

# PUBLIC BANK LA: SMALL BUSINESSES AND FINANCIAL JUSTICE

## JFI/Berggruen *Financial Justice Portfolio Options* Brief

*“[...] a public bank in Los Angeles could [...] build community wealth and repair historical harms to Black, immigrant, and other working and communities of color. While many banks and financial institutions focus on financial inclusion, a public bank would focus on financial and economic justice as a broader effort to build financial security and wealth among historically marginalized groups.” - Jain Family Institute, MBLA’s Role in Financial Justice*

### Expanding Credit for Financial Justice

The Municipal Bank of Los Angeles (MBLA) aims to advance financial justice, particularly for marginalized groups, by addressing systemic issues like income inequality and discriminatory lending practices. Unlike traditional financial inclusion efforts, MBLA's approach goes beyond improving access to banking services, aiming to directly reduce persistent wealth disparities and enhance financial stability. Through initiatives targeting small business ownership and student loan financing, MBLA seeks to promote higher wages and wealth creation in under-financed communities, particularly those inhabited by people of color.

Small business empowerment	Financial inclusion	Affordable education	Business transition
The MBLA seeks to offer new small business lending products and related alternative credit evaluations, low-cost student loans, and longer-term options for retail banking, all of which can open real credit opportunities to more credit-worthy businesses especially in South and East Los Angeles.	The MBLA could support no-cost bank account services through other financial institutions including through CalAccounts.  CalAccount (AB 1177) was signed into law in 2021. The program, upon implementation, partners with financial institutions to provide a zero-fee debit account and card for all Californians.	The MBLA could provide for low cost student loans to residents, mitigating the high cost of education and reinvesting in the productivity and well being of its young residents.	An impending wave of retirements from small business owners, termed the 'Silver Tsunami', highlights the crucial role MBLA could play. The MBLA could reshape LA's economy by transitioning retiring businesses to employee ownership, boosting wages, security, community wealth, and productivity.

## Financing Worker Ownership Transitions

The "Silver Tsunami" refers to the anticipated wave of retirements from small business owners. MBLA could supercharge worker ownership by making employee ownership transitions a core part of its financial justice lending portfolio. This could grow wages for thousands of workers across Los Angeles and increase community wealth through shared ownership of small businesses.

The MBLA could provide financing and guidance for all forms of employee transitions via regulated lending institutions like banks, CDFIs, or loan funds. MBLA's lending to employee ownership (EO) transitions could incentivize other financial institutions to purchase seasoned EO loans, seeding a viable secondary market for EO lending. The MBLA's transformative approach to financial justice and its strategic response to the 'Silver Tsunami' prioritize community wealth, financial security, and economic justice. By offering new lending products, supporting worker cooperatives, and potentially offering low-cost student loans, the MBLA could make a significant impact on historically marginalized communities in Los Angeles.

1. With an initial capital allocation of \$4 million, this loan product can fund almost \$40 million worth of employee ownership transitions.
2. An annual interest rate of 3 - 4.5% will be attractive for a variety of intermediary lenders that finance employee ownership transitions, while creating incentives for lenders (and philanthropy) to invest in pipeline efforts within the Los Angeles market.
3. In the first ten years, we anticipate this level of funding from MBLA can support nearly 1,500 Angelenos to be on a path to becoming business owners through employee ownership, assuming a mix of over 30 small and mid-sized businesses making an EO transition.
4. These loans will be provided to intermediary institutions providing EO loans, with separate pools of funds available to
  1. Independent transitions (smaller, \$250K - \$1M per transition),
  2. Capital forward transitions (larger, \$2M - \$10M per transition) and
  3. CDFI or Community Bank funds (\$2M - \$5M per transition).

## Low-Cost Student Loans

At a future stage of MBLA's development, the bank could operate a student loan program that would closely mirror the Bank of North Dakota program. MBLA could solve some of the issues related to higher costs of education and ballooning student debt burdens by mitigating the debt burden through lower-cost student loans and debt refinancing programs.

1. Student loans would range from \$500 to \$50,000 loans to Los Angeles residents.
2. Option of either a 6.29 percent fixed interest rate or a 6.44 percent variable interest rate with a zero percent loan fee. The variable interest rate would be capped at ten percent, and repayment plans are flexible for up to 25 years.
3. The loans may be utilized for living expenses and are not limited to tuition, room, and board.
4. Applicants who are US citizens may apply using the FAFSA. Undocumented applicants will be required to fill out the California Dream Act Application (CADAA), in keeping with the process used across the state.
5. Non-residents may apply for a similar loan, but with the added charge of a loan fee of 3.75 percent, and a higher fixed interest rate (7.29 percent) or variable interest rate (7.44 percent).