

STATE OF NEW YORK

8290

2021-2022 Regular Sessions

IN ASSEMBLY

October 6, 2021

Introduced by M. of A. FAHY -- read once and referred to the Committee on Banks

AN ACT to amend the banking law, the state finance law and the general municipal law, in relation to establishing the "New York public banking act"

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. Short title. This act shall be known and may be cited as
2 the "New York public banking act".

3 § 2. It is the intent of the legislature that this act (i) authorizes
4 municipal and other local governments to form and control public banks
5 through the ownership of capital stock or other ownership interests, and
6 to loan or grant public funds or lend public credit to such public banks
7 for the public purposes of achieving cost savings, strengthening local
8 economies, supporting community economic development, and addressing
9 infrastructure and housing needs for localities; and (ii) codifies the
10 common law interpretation of the New York state constitution that
11 cities, counties, and other municipalities may own stock or other owner-
12 ship interests in, and lend or grant money to, public and private corpo-
13 rations, limited liability companies or not-for-profit corporations, so
14 long as such actions are pursuant to public purposes.

15 § 3. Subdivisions 1 and 11 of section 2 of the banking law, subdivi-
16 sion 1 as amended by chapter 684 of the laws of 1938 and subdivision 11
17 as amended by chapter 154 of the laws of 2007, are amended to read as
18 follows:

19 1. Bank. The term, "bank," when used in this chapter, unless a differ-
20 ent meaning appears from the context, means any corporation, other than
21 a trust company, organized under or subject to the provisions of article
22 three or three-C of this chapter.

23 11. Banking organizations. The term, "banking organizations," when
24 used in this chapter, means and includes all banks, trust companies,
25 private bankers, savings banks, safe deposit companies, savings and loan
26 associations, credit unions, public banks organized under article
27 three-C of this chapter, and investment companies.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets
[-] is old law to be omitted.

LBD01784-03-1

1 § 4. The banking law is amended by adding a new article 3-C to read as
2 follows:

3 ARTICLE 3-C
4 PUBLIC BANKS

5 Section 156. Definitions.

6 156-a. Sponsors and corporate structure.

7 156-b. Governance.

8 156-c. Public bank charter requirements.

9 156-d. Financial and operations framework.

10 156-e. Insurance.

11 156-f. Deposits.

12 156-g. Permitted activities of the public bank.

13 156-h. Inconsistency with other laws.

14 156-i. Owners not to be considered bank holding companies.

15 § 156. Definitions. For the purposes of this article:

16 1. "Advisory board" means a board established pursuant to section one
17 hundred fifty-six-b of this article.

18 2. "Affiliate" means:

19 (a) in the case of a person (other than an individual), another person
20 that directly, or indirectly through one of more intermediaries,
21 controls, or is controlled by, or is under common control with such
22 person.

23 (b) in the case of an individual, (i) any member of the immediate
24 family of such individual, including parents, siblings, spouse and chil-
25 dren (including those by adoption) and any other person who lives in
26 such individual's household; the parents, siblings, spouse, or children
27 (including those by adoption) of such immediate family member, and in
28 any such case any trust whose primary beneficiary is such individual or
29 one or more members of such immediate family and/or such individual's
30 lineal descendants; (ii) the legal representative or guardian of such
31 individual or of any such immediate family member in the event such
32 individual or any such immediate family member becomes mentally incompe-
33 tent; and (iii) any person controlling, controlled by or under common
34 control with such individual.

35 (c) As used in this definition, the term "control," including the
36 correlative terms "controlling," "controlled by" and "under common
37 control with," means possession, directly or indirectly, of the power to
38 direct or cause the direction of management or policies (whether through
39 ownership of securities or any partnership or other ownership interest,
40 by contract or otherwise) of a person. Such control shall be presumed to
41 exist where a person owns a ten percent or greater ownership interest in
42 another person.

43 (d) "Person" shall be construed broadly and shall include, without
44 limitation, an individual, a partnership, a limited liability company, a
45 corporation, an association, a joint stock company, a trust, a joint
46 venture, an unincorporated organization and a governmental entity or any
47 department, agency or political subdivision thereof.

48 3. "Bank" means any corporation, other than a trust corporation,
49 organized under or subject to the provisions of this article or article
50 three of this chapter.

51 4. "Board" means a board of directors or board of managers of a public
52 bank.

