATE	MATURITY DATE
11/01/2017	0.99	11/02/2017
11/02/2017	1.06	11/03/2017
11/03/2017	1.01	11/06/2017
11/06/2017	1.03	11/07/2017
11/07/2017	1.01	11/08/2017
11/08/2017	1.05	11/09/2017
11/09/2017	1.05	11/10/2017
11/10/2017	1.07	11/13/2017

Tab 4. Back-up for operating cost projections

	A	B	C	D	E	F	G	H
1	**Administrative Costs for the Santa Fe Public Bank - 2018***							
2	**1. Bank Staff Postions - based on Current City Positions**							
3								
4	***Name of Person***	***Staff Position Description***	***Hourly Rate***	***Annual Salary***	***Plus Benefits ****	***Total***	***Round Up for Total Cost***	
5	Adam Johnson	Finance Director	$ 56.40	$ 117,312	$ 160,717	$ 160,717		
6	Bradley Fleutsch	Cash Management & Investment Officer	$ 39.23	$ 81,598	$ 111,790	$ 111,790		
7	David C. Tapia	Project Specialist, Acctg/Finance	$ 22.34	$ 46,467	$ 63,660	$ 63,660		
8	Marcos Martinez	Asst. City Attorney	$ 39.85	$ 82,888	$ 113,557	$ 113,557		
9	Lorraine Lovato	Account Specialist	$ 17.80	$ 37,024	$ 50,723	$ 50,723		
10	**Total**					**$ 500,447**		**$ 501,000**
11	*.37 added to salary based on BLS June 2017 "Employer Costs For Employee Compensation" Report							
12								
13	**2. Information Technology - web-based service. This estimate was calculated at 3% of loan interest revenue for year 3 of the portfolio***							
14	***Interest Earnings by 6/30/21***		***x .03***			***Total***		
15		$2,309,633	$69,288.99			**$69,289**		**$ 70,000**
16	*www.quora.com/How-much-money-do-banks-spend-on-IT							
17								
18		**3. Rent***						
19	**Sample Address**	**Cost Range**	**Projections**		**Estimted Cost**	**Total**		
20	906 St. Francis Dr	$10.75-$14/sq ft/yr	$14 x 1500 sq ft=$21,000/12		1750			
21			$14 x 2000 sq ft=$28,000/12		2333			
22				Total - e19 & e20	4083			
23				Total/2	2041.7			
24				Select Rent Amt		$2,000/mo		
25				Total/yr		**$24,000/yr**		**$ 24,000**
26	*Sites searched: santafe.craigslist.org/office; www.officepace.com; www.cityfeet.com							
27								
28								
29								
30								

	A	B	C	D	E	F	G	H
31								
32								
33	**Administrative Costs for the Santa Fe Public Bank - 2018**							
34								
35	**4. Furniture and Supplies - based on estimates from Office Depot**							
36	**Item**		**Cost**	**How Many**	**Subtotal**	**Total**		
37	1. Desks		$230	4	$ 920.00	$ 1,000.00		
38	2. Ergonomic Desk Chairs		$150	4	$ 600.00	$ 600.00		
39	3. Computers-Loan & Compliance Officers		$150	2	$ 500.00	$ 500.00		
40	4. Computers-President & Cash Management & Investment Officer		$380	2	$ 760.00	$ 800.00		
41	5. Printers		$100	4	$ 400.00	$ 400.00		
42	6. 2 line Speaker Phone with one Handset		$150	1	$ 150.00	$ 150.00		
43	7. 2 cordless handsets		$60	2	$ 120.00	$ 120.00		
44	8. Supplies*		$39	12 months	$ 468.00	$ 500.00		
45					Total	**$ 4,070.00**		**$ 5,000**
46	*based on google search- What is average cost for office supplies per year							
47					**Non-Interest Expenses - Subtotal**			**$ 600,000**
48								
49	**5. Legal, Accounting and Consultant Fees***							
50		The Federal Reserve Bank of St. Louis, in an article dated July 2016,			Non-Interest Expenses			$ 600,000
51		titled "Scale Matters: Community Banks and Compliance Costs"					x .08 =	$ 48,000
52		calculates these costs at approximately 8% of non-interest expenses						
53		for banks under $100M of assets.						
54					**SubTotal - Projected Start-up costs**			**$ 648,000**
55								
56	**Equipment**							
57	We could not determine cost of IT equipment and estimated $200,000 for that equipment.							$ 200,000
58								
59					**Grand Total - Start-up costs**			**$ 848,000**
60								
61								
62		***NOTE: BTT offers these cost estimates for discussion.**						

Tab 5. Back-up for Regulatory Metrics

1. Reserve Requirements (See Line 34 on the Balance Sheet)

2. New Capital Rule – Community Bank guide
   (See Line 35 on the Balance Sheet)

3. Tier 1 Leverage Ratio (See Line 36 on the Balance Sheet)

4. Leverage Coverage Ratio does not apply to community banks.
   See Section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (See Line 37 on the Balance Sheet)

Policy Tools

Reserve Requirements

Reserve requirements are the amount of funds that a depository institution must hold in reserve against specified deposit liabilities. Within limits specified by law, the Board of Governors has sole authority over changes in reserve requirements. Depository institutions must hold reserves in the form of vault cash or deposits with Federal Reserve Banks.

The dollar amount of a depository institution's reserve requirement is determined by applying the reserve ratios specified in the Federal Reserve Board's Regulation D to an institution's reservable liabilities (see table of reserve requirements). Reservable liabilities consist of net transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities. Since December 27, 1990, nonpersonal time deposits and Eurocurrency liabilities have had a reserve ratio of zero.

The reserve ratio on net transactions accounts depends on the amount of net transactions accounts at the depository institution. The Garn-St Germain Act of 1982 exempted the first $2 million of reservable liabilities from reserve requirements. This "exemption amount" is adjusted each year according to a formula specified by the act. The amount of net transaction accounts subject to a reserve requirement ratio of 3 percent was set under the Monetary Control Act of 1980 at $25 million. This "low reserve tranche" is also adjusted each year (see table of low reserve tranche amounts and exemption amounts since 1982). Net transaction accounts in excess of the low reserve tranche are currently reservable at 10 percent.

