

Philadelphia advances toward creating a public bank

Article

The news: The Philadelphia City Council has [approved](#) legislation to form a financial entity that could eventually establish a public bank.

- The council [voted](#) 15-1 on March 3, 2022 to set up the Philadelphia Public Financial Authority (PPFA). It's authorized to make loans but will not accept retail deposits, per legislative documents.

- The US has only three public banks, per a 2020 feasibility study for the city: in North Dakota, Puerto Rico, and American Samoa.

The PPFA's structure, at a glance: The authority's existence is permitted under a 1967 Pennsylvania state law.

- A board of nine voting directors appointed by the mayor will serve staggered terms.
- The board of directors, in turn, will designate a nine-member policy board whose members must “have a demonstrated understanding both of financial management or oversight,” per the authority’s resolution.
- The policy board will appoint the PPFA’s executive director, who’ll serve as a nonvoting member of both boards.

The authority doesn’t yet have funding, per American Banker, which reports that this will be partially resolved through the city’s upcoming annual budget.

- Council member Derek Green, a former banker who introduced the PPFA’s legislation, recently stated in an opinion piece that the authority may count as a Community Development Financial Institution (CDFI), opening up funding sources via the federal Community Reinvestment Act.
- Green said PPFA staff would be able to explore establishing a public bank.

The rationale: The authority is designed to **facilitate capital for underserved businesses and other organizations**, such as those run by Black and Latino community members.

- There are **significant racial disparities in local business ownership**. Green cited stats showing that 44% of the city's population is Black, but only 6% of businesses with employees in the city are Black-owned. The respective Latino figures are 15% and 4%.
- Green also pointed out that **around 40% of Philadelphia’s minority-owned businesses shuttered due to the pandemic**.
- The feasibility study noted that **88% of businesses in the city’s census tracts classified as low- and moderate-income were not getting loans**.
- The inability to meet existing underwriting requirements was one challenge cited. The study notes that **credit cards and other higher-cost funding sources have served as alternatives**.

- The study also pointed to a **national trend of biased treatment of Black applicants**: National Community Reinvestment Coalition reports show they received more questions than white borrowers with the same or fewer qualifications, and were given fewer details about products.

The Independent Community Bankers of America (ICBA) criticized the authority’s action, American Banker reported, which said the group is generally opposed to public banks.

- An ICBA representative contended that a public bank won’t be sufficiently independent from the city government. Green argued in the pre-passage opinion piece that it will have enough autonomy.
- The council **said** that the authority’s goal isn’t to provide services already offered elsewhere.

The opportunity: Despite the unease caused in the industry by the concept of public-banking services, Philadelphia’s findings regarding underserved businesses suggest that there won’t be much competition between the authority and existing banking players. That concern would be understandable if banks were already serving these businesses to a greater degree than they have been. The PPFA could succeed in its mission if it’s backed by a sustainable mix of financing—which critics of the concept, per reports, have raised as a concern.

US Small Business Leaders Who Expect Credit Needs to Increase, Nov 2021

% of respondents



Note: businesses had annual revenues between \$100,000 and \$20 million
Source: JPMorgan Chase, "2022 Business Leaders Outlook Survey" as cited in company blog, Jan 5, 2022

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