53 5. "Community banking experience" means current or past employment
54 experience as an officer, director or executive, or current or past
55 employment experience in a senior leadership role at any of the follow-
56 ing:

1 (a) a community development financial institution that is a credit
2 union, loan fund, minority depository institution, union controlled bank
3 or locally based community bank; or

4 (b) a credit union, loan fund, minority depository institution, union
5 controlled bank or locally based community bank that otherwise serves
6 low-income, rural or other underserved or economically distressed commu-
7 nities.

8 6. "Community development financial institution" means an entity that
9 has been certified as meeting the eligibility requirements of section
10 1805.201 of title 12 of the code of federal regulations.

11 7. "Deposit" means the placing of money with a public bank to be with-
12 drawn upon the depositor's demand or under the rules and regulations
13 agreed upon between the bank and the depositor.

14 8. "Economically distressed communities" means those communities where
15 at least thirty percent of residents have incomes that are less than the
16 national poverty level or where the unemployment rate is greater than
17 the national unemployment rate; or economic opportunity zone designated
18 communities, excluding contiguity economic opportunities zones.

19 9. "Independent" means, with respect to a member of a public bank's
20 board of directors, board of managers, or advisory board, an individual
21 who:

22 (a) at the time of his or her election to the board of directors,
23 board of managers, or advisory board of a public bank, is not a holder
24 of any public office within the sponsor; and

25 (b) within the past five years has not been a holder of public office
26 within such sponsor.

27 10. "Local elected official" means any officer elected to a position
28 within a county, city, town, village, school district or district corpo-
29 ration, or any agency, department, division, board, commission or bureau
30 thereof; provided, that, such term shall not include any judge or
31 justice of a court.

32 11. "Minority depository institution" means any depository institution
33 that is owned in any of the following manners:

34 (a) a privately owned institution of which fifty-one percent is owned
35 by one or more individuals who are minorities;

36 (b) a publicly owned institution of which fifty-one percent of the
37 stock is owned by one or more minorities; or

38 (c) an institution otherwise designated as a minority depository
39 institution by the institution's applicable federal regulators.

40 12. "Minority" means citizens or permanent resident aliens who are
41 Black, Hispanic, Asian or American Indian.

42 13. "Public bank" means a not-for-profit corporation, a stock corpo-
43 ration, including a public benefit corporation incorporated pursuant to
44 article seventeen of the business corporation law, or limited liability
45 company that is chartered pursuant to this article as a bank. A public
46 bank formed as a stock corporation or a not-for-profit corporation shall
47 be a public corporation, and a public bank formed as a limited liability
48 corporation shall be a public limited liability company.

49 14. "Public bank application documents" means a business plan and
50 application to be submitted to the department pursuant to section one
51 hundred fifty-six-c of this article for the purpose of chartering a
52 public bank.

53 15. "Public corporation" means a stock corporation, including a public
54 benefit corporation incorporated pursuant to article seventeen of the
55 business corporation law, or a not-for-profit corporation that is incor-
56 porated, owned and controlled by a county, city, town or village.

1 16. "Public funds" means funds of the sponsor.

2 17. "Public limited liability company" means a limited liability
3 company that is incorporated, owned and controlled by a county, city,
4 town or village.

5 18. "State or local authority" means a local government or agency, a
6 group of two or more local governments or agencies acting together,
7 special district, a group of two or more special districts acting
8 together, state agency, or a group of two or more state agencies acting
9 together.

10 19. "Sponsor" means one or more cities, towns, villages and/or coun-
11 ties within the state of New York with an aggregate population of at
12 least one hundred thousand residents.

13 § 156-a. Sponsors and corporate structure. A public bank may be a
14 not-for-profit corporation, a limited liability company or a business
15 corporation that is formed by a sponsor, subject to the following corpo-
16 rate structure requirements:

17 1. If incorporated as a business corporation, a public bank may, but
18 is not required to:

19 (a) incorporate as a public benefit corporation under article seven-
20 teen of the business corporation law; or

21 (b) identify in its certificate of incorporation a specific public
22 benefit, consistent with the provisions of article seventeen of the
23 business corporation law. Specific public benefits within the meaning of
24 this section shall include, but are not limited to, strengthening local
25 economies, supporting community economic development, addressing infras-
26 tructure and housing needs for localities and providing banking services
27 to unbanked or underbanked communities.