For more history on the changes in reserve requirement ratios and the indexation of the exemption and low reserve tranche, see the graph and review table. Additional details of reserve requirements can be found in the *Reserve Maintenance Manual* and in the article (113 KB PDF) in the *Federal Reserve Bulletin*, the appendix of which has tables of historical reserve ratios.

Reserve Requirements

Liability Type	Requirement	
	% of liabilities	Effective date
Net transaction accounts		
$0 to $16.0 million	0	[illegible]
More than $16.0 million to $122.3 million	3	[illegible]
More than $122.3 million	10	[illegible]
Nonpersonal time deposits	0	[illegible]
Eurocurrency liabilities	0	[illegible]

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[illegible]

[illegible]

2. [illegible]

3. [illegible]

Low Reserve Tranche Amounts and Exemption Amounts since 1982

Effective date (beginning of maintenance period)	Low reserve tranche amount (millions of U.S. dollars)	Exemption amount (millions of U.S. dollars)
January 14, 1982	26.0	[illegible]
December 23, 1982	n.a.	2.[illegible]
January 13, 1983	26.3	[illegible]
January 12, 1984	28.9	2.2
January 3, 1985	29.8	2.4
January 2, 1986	31.7	2.6
January 1, 1987	36.7	2.9
December 31, 1987	40.5	3.2
December 29, 1988	41.5	3.4
December 28, 1989	40.4	3.4
December 27, 1990	41.1	3.4
December 26, 1991	42.2	3.6
December 24, 1992	46.8	3.8
December 23, 1993	51.9	4.0
December 22, 1994	54.0	4.2
December 21, 1995	52.0	4.3

December 31, 1996	49.3	4.4
January 1, 1998	47.8	4.7
December 31, 1998	46.5	4.9
December 30, 1999	44.3	5.0
December 28, 2000	42.8	5.5
December 27, 2001	41.3	5.7
December 26, 2002	42.1	6.0
December 25, 2003	45.4	6.6
December 23, 2004	47.6	7.0
December 22, 2005	48.3	7.8
December 21, 2006	45.8	8.5
December 20, 2007	43.9	9.3
January 1, 2009	44.4	10.3
December 31, 2009	55.2	10.7
December 30, 2010	58.8	10.7
December 29, 2011	71.0	11.5
December 27, 2012	79.5	12.4
January 23, 2014	89.0	13.3
January 22, 2015	103.6	14.5
January 21, 2016	110.2	15.2
January 19, 2017	115.1	15.5
January 18, 2018	122.3	16.0

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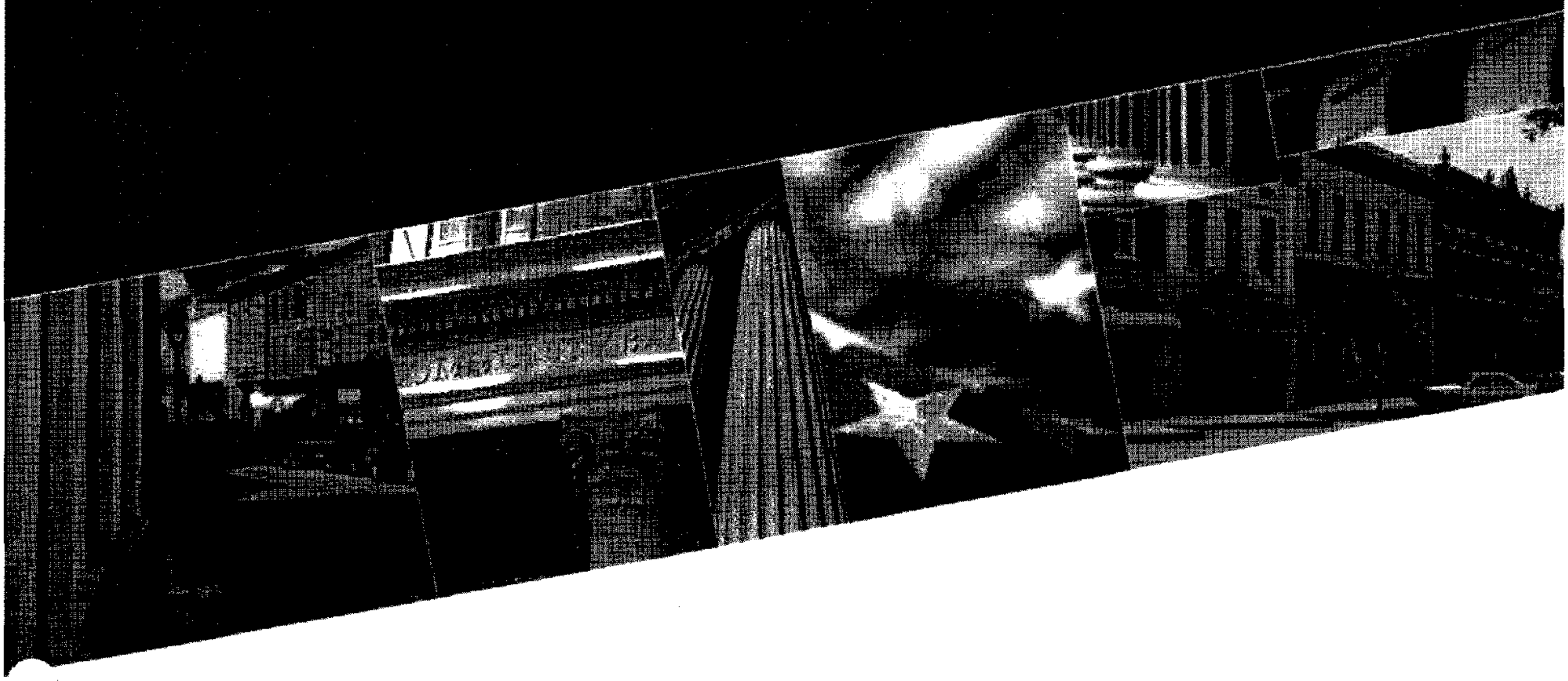
* Not applicable. Return to table

** No change. Return to table

Regulation D: Reserve Requirements and Indexation of the Low Reserve Tranche and the Reserve Requirement Exemption

[illegible]

Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency



New Capital Rule
Community Bank Guide

July 2013

Note: The agencies revised this guide on July 18, 2013, to correct an error on page 8, Table 4, Comparison of Risk Weights of the Current Rule with the New Rule. The risk weight under the New Capital Rule column was corrected to 0% from Unchanged for the "Claims on certain supranational entities and multilateral development banks" category.