28 2. The sponsor shall be (a) the sole member of a not-for-profit public
29 bank, (b) the majority and controlling member of a limited liability
30 company public bank, and (c) the majority and controlling shareholder of
31 a corporation public bank.

32 3. A public bank organized as a limited liability company or corpo-
33 ration may have other members or shareholders but such other members or
34 shareholders shall only be passive members or shareholders and shall not
35 have any consent or veto rights over any decisions, any removal rights
36 of the sponsor, any rights to elect or choose the board or any voting
37 rights whatsoever.

38 4. Passive members or passive shareholders shall be allowed to invest
39 capital into a public bank so long as such passive members or passive
40 shareholders are approved by the sponsor and the sponsor maintains the
41 right to direct the public bank to purchase the interests of any passive
42 members or shareholders at a market price determined by an independent
43 third party selected by the sponsor at any time.

44 5. The sponsor shall owe no fiduciary duty nor any other duty to
45 passive investors. No passive investor may pursue legal action against
46 the sponsor for any reason other than failure to distribute funds
47 required to be distributed pursuant to governing documents of the public
48 bank.

49 § 156-b. Governance. 1. The public bank shall be governed by the
50 board. Such board shall be composed of nine directors or eleven direc-
51 tors. Each director shall live within the jurisdictional boundaries of
52 the sponsor.

53 2. The sponsor shall determine the public bank's initial board in the
54 following manner:

55 (a) the mayor, or head of the executive branch of government of the
56 sponsor or sponsors, shall appoint three members, at least one of whom

1 shall have community banking experience and at least one of whom shall
2 be independent;

3 (b) the city council, or legislative branch of the sponsor or sponsors
4 shall appoint two members, at least one of whom shall have community
5 banking experience and at least one of whom shall be independent;

6 (c) the treasurer, controller or elected official charged with over-
7 seeing the sponsor or sponsors' finances and the administration of
8 public funds shall appoint one member who shall have community banking
9 experience and be independent; and

10 (d) the board members selected pursuant to paragraphs (a) through (c)
11 of this subdivision shall, pursuant to a two-thirds majority vote,
12 appoint at their discretion and in accordance with subdivisions five and
13 six of this section, either three or five additional board members, with
14 the purpose of maximizing board diversity to include a variety of the
15 sponsor's community stakeholders, including community-based organiza-
16 tions, labor organizations and those groups prioritized by the public
17 bank's underwriting and financial policies, as reflected in section one
18 hundred fifty-six-g of this article. For any sponsor that is also a city
19 with a population of one million or more, the board members selected
20 pursuant to paragraphs (a) through (c) of this subdivision may, pursuant
21 to a two-thirds majority vote, appoint either seven or nine additional
22 board members to maximize board diversity.

23 3. The board shall adopt bylaws, governing documents or their func-
24 tional equivalents as required by the not-for-profit corporation law,
25 business corporation law, or limited liability company law, as applica-
26 ble, based on the corporate structure of the public bank. Such governing
27 documents shall include:

28 (a) procedures to remove directors consistent with this article;

29 (b) a provision requiring that the board membership of any board
30 member who also serves as a public official or local elected official of
31 the sponsor shall terminate immediately upon such board member ceasing
32 to hold such public office; and

33 (c) appropriate term limits for board members, consistent with para-
34 graph (b) of this subdivision.

35 4. At least one board member appointed pursuant to paragraphs (a) and
36 (b) of subdivision two of this section shall be a representative of one
37 of the community stakeholders prioritized by the public bank's under-
38 writing and financial policies as reflected in section one hundred
39 fifty-six-g of this article.

40 5. When a board member resigns or ceases to be a board member for any
41 reason, the individual appointed to replace such board member shall be
42 appointed in accordance with the same selection criteria and process by
43 which such departing member was appointed under subdivision two of this
44 section.

45 6. The sponsor and board will take all steps necessary to ensure that
46 the composition of the board reflects the composition of the population
47 in terms of people of color and women.

48 7. A majority of the board shall be composed of independent directors
49 who are not government employees. The chair of the board must be an
50 independent director.

51 8. The board shall set policy for the public bank; provided that
52 neither the board nor any director shall be involved in day to day deci-
53 sions regarding particular instruments. Management decisions shall be
54 made independently by bank management who shall be appointed by the
55 board consistent with bank policy.

1 9. The board may establish one or more committees to manage the public
2 bank.

3 10. The board shall adhere to all reporting requirements under this
4 chapter regarding the public bank's financial condition.

5 11. A public bank shall form one or more advisory boards in order to
6 provide advice and carry out any other duties, as determined by the
7 sponsor, including the following:

8 (a) provide input to the board regarding ways to accomplish its
9 mission;

10 (b) ensure that the board follows strict ethical standards as deter-
11 mined by the sponsor in the public bank's governing documents, through
12 the approval of bylaws or a code of conduct to govern the board's
13 management;

14 (c) provide technical advice as needed; and

15 (d) provide an annual report to the public and the sponsor evaluating
16 the public bank's performance in relation to its mission, its ethical
17 standards and its financial soundness.

18 12. The sponsor will determine the initial advisory board membership,
19 the term of its members, the qualifications of members and the method
20 for replacing its members, provided that a majority of each advisory
21 board is made up of independent members who are not governmental employ-
22 ees. The advisory board shall be composed of no fewer than five and no
23 more than eleven members. Any advisory board member shall live within
24 the jurisdictional boundary of the public bank's sponsor or its members
25 or shareholders.

26 13. Any action required or permitted by this chapter to be taken by
27 the board or an advisory board may be taken at a duly called meeting of
28 such board in accordance with its governing documents or without a meet-
29 ing if the action taken is evidenced by one or more written consents
30 describing the action taken and signed by each member of the board or
31 advisory board.

32 § 156-c. Public bank charter requirements. 1. A proposed public bank
33 shall be chartered by the department upon submission of the public bank
34 application documents that demonstrate the following:

35 (a) the purpose of the proposed public bank is consistent with the
36 purposes required under this article;

37 (b) minimum initial capitalization is no less than ten percent of the
38 public bank's projected lending total for the first year of operation
39 after receipt of its charter;

40 (c) adequate reserves and liquidity exist to cover the public bank's
41 obligations relating to deposit withdrawals and defaulted loans;

42 (d) the qualifications of the proposed directors;

43 (e) the qualifications of the proposed chief executive officer and
44 management team;

45 (f) an organizational chart;

46 (g) policies and procedures prohibiting any elected official, or
47 affiliates of such officials, from receiving a loan or other financial
48 benefit from the public bank;

49 (h) procedures for obtaining fidelity insurance;

50 (i) sufficient internal audits and controls;

51 (j) a pro forma financial statement projecting assets, liabilities,
52 income and expenses for no less than a three year period;

53 (k) the impact of the public bank on the sponsor's financial condi-
54 tion;

1 (l) a plan to comply with the community reinvestment act and fair
2 lending requirements, pursuant to section two hundred ninety-six-a of
3 the executive law;

4 (m) a certificate of incorporation;

5 (n) a narrative business plan describing the banking services to be
6 provided; and

7 (o) such other information as the department may require.

8 2. The public bank may but shall not be required to collateralize
9 deposits from the sponsor or any other governmental entity with collat-
10 eral determined by the public bank in its governing documents.

11 3. The public bank application documents are not required to provide
12 that the public bank will receive deposits in its initial three years of
13 operation, and not receiving deposits in the initial three years of
14 operation shall not be a reason for disapproval by the superintendent.

15 4. Public bank application documents are not required to include a
16 market, public convenience and advantage, competitive impact or a bank
17 premises analysis or address any other matters other than those listed
18 in subdivision one of this section.

19 5. Public bank charter applications that do not conflict with any
20 requirements expressly provided in subdivision one of this section shall
21 be liberally granted by the superintendent, and any decision by the
22 superintendent refusing to grant permission for the operation of a
23 public bank may be appealed by the sponsor to the governor within thirty
24 days from the date of such decision, and the governor shall have the
25 power to affirm, reverse, or modify such decision by the superintendent
26 in the governor's sole discretion.

27 § 156-d. Financial and operations framework. 1. The public bank may
28 raise capital through:

29 (a) the receipt and leverage of public deposits,

30 (b) sponsor equity contributions,

31 (c) passive member or shareholder equity contributions,

32 (d) sale of corporate debt to sponsor, and

33 (e) sale of corporate debt to third parties.

34 2. The public bank shall have all the rights and powers conferred by
35 articles three and fifteen of this chapter, which must be exercised in a
36 manner consistent with its mission.