Introduction

This guide is intended to help small, non-complex community banking organizations understand the sections of the capital rule recently adopted by the federal banking agencies (the new rule)[1] most relevant to their operations. This guide summarizes significant changes from the current general risk-based capital rule for exposures commonly held by community banking organizations, and it provides relevant information regarding the treatment of more complex exposures such as securitization exposures, equity exposures, and exposures to a foreign government or bank. Community banking organizations become subject to the new rule on January 1, 2015.

The new rule takes important steps toward improving the quality and increasing the quantity of capital for all banking organizations as well as setting higher standards for large, internationally active banking organizations. The agencies believe that the new rule will result in capital requirements that better reflect banking organizations' risk profiles, thereby improving the overall resilience of the banking system. The agencies have carefully considered the potential impacts on all banking organizations, including community banking organizations, and sought to minimize the potential burden of these changes where consistent with applicable law and the agencies' goals of establishing a robust and comprehensive capital framework.

This guide does not provide complete coverage of the new rule and does not carry the force and effect of law or regulation. In addition to using this guide, community banking organizations should review the portions of the new rule that are relevant to them. The summary tables in this document provide citations to sections in the new rule to allow community banking organizations to efficiently identify the most relevant sections.

The new rule can be found on your primary Federal supervisor's Web site.

Key Changes From the June 2012 Proposals

There are three key changes from the June 2012 proposals in the new rule:

Residential Mortgage Exposures: The proposals included several changes to the treatment for residential mortgage exposures. None of these proposed changes are included in the new rule. The new rule's treatment of one- to four-family residential mortgage exposures remains the same as under the current general risk-based capital rule. This includes a 50 percent risk weight for prudently underwritten first lien mortgage loans that are not past due, reported as nonaccrual, or restructured, and a 100 percent risk weight for all other residential mortgages. Similarly, the new rule does not change the current exclusions from the definition of credit-enhancing representations and warranties.

Accumulated Other Comprehensive Income (AOCI) Filter: The proposals would have required all banking organizations to reflect most AOCI components in regulatory capital. In the new rule, non-advanced approaches banking organizations are given a one-time option to filter certain AOCI components, comparable to the treatment under the current general risk-based

[1] The new rule will be adopted as a final rule and codified at Title 12 of the Code of Federal Regulations (CFR) for the OCC in Part 3 and for the FRB in Part 217. The new rule will be adopted as an interim final rule and codified at Title 12 of the CFR for the FDIC in Part 324.

capital rule. The AOCI opt-out election must be made on the institution's first Call Report, FR Y-9C, or FR Y-9SP, as applicable, filed after January 1, 2015.

Non-Qualifying Capital Instruments and Tier 1 Capital: The proposal would have required trust preferred securities (TruPS) and cumulative perpetual preferred stock to be phased out of tier 1 capital. The new rule exempts depository institution holding companies with less than $15 billion in total consolidated assets as of December 31, 2009, or organized in mutual form as of May 19, 2010, from this requirement. Capital instruments that were issued prior to May 19, 2010, by these institutions and that are currently in tier 1 capital, including TruPS and cumulative perpetual preferred stock, are grandfathered in tier 1 capital, subject to limits. More specifically, consistent with the current requirements, these instruments are limited to 25 percent of tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments have been applied to tier 1 capital.

Major Changes From the Current General Risk-Based Capital Rule

Revisions to the Minimum Capital Requirements and Adjustments to Prompt Corrective Action (PCA) Thresholds: The new rule implements higher minimum capital requirements, includes a new common equity tier 1 capital requirement, and establishes criteria that instruments must meet in order to be considered common equity tier 1 capital, additional tier 1 capital, or tier 2 capital. These enhancements will both improve the quality and increase the quantity of capital required to be held by banking organizations, better equipping the U.S. banking system to deal with adverse economic conditions. The new minimum capital to risk-weighted assets (RWA) requirements are a common equity tier 1 capital ratio of 4.5 percent and a tier 1 capital ratio of 6.0 percent, which is an increase from 4.0 percent, and a total capital ratio that remains at 8.0 percent. The minimum leverage ratio (tier 1 capital to total assets) is 4.0 percent. The new rule maintains the general structure of the current PCA framework while incorporating these increased minimum requirements.

Additional Improvements to the Quality of Regulatory Capital: The new rule improves the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would disallow the inclusion of instruments such as TruPS in tier 1 capital going forward, and new constraints on the inclusion of minority interests, mortgage-servicing assets (MSAs), deferred tax assets (DTAs), and certain investments in the capital of unconsolidated financial institutions. In addition, the new rule requires that most regulatory capital deductions be made from common equity tier 1 capital.

Capital Conservation Buffer: Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity tier 1 capital above its minimum risk-based capital requirements (see Table 1). This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer is measured relative to RWA. Phase-in of the capital conservation buffer requirements will begin on January 1, 2016 (see Table 2).

Table 1 summarizes how much a banking organization can pay out in the form of distributions or discretionary bonus payments in a quarter based on its capital conservation buffer. A banking organization with a buffer greater than 2.5 percent would not be subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of less than 2.5 percent would be subject to increasingly stringent limitations as the buffer approaches zero.