37 3. All lending and actions of the public bank shall abide by the
38 United Nations declaration on the rights of indigenous peoples.

39 4. The sponsor may prohibit investments and loans that may benefit any
40 type of designated business including the fossil fuel industry, weapons
41 or gun manufacturers, military systems companies, private prisons, immi-
42 gration detention facilities, companies engaged in offshore tax avoid-
43 ance or exploitative business or labor practices or the tobacco indus-
44 try, all as determined by the sponsor in the public bank's governing
45 documents.

46 5. The public bank shall be exempt from state, county, and municipal
47 taxes and licenses, of any kind, including income, capital gain, real
48 estate and mortgage recording taxes.

49 6. The public bank shall not be sold to or merged with another entity
50 unless such entity has a public bank charter.

51 § 156-e. Insurance. A public bank shall obtain and maintain deposit
52 insurance consistent with section thirty-two of this chapter to the
53 extent that it accepts deposits from any third party that is not in
54 excess of two hundred fifty thousand dollars.

55 § 156-f. Deposits. 1. The board shall develop a plan, subject to
56 approval by the advisory board, to accept and manage deposits.

1 2. The comptroller or chief financial officer of the sponsor shall be
2 authorized to deposit public funds in the public bank, provided that the
3 public bank's business plan permits the comptroller or chief financial
4 officer to meet the short or intermediate-term liquidity needs of the
5 sponsor.

6 3. The public bank may accept deposits, but shall be exempt from the
7 requirements of section ten of the general municipal law.

8 4. The public bank may accept deposits from any source and funds from
9 any source, including federal funds.

10 § 156-g. Permitted activities of the public bank. 1. The public bank
11 shall have all the rights and powers conferred by articles three and
12 fifteen of this chapter, which shall be exercised in a manner consistent
13 with its mission. The public bank may limit and define its rights and
14 powers in the charter that it submits pursuant to section one hundred
15 fifty-six-c of this article, but it is the intention to grant any public
16 bank created under this law the full rights and powers that any bank
17 would be permitted to exercise under New York's banking laws, subject to
18 those limitations that will be approved by the department.

19 2. Within the overall underwriting and financial policies of the
20 public bank, the public bank shall maximize and prioritize loans
21 supporting worker cooperatives, community land trusts, low-income and
22 affordable housing, renewable energy, infrastructure development, small
23 businesses, small farms, minority- and women-owned business enterprises,
24 students in need of low-cost education financing or refinancing student
25 loan debts, and other initiatives that fulfill the public bank's
26 mission, with a focus on serving underserved and underbanked communi-
27 ties, as well as those within economically distressed communities.

28 § 156-h. Inconsistency with other laws. 1. A public bank shall comply
29 with all requirements of this chapter, the financial services law, the
30 state finance law, the local finance law, the general municipal law, the
31 not-for-profit corporation law, and all other relevant provisions of
32 state or local law, except to the extent that a requirement of any of
33 those laws is inconsistent with a provision of this article, in which
34 case the provisions of this article shall prevail.

35 2. Notwithstanding any provision of state or local law, a county or
36 other state or local authority may lend its credit to any public bank.

37 3. Notwithstanding any provision of state or local law, any state or
38 local authority may invest in commercial paper, debt securities or other
39 obligations of a public bank.

40 4. Notwithstanding any provision of state or local law, a public bank
41 shall be eligible to receive state and local authority money.

42 § 156-i. Owners not to be considered bank holding companies. For the
43 purposes of section one hundred forty-one of this chapter, any sponsor,
44 person or entity, including a state or local authority, that owns,
45 controls, or holds an ownership interest in a public bank is not a bank
46 holding company by reason of that ownership interest.

47 § 5. Section 98 of the state finance law is amended by adding a new
48 subdivision 7-a to read as follows:

49 7-a. Commercial paper, debt securities, bonds, notes, or other obli-
50 gations of a public bank, as defined in article three-C of the banking
51 law.

52 § 6. Paragraph d of subdivision 1 of section 10 of the general munici-
53 pal law, as amended by chapter 623 of the laws of 1998, is amended to
54 read as follows:

1 d. "Bank" shall mean a bank or public bank as defined by the banking
2 law or a national banking association located and authorized to do busi-
3 ness in New York.
4 § 7. This act shall take effect immediately.