Table 1: Payout Restrictions and Capital Conservation Buffer

Capital Conservation Buffer (as a percentage of risk-weighted assets)	**Maximum Payout** (as a percentage of eligible retained income)
Greater than 2.5 percent	No payout limitation applies
Less than or equal to 2.5 percent and greater than 1.875 percent	60 percent
Less than or equal to 1.875 percent and greater than 1.25 percent	40 percent
Less than or equal to 1.25 percent and greater than 0.625 percent	20 percent
Less than or equal to 0.625 percent	0 percent

The new rule also prohibits a banking organization from making distributions or discretionary bonus payments during any quarter if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5 percent at the beginning of the quarter. The eligible retained income of a banking organization is defined as its net income for the four calendar quarters preceding the current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income. When the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the PCA well-capitalized thresholds.

Credit Ratings: Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act prohibits using references to, and reliance on, external credit ratings in the regulations of federal agencies and directs agencies to use alternative standards of creditworthiness. As a result, the new rule replaces the ratings-based approach, which is based on credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for securitization exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight.

MSAs and DTAs: Under the new rule, MSAs and DTAs are subject to stricter limitations than those applicable under the current general risk-based capital rule. More specifically, certain DTAs arising from temporary differences, MSAs, and significant investments in the capital of unconsolidated financial institutions in the form of common stock are each subject to an individual limit of 10 percent of common equity tier 1 capital elements and are subject to an aggregate limit of 15 percent of common equity tier 1 capital elements. The amount of these items in excess of the 10 and 15 percent thresholds are to be deducted from common equity tier 1 capital. Amounts of MSAs, DTAs, and significant investments in unconsolidated financial institutions that are not deducted due to the aforementioned 10 and 15 percent thresholds must be assigned to the 250 percent risk weight.

Revised Risk Weights: The new rule increases the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors. See Table 4 for details.

Timeline and Transition Period

Community banks will begin transitioning to the new rule on January 1, 2015. The new minimum capital requirements are effective on January 1, 2015, whereas the capital conservation buffer and the deductions from common equity tier 1 capital phase in over time. Similarly, non-qualifying capital instruments phase out over time, except as described above. The timeline is summarized in Table 2.

Table 2: Transition Schedule for New Ratios and Capital Definitions

Year (as of January 1)	2015	2016	2017	2018	2019
Minimum common equity tier 1 capital ratio	4.5%	4.5%	4.5%	4.5%	4.5%
Common equity tier 1 capital conservation buffer	N/A	0.625%	1.25%	1.875%	2.5%
Minimum common equity tier 1 capital ratio plus capital conservation buffer	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of most deductions from common equity tier 1 (including 10 percent & 15 percent common equity tier 1 threshold deduction items that are over the limits)[2]	40%	60%	80%	100%	100%
Minimum tier 1 capital ratio	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum tier 1 capital ratio plus capital conservation buffer	N/A	6.625%	7.25%	7.875%	8.5%
Minimum total capital ratio	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum total capital ratio plus conservation buffer	N/A	8.625%	9.25%	9.875%	10.5%

N/A means not applicable.

Most existing capital instruments issued by community banks will continue to count as regulatory capital. Community banks that have concerns about whether existing capital instruments meet the new eligibility criteria should consult with their primary Federal supervisor.

[2] Deductions from common equity tier 1 capital include goodwill and other intangibles, DTAs that arise from net operating loss and tax credit carryforwards (above certain levels), gains-on-sale in connection with a securitization, any defined benefit pension fund net asset (for banking organizations that are not insured depository institutions), investments in a banking organization's own capital instruments, MSAs (above certain levels) and investments in the capital of unconsolidated financial institutions (above certain levels).

Summary Tables Comparing the Current Rule With the New Rule

The remaining aspects of the new capital rule are summarized in the following tables. Table 3 covers minimum capital ratios, capital buffers, PCA, and a regulatory capital components comparison. Table 4 provides comparison of the risk weights by asset category.

Table 3: Comparison of the Components of the Current Rule With the New Rule

	Current General Risk-Based Capital Rule	New Capital Rule	Section
Minimum regulatory capital ratios			
Common equity tier 1 capital / RWA	N/A	4.5%	Subpart B, §.10
Tier 1 capital / RWA	4%	6%	
Total capital / RWA	8%	8%	
Leverage ratio	4% (or 3%)	4%	
Capital buffers			
Capital conservation buffer	N/A	Capital conservation buffer equivalent to 2.5% of risk-weighted assets; composed of common equity tier 1 capital	Subpart B, §.11
Prompt corrective action levels: Common equity tier 1 capital ratio			
Well capitalized	N/A	≥ 6.5%	See footnote[3]
Adequately capitalized	N/A	≥ 4.5%	
Undercapitalized	N/A	< 4.5%	
Significantly undercapitalized	N/A	< 3%	
Prompt corrective action levels: Tier 1 capital ratio			
Well capitalized	≥ 6%	≥ 8%	See footnote[3]
Adequately capitalized	≥ 4%	≥ 6%	
Undercapitalized	< 4%	< 6%	
Significantly undercapitalized	< 3%	< 4%	
Prompt corrective action levels: Total capital ratio			
Well capitalized	≥ 10%	≥ 10%	See footnote[3]
Adequately capitalized	≥ 8%	≥ 8%	
Undercapitalized	< 8%	< 8%	
Significantly undercapitalized	< 6%	< 6%	

[3] PCA regulations are found in the following locations: 12 CFR Part 6 for banking organizations supervised by the OCC; Subpart D of Regulation H (12 CFR Part 208), §.208.41 for banking organizations supervised by the Federal Reserve; and 12 CFR Part 324, subpart H for banking organizations supervised by the FDIC.

	Current General Risk-Based Capital Rule	New Capital Rule	Section
Prompt corrective action levels: Leverage ratio			
Well capitalized	≥ 5%	≥ 5%	See footnote[3]
Adequately capitalized	≥ 4% (or ≥ 3%)	≥ 4%	
Undercapitalized	< 4% (or < 3%)	< 4%	
Significantly undercapitalized	< 3%	< 3%	
Prompt corrective action levels: Critically undercapitalized category			
Critically undercapitalized	Tangible equity to total assets ≤ 2%	Tangible equity to total assets ≤ 2%	See footnote[3]
Regulatory capital components (definition/instruments)			
Common equity tier 1 capital	No specific definition.	Common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less the majority of the regulatory deductions.	Subpart C, §.20(b) and §.22
Tier 1 capital	Common stock (plus related surplus) and retained earnings plus; Non-cumulative preferred stock and related surplus; Cumulative preferred stock and related surplus, trust-preferred securities (for BHCs); Limited amounts of minority interests; Less the majority of regulatory deductions.	Unchanged; Unchanged, however, instruments must meet new eligibility criteria; Not permitted going forward, but grandfathered securities are permitted; Limited amounts of minority interest in the form of additional tier 1 capital instruments; Less certain deductions.	Subpart C, §.20(c) and §.22
Tier 2 capital	Certain capital instruments (e.g., subordinated debt) and limited amounts of the allowance for loan and lease losses (ALLL). Less applicable deductions.	Generally unchanged for most banking organizations with respect to subordinated debt and the ALLL. However, there are new eligibility criteria that tier 2 capital instruments, including subordinated debt, must meet. Less applicable deductions.	Subpart C, §.20(d) and §.22

	Current General Risk-Based Capital Rule	New Capital Rule	Section
Regulatory deductions and adjustments treatment			
Regulatory deductions	Current deductions from regulatory capital include goodwill and other intangibles, DTAs (above certain levels), and MSAs (above certain levels).	Deductions from common equity tier 1 capital include goodwill and other intangibles, DTAs that arise from net operating loss and tax credit carryforwards (above certain levels), gains-on-sale in connection with a securitization, any defined benefit pension fund net asset (for banking organizations that are not insured depository institutions), investments in a banking organization's own capital instruments, MSAs (above certain levels) and investments in the capital of unconsolidated financial institutions (above certain levels). MSAs, DTAs arising from temporary differences that the banking organization could not realize through net operating loss carrybacks, and certain investments in financial institutions, are each limited to 10 percent of common equity tier 1 and in combination are limited to 15 percent of common equity tier 1.	Subpart C, §.22
Regulatory adjustments	Current adjustments include the neutralization of unrealized gains and losses on available-for-sale (AFS) debt securities for regulatory capital purposes.	For banking organizations that make a one-time, irrevocable AOCI opt-out election, adjustments include the neutralization of unrealized gains and losses on AFS debt securities for regulatory capital purposes.[4]	Subpart C, §.22

[4] Institutions will not be able to reverse their choice in order to benefit from recognizing gains, or to protect against recognizing losses, in AOCI due to changes in the interest rate environment. For example, an institution that has elected to take the AOCI opt-out and neutralize the unrealized gains and losses on AFS debt securities from flowing through to regulatory capital cannot reverse the election in a declining interest rate environment in order to recognize unrealized gains.

Table 4: Comparison of Risk Weights of the Current Rule With the New Rule

Category	Current Risk Weight	New Capital Rule	Section
Cash	0%	Unchanged.	Subpart D, §.32(l)(1)
Direct and unconditional claims on the U.S. government, its agencies, and the Federal Reserve	0%	Unchanged.	Subpart D, §.32(a)(1)(i)
Claims on certain supranational entities and multilateral development banks	20%	0%	Subpart D, §.32(b)
Cash items in the process of collection	20%	Unchanged.	Subpart D, §.32
Conditional claims on the U.S. government	20%	Unchanged.	Subpart D, §.32(a)(1)(ii)
Claims on government-sponsored enterprises (GSEs)	20% 100% on GSE preferred stock (20% for national banks).	20% on exposures other than equity exposures and preferred stock. 100% on GSE preferred stock.	Subpart D, §.32(c)
Claims on U.S. depository institutions and National Credit Union Administration-insured credit unions	20% 100% risk weight for an investment in an instrument included in another banking organization's regulatory capital.	20% Unchanged unless the instrument is an equity exposure or required to be deducted.	Subpart D, §.32(d)(1)
Claims on U.S. public sector entities (PSEs)	20% for general obligations. 50% for revenue obligations.	Unchanged.	Subpart D, §.32(e)(1)
Industrial development bonds	100%	Unchanged.	Subpart D, §.32
Claims on qualifying securities firms	20% in general.	100% See corporate exposures below.	Subpart D, §.32(f)
One- to four-family loans	50% if first lien, prudently underwritten, owner occupied or rented, not 90 days or more past due or carried in nonaccrual status, is not restructured or modified. 100% otherwise.	Unchanged.	Subpart D, §.32(g)
One- to four-family loans modified under Home Affordable Modification Program	50% and 100% The banking organization must use the same risk weight assigned to the loan prior to the modification so long as the loan continues to meet other applicable prudential criteria.	Unchanged.	Subpart D, §.32(g)(3)

Category	Current Risk Weight	New Capital Rule	Section
Loans to builders secured by one- to four-family properties presold under firm contracts	50% if the loan meets all criteria in the regulation. 100% if the contract is cancelled. 100% for loans not meeting the criteria.	Unchanged.	Subpart D, §.32(h)
Loans on multifamily properties	50% if the loan meets all the criteria in the regulation; 100% otherwise.	Substantively unchanged. Clarified and updated the manner in which the rule defines these exposures.	Subpart D, §.32(i)
Corporate exposures and consumer loans	100%	Unchanged unless the exposure is an investment in an instrument included in the regulatory capital of another financial institution.	Subpart D, §.32(f)
Commercial real estate (CRE)	100%	Unchanged. 150% for high volatility commercial real estate (HVCRE), which is a subset of CRE, and defined as a credit facility that, prior to conversion to permanent financing, finances or has financed the acquisition, development, or construction of real property, ***unless*** the facility finances (1) one- to four-family residential properties; (2) certain community development projects; (3) the purchase or development of agricultural land; or (4) commercial real estate projects that meet the criteria in the rule, including criteria regarding the loan-to-value ratio and capital contributions to the project.	Subpart D, §.32(j)
Past-due exposures	Generally, the risk weight does not change when the loan is past due. However, one- to four-family loans that are past due 90 days or more are assigned a 100% risk weight.	150% for the portion that is not guaranteed or secured (does not apply to sovereign exposures). Unchanged.	Subpart D, §.32(k)
Assets not assigned to a risk weight category, including fixed assets, premises, and other real estate owned	100%	Unchanged.	Subpart D, §.32(l)(5)

Category	Current Risk Weight	New Capital Rule	Section
Mortgage-backed securities (MBS), asset-backed securities (ABS), and structured securities[5]	Two general approaches—ratings-based approach and gross-up approach.	Two general approaches—gross-up approach and simple supervisory formula approach. May also choose to risk weight a securitization exposure at 1,250%.	Subpart D, §.42, §.43, and §.44
Equity exposures	100% or incremental deduction approach for nonfinancial equity investments.	Range of risk weights between 0 and 600% depending on the entity and whether the equity is publicly traded.	Subpart D, §.51 and §.52
Equity exposures to investment funds	There is a 20% risk weight floor on investment fund holdings. Two approaches available: i. Risk weight is the same as the highest risk weight investment the fund is permitted to hold. ii. A banking organization may assign risk weight on a pro rata basis based on the investment limits in the fund's prospectus.	Unchanged. Unchanged. (now called the Simple Modified Look-Through Approach) Unchanged. (now called the Alternative Modified Look-Through Approach) A third treatment (called the Full Look-Through Approach) has been introduced and it risk weights each asset of the fund (as if owned directly) and multiplies by the banking organization's proportional ownership in the fund.	Subpart D, §.53
Claims on foreign governments and their central banks, foreign banking organizations, and foreign public sector entities	Risk weight depends on the sovereign's membership in the Organization for Economic Cooperation and Development (OECD).	Risk weight depends on Country Risk Classification (CRC) applicable to the sovereign and whether the sovereign has defaulted within the previous five years.	Subpart D, §.32(a)(2) to (6), (d)(2) and (e)(2) to (6)

[5] See earlier discussion on page 3 regarding the removal of references to, and reliance on credit ratings, from the agencies' capital rules.

Category	Current Risk Weight	New Capital Rule	Section
Conversion factors for off-balance sheet items	0% for the unused portion of a commitment with an original maturity of one year or less, or which is unconditionally cancellable at any time;	0% for the unused portion of a commitment that is unconditionally cancellable by the banking organization; 20% for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable;	Subpart D, §.33
	20% for self-liquidating, trade-related contingent items;	Unchanged;	
	50% for the unused portion of a commitment with an original maturity of more than one year that is not unconditionally cancellable;	Unchanged;	
	50% for transaction-related contingent items (performance bonds, bid bonds, warranties, and standby letters of credit);	Unchanged;	
	100% for guarantees, repurchase agreements, securities lending and borrowing transactions, financial standby letters of credit, and forward agreements and certain credit-enhancing representations and warranties that are not securitization exposures.	Unchanged.	
Derivative contracts	Conversion to an on-balance sheet amount based on current exposure plus potential future exposure and a set of conversion factors.	Unchanged.	Subpart D, §.34
	50% risk weight cap.	No risk weight cap.	

Category	Current Risk Weight	New Capital Rule	Section
Guarantees	Generally recognizes guarantees provided by central governments, GSEs, PSEs in OECD countries, multilateral lending institutions, regional development banking organizations, U.S. depository institutions, foreign banking organizations, and qualifying securities firms in OECD countries.	Recognizes guarantees from eligible guarantors: sovereign entities, certain international organizations, such as the Bank for International Settlements, Federal Home Loan Banks, Farmer Mac, a multilateral development bank, a depository institution, a bank holding company, a savings and loan holding company, a foreign banking organization, a qualifying central counterparty banking organization, or certain entities that have investment grade debt.	Subpart D, §.36
	Substitution approach that allows the banking organization to substitute the risk weight of the protection provider for the risk weight ordinarily assigned to the exposure.	Unchanged.	
Collateralized transactions	Recognize only cash on deposit, securities issued or guaranteed by OECD countries, securities issued or guaranteed by the U.S. government or a U.S. government agency, and securities issued by certain multilateral development banks.	The new rule provides two approaches for recognizing a broader range of financial collateral:	Subpart D, §.37
	Substitute risk weight of collateral for risk weight of exposure, sometimes with a 20 percent risk weight floor.	Unchanged. (now called the Simple Approach)	
		Includes a new treatment (called the Collateral Haircut Approach) that is available only for eligible margin loans, repo-style transactions, and collateralized derivative contracts.	
MSAs, certain DTAs arising from temporary differences, and certain significant investments in the common stock of unconsolidated financial institutions	MSAs and DTAs that are not deducted and investments in common stock are subject to a 100 percent risk weight.	Items that are not deducted are subject to a 250 percent risk weight.	Subpart D, §.32(l) and §.52

Tier 1 Leverage Ratio

What is the 'Tier 1 Leverage Ratio'

The Tier 1 leverage ratio is the relationship between a banking organization's core capital and its total assets. The Tier 1 leverage ratio is calculated by dividing Tier 1 capital by a bank's average total consolidated assets and certain off-balance sheet exposures. Similarly to the Tier 1 capital ratio, the Tier 1 leverage ratio is used as a tool by central monetary authorities to ensure the capital adequacy of banks and to place constraints on the degree to which a financial company can leverage its capital base.

BREAKING DOWN 'Tier 1 Leverage Ratio'

The Tier 1 leverage ratio was introduced by Basel III, which is an international regulatory banking accord proposed by the Basel Committee on Banking Supervision in 2009. The ratio uses Tier 1 capital to judge how leveraged a bank is in relation to its consolidated assets. The higher the Tier 1 leverage ratio is, the higher the likelihood is of the bank withstanding negative shocks to its balance sheet.

Calculation of Tier 1 Leverage Ratio

The Tier 1 capital, which shows up in the numerator of the leverage ratio, represents a bank's common equity, retained earnings, reserves and certain instruments with discretionary dividends and no maturity. Tier 1 capital is the core capital of a bank according to Basel III and consists of the most subordinated capital that absorbs losses first during financial stress. The denominator in the Tier 1 leverage ratio is a bank's total exposures, which include its consolidated assets, derivative exposure and certain off-balance sheet exposures. Basel III required banks to include off-balance sheet exposures, such as commitments to provide loans to third parties, standby letters of credit, acceptances and trade letters of credit.

Tier 1 Leverage Ratio Requirements

Basel III established a 3% minimum requirement for the Tier 1 leverage ratio, while it left open the possibility of making the threshold even higher for certain systematically important financial institutions. In 2014, the Federal Reserve, the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) released regulatory capital rules that imposed higher leverage ratios for banks of certain sizes effective as of Jan. 1, 2018. Bank holding companies with more than $700 billion in consolidated total assets or more than $10 trillion in assets under management must maintain an additional 2% buffer, making their minimum Tier 1 leverage ratios 5%. In addition, if an insured depository institution is being covered by corrective action framework, meaning it demonstrated capital deficiencies in the past, it must demonstrate at least a 6% Tier 1 leverage ratio to be considered well capitalized.

Office of the
Comptroller of the Currency
U.S. Department of the Treasury [https://occ.gov/index.html]

OCC BULLETIN 2014-51

Subject: Liquidity Coverage Ratio
Date: October 17, 2014

To: Chief Executive Officers of All National Banks and Federal Savings Associations, Federal Branches and Agencies, Department and Division Heads, All Examining Personnel, and Other Interested Parties

Description: Final Rule

Summary

On September 3, 2014, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve Board), and the Federal Deposit Insurance Corporation (collectively, the agencies) issued a final rule that implements a quantitative liquidity requirement consistent with the liquidity coverage ratio (LCR) established by the Basel Committee on Banking Supervision (BCBS). The final rule is designed to strengthen the liquidity risk management of banks, savings associations, and bank holding companies.

The final rule applies to internationally active banking organizations, generally, those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance-sheet foreign exposure and to any consolidated bank or savings association subsidiary of one of these companies that, at the bank level, has total consolidated assets of $10 billion or more. (The final rule refers to these institutions collectively as "covered companies.") The final rule does not apply to bank holding companies or savings and loan holding companies with substantial insurance operations, to "bridge banks" that may be used in the course of bank resolutions, or to federal branches and agencies. The Federal Reserve Board separately adopted a less stringent, modified LCR requirement for bank holding companies and savings and loan holding companies without significant insurance or commercial operations that, in each case, have $50 billion or more in total consolidated assets but are not internationally active.

The final rule is effective on January 1, 2015.

Note for Community Banks

The final rule does not apply to community banks.

Highlights

The final rule creates a quantitative liquidity requirement, the LCR, for covered companies. The LCR is the ratio of a company's high-quality liquid asset (HQLA) amount to its projected net cash outflows over a 30-day period. When fully implemented, the final rule requires a covered company to maintain an LCR equal to or greater than 100 percent, which means that a covered company must maintain an HQLA amount equal to or greater than its projected total net cash outflows over a prospective 30-calendar-day period.

The final rule

- defines three categories of HQLA—level 1, level 2A, and level 2B liquid assets—and sets forth qualifying criteria and compositional limitations for an asset's inclusion in the HQLA amount (the LCR numerator).
- includes an approach for calculating a covered company's total net cash outflows (the LCR denominator) to address potential maturity mismatches in the company's outflows and inflows within the 30-calendar-day period.
- requires a covered company to notify its appropriate federal banking agency on any calculation date when its LCR is less than the minimum requirement and to submit a remediation plan if the shortfall persists.
- provides covered companies with a transition period for the daily calculation requirement.
- requires covered companies to comply with the minimum LCR standard as follows: 80 percent by January 1, 2015; 90 percent by January 1, 2016; and 100 percent by January 1, 2017.

Background

Recognizing the need for banking organizations to improve their liquidity risk management and control their liquidity risk exposures, the BCBS established quantitative standards for liquidity in the Basel III liquidity framework in 2010[1] and updated the standards in 2013.[2] The framework introduced the Basel III LCR, which established the first international quantitative liquidity standard with the primary objective of promoting the short-term resilience of internationally active banking organizations. Beginning in January 2015, under the Basel III LCR, internationally active banking organizations would be required to start holding sufficient HQLA to meet their liquidity needs during a 30-day stress scenario.

Since the financial crisis, the agencies have worked to establish a more rigorous supervisory and regulatory framework for U.S. banking organizations that would incorporate and build on the BCBS liquidity standards. The final rule further enhances current supervisory efforts aimed at identifying, measuring, and managing liquidity risk by implementing a minimum quantitative liquidity requirement in the form of an LCR. The final rule is consistent with the Basel III LCR, with modifications to reflect characteristics and risks specific to aspects of the U.S. market and the U.S. regulatory framework. The final rule is more stringent in several areas than the Basel III LCR, including the range of assets that would qualify as HQLA, the assumed rate of outflows for certain types of funding, the calculation of total net cash outflows, and the required compliance timeline.

To assist national banks and federal savings associations with the implementation of the LCR final rule, the OCC is making available formulas for the ratio's numerator and denominator calculations at the link noted below.

Further Information

Loan-To-Deposit Ratio - LTD

By Investopedia Staff

What is 'Loan-To-Deposit Ratio - LTD'

The loan-to-deposit ratio (LTD) is a commonly used statistic for assessing a bank's liquidity by dividing the bank's total loans by its total deposits. This number is expressed as a percentage. If the ratio is too high, it means that the bank may not have enough liquidity to cover any unforeseen fund requirements, and conversely, if the ratio is too low, the bank may not be earning as much as it could be.

BREAKING DOWN 'Loan-To-Deposit Ratio - LTD'

To calculate LTD ratio, take the total amount of loans granted by a bank over a specific period of time and divide by the amount of deposits received by the bank over the same period. For example, if a bank loans $3 million and it accepts $5 million in deposits over the same period, it has a LTD ratio of three-fifths or 60%.

What Causes Changes to LTD Ratios?

Multiple factors can cause changes in LTD ratios. For example, when the Federal Reserve lowers interest rates, the low rates encourage consumers to take out loans. Simultaneously, however, these rates deter investors from investing or buying securities, thus increasing the amount of cash they tend to deposit into bank accounts. Shifts such as these can lower the overall LTD ratio. For example, in 2008, the overall LTD ratio for U.S. commercial banks was 100%, but after years of low interest rates following the global financial crisis, the ratio dropped to 77% in 2015.

What Is an Ideal LTD Ratio?

Tradition and prudence indicate that the ideal LTD ratio is between 80 and 90%. However, banks also have to keep relevant regulations in mind. The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC) do not set minimum or maximum LTD ratios for banks. However, these agencies monitor banks to see if their ratios are compliant with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994.

How Are LTD Ratios Used?

SECTION 109 HOST STATE LOAN-TO-DEPOSIT RATIOS

The Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) (collectively, the agencies) today are making public the host state loan-to-deposit ratios[1] that the agencies will use to determine compliance with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act). In general, section 109 prohibits a bank from establishing or acquiring a branch or branches outside of its home state primarily for the purpose of deposit production. Section 106 of the Gramm-Leach-Bliley Act of 1999 amended coverage of section 109 of the Interstate Act to include any branch of a bank controlled by an out-of-state bank holding company.

To determine compliance with section 109, the appropriate agency first compares a bank's estimated statewide loan-to-deposit ratio[2] to the estimated host state loan-to-deposit ratio for a particular state. If the bank's statewide loan-to-deposit ratio is at least one-half of the published host state loan-to-deposit ratio, the bank has complied with section 109. A second step is conducted if a bank's estimated statewide loan-to-deposit ratio is less than one-half of the published ratio for that state or if data are not available at the bank to conduct the first step. The second step requires the appropriate agency to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank's interstate branches. A bank

[1] The host state loan-to-deposit ratio is the ratio of total loans in a state to total deposits from the state for all banks that have that state as their home state. For state-chartered banks and FDIC-supervised savings banks, the home state is the state where the bank was chartered. For national banks, the home state is the state where the bank's main office is located. The home state of a foreign bank is determined by 12 USC 3103(c) and applicable agency regulations at 12 CFR 28.11(n) (OCC), 12 CFR 211.22 (Board), and 12 CFR 347.202(k) (FDIC).

[2] The statewide loan-to-deposit ratio relates to an individual bank and is the ratio of a bank's loans to its deposits in a particular state where the bank has interstate branches.

that fails both steps is in violation of section 109 and subject to sanctions by the appropriate agency.

Section 109 of the Interstate Banking and Branching Efficiency Act Host State Loan-to-Deposit Ratios Using Data as of June 30, 2016 (Excludes wholesale or limited purpose Community Reinvestment Act-designated banks, credit card banks, and special purpose banks)	
State or U.S. Territory	**Host State Loan-to-Deposit Ratio**
Alabama	82%
Alaska	67%
Arizona	86%
Arkansas	81%
California	84%
Colorado	73%
Connecticut	96%
Delaware	62%
District of Columbia	75%
Florida	93%
Georgia	87%
Hawaii	71%
Idaho	75%
Illinois	82%
Indiana	85%
Iowa	85%
Kansas	83%
Kentucky	84%
Louisiana	84%
Maine	100%
Maryland	94%

Section 109 of the Interstate Banking and Branching Efficiency Act Host State Loan-to-Deposit Ratios Using Data as of June 30, 2016 (Excludes wholesale or limited purpose Community Reinvestment Act-designated banks, credit card banks, and special purpose banks)	
State or U.S. Territory	**Host State Loan-to-Deposit Ratio**
Massachusetts	95%
Michigan	92%
Minnesota	83%
Mississippi	81%
Missouri	79%
Montana	80%
Nebraska	89%
Nevada	86%
New Hampshire	94%
New Jersey	98%
New Mexico	61%
New York	88%
North Carolina	73%
North Dakota	88%
Ohio	85%
Oklahoma	84%
Oregon	90%
Pennsylvania	91%
Rhode Island	106%
South Carolina	79%
South Dakota	77%
Tennessee	85%
Texas	74%
Utah	109%
Vermont	94%

Section 109 of the Interstate Banking and Branching Efficiency Act Host State Loan-to-Deposit Ratios Using Data as of June 30, 2016 (Excludes wholesale or limited purpose Community Reinvestment Act-designated banks, credit card banks, and special purpose banks)	
State or U.S. Territory	**Host State Loan-to-Deposit Ratio**
Virginia	61%
Washington	86%
West Virginia	90%
Wisconsin	90%
Wyoming	60%
Guam	82%
Puerto Rico	82%
Virgin Islands	47%

Due to the legislative intent against imposing regulatory burden, no additional data were collected from institutions to implement section 109. However, since insufficient lending data were available on a geographic basis to calculate the host state loan-to-deposit ratios directly, the agencies used a proxy to estimate the ratios. Accordingly, the agencies calculated the host state loan-to-deposit ratios using data obtained from the Consolidated Reports of Condition and Income (call reports) and Summary of Deposits Surveys (summary of deposits), as of June 30, 2016. For each home state bank, the agencies calculated the percentage of the bank's total deposits attributable to branches located in its home state (determined from the summary of deposits), and applied this percentage to the bank's total domestic loans (determined from the call reports) to estimate the amount of loans attributable to the home state. The host state loan-to-deposit ratio was then calculated by separately totaling the loans and deposits for the home state banks, and then dividing the sum of the loans by the sum of the deposits.

Section 109 directs the agencies to determine, from relevant sources, the host state loan-to-deposit ratios. As discussed in the preamble to the joint final rule, Prohibition Against Use of Interstate Branches Primarily for Deposit Production (62 FR 47728, 47731, September 10, 1997), implementing section 109, banks designated as wholesale or limited purpose banks under the Community Reinvestment Act (CRA) were excluded from the host state loan-to-deposit calculation, recognizing that these banks could have very large loan portfolios, but few, if any, deposits. Likewise, credit card banks, which typically have large loan portfolios but few deposits, were also excluded, regardless of whether they had a limited purpose designation for CRA purposes. Beginning in 2001, special purpose banks, including bankers' banks, were excluded because these banks do not engage in traditional deposit taking or lending.

The estimated host state loan-to-deposit ratios, and any changes in the way the ratios are calculated, will be publicized on an annual basis.