

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON COMMERCE AND
ECONOMIC DEVELOPMENT

Room 400, City Hall
Philadelphia, Pennsylvania
Monday, February 22, 2016
1:10 p.m.

PRESENT:

COUNCILMAN CURTIS JONES, JR., CHAIR
COUNCILWOMAN JANNIE L. BLACKWELL
COUNCILMAN ALLAN DOMB
COUNCILMAN DEREK S. GREEN
COUNCILWOMAN HELEN GYM
COUNCILMAN DAVID OH
COUNCILWOMAN CHERELLE L. PARKER
COUNCILMAN AL TAUBENBERGER

RESOLUTION 160045 - Resolution authorizing the
Committee on Commerce and Economic Development
to hold hearings regarding public banking.

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COUNCILMAN JONES: Good afternoon, everyone. We are about to open our hearing by the City Council Committee on Economic Development on Resolution No. 160045 sponsored by Councilman Green.

Will the Clerk please read the title of the resolution.

THE CLERK: Resolution 160045, authorizing the Committee on Commerce and Economic Development to hold hearings regarding public banking.

COUNCILMAN JONES: I will yield the mic to Councilman Green for opening remarks.

COUNCILMAN GREEN: Thank you, Councilman Jones.

Good afternoon. Not that -- well, some years ago, I started my career further up Broad Street, at Broad and Glenwood, and I worked for Meridian Bank at the time, and we were the professionals with a personal touch. I was talking with Dr. Chappell a little

1 2/22/16 - COMMERCE - RES. 160045
2 earlier about her experiences at
3 Continental Bank. And one of the reasons
4 I like my experience at Meridian, that we
5 really had a chance to develop a loan
6 portfolio that really reflected our
7 community and the neighbors and the
8 constituents that we represented.

9 So I was at Meridian Bank at
10 Broad and Glenwood. You had Malvin Reyes
11 who was at 5th and Wyoming, Don Gilbert
12 who was at 65th and Woodland or Geraldine
13 DeBerry at 63rd and Lancaster Avenue or
14 Anne Mooney who was at 2nd and Pine
15 Street. And really the loan portfolio
16 reflected the community.

17 When they took direct lending
18 out of branches, that's one of the
19 reasons why I left banking, because at
20 that point, I no longer could be the
21 banker that I wanted to be when I was
22 coming out of college to go into my
23 professional life. And so a few years
24 ago, I had a chance to learn about this
25 concept of public banking and the Bank of

1 2/22/16 - COMMERCE - RES. 160045
2 North Dakota, and I thought if I was
3 fortunate enough to get elected to this
4 body, I wanted to have hearings on this
5 concept of public banking. And I think
6 that the public banking concept provides
7 some unique opportunities in reference to
8 some of the things that we have here in
9 the City of Philadelphia.

10 For a few moments I'm going to
11 briefly read a portion of the executive
12 summary of a public banking initiative
13 for the City of Santa Fe:

14 I think public banking provides
15 an opportunity to improve and integrate
16 the current city's financial activities.
17 It can use the city's relationship with
18 local lenders to create greater economic
19 advantage and encourage new models of
20 lending to improve the overall financial
21 system in the region.

22 So that's one of the ideas that
23 are coming out of an initiative of the
24 City of Santa Fe. Hopefully this
25 conversation on public banking will

1 2/22/16 - COMMERCE - RES. 160045
2 provide an opportunity to address similar
3 ideas that we can have here in the City
4 of Philadelphia, and maybe using this
5 initiative in other conversations, we can
6 change the dynamic that the City has been
7 faced with by being the largest big city
8 with the highest rate of poverty.

9 Thank you.

10 COUNCILMAN JONES: Thank you so
11 much, Councilman Green.

12 I want to reflect for the
13 record that we do have a quorum
14 represented by Councilwoman Blackwell,
15 Councilwoman Parker, Councilman Green,
16 Councilman Johnson, Councilman Domb, and
17 Councilman Taubenberger and Councilman
18 Oh. So we have a full house here.

19 Just some brief remarks,
20 thanking Councilman Green for bringing
21 this issue forward. As we kind of move
22 from a depressed economy into a more
23 vibrant economy, it is important that
24 that prosperity go to neighborhoods, and
25 the way that you tend to do that is

1 2/22/16 - COMMERCE - RES. 160045
2 through the creation of a lending vehicle
3 for small businesses.

4 Once upon a time in another
5 life, there was the Philadelphia
6 Commercial Development Corporation which
7 served that capacity. It has been merged
8 with PIDC, Philadelphia Industrial
9 Development Corporation, but this is,
10 Councilman, a truly appropriate time to
11 evaluate how we're doing, how we can do
12 it better, how we can do it more cost
13 effectively and less of a burden to
14 taxpayers and particularly with a benefit
15 to the over 100 commercial corridors in
16 the City of Philadelphia.

17 So with that, can we read the
18 first panel of witnesses to testify.

19 THE CLERK: Frank Nuessle,
20 Anlin Wang, Conni Bille.

21 COUNCILMAN JONES: Good
22 afternoon, everyone. Please come to the
23 witness table and begin your testimony,
24 but remember to state your name for the
25 record. Everything is being recorded.

1 2/22/16 - COMMERCE - RES. 160045

2 (Witnesses approached witness
3 table.)

4 COUNCILMAN JONES: Welcome. If
5 you'll pull the mic a little closer to
6 you when you begin your testimony. No
7 particular order. Whoever wants to step
8 up.

9 MR. NUESSELE: Well, I'm going
10 to start out here. My name is Frank
11 Nuessle, and thank you, Mr. Chairman and
12 members of the Committee, for calling
13 this session. I'm a Director of the
14 Public Banking Institute and a Senior
15 Advisor to the Public Banking Project.

16 After studying economics at
17 Princeton, followed by a 30-year career
18 in cable television, publishing, and
19 corporate consulting, I retired recently
20 from the faculty of the University of
21 Pennsylvania where I taught graduate
22 courses in sustainability in the
23 Organizational Dynamics Program.

24 My research at Penn led me to
25 public banking as an innovative solution

1 2/22/16 - COMMERCE - RES. 160045

2 to the systemic social problems besetting
3 Philadelphia and many other major
4 American cities. By leveraging already
5 existing public assets, the City of
6 Philadelphia can use those resources to
7 rebuild infrastructure, including that of
8 public education, create jobs and offer a
9 vibrant future to its citizens, all
10 without paying homage to Wall Street.

11 There are now more than two
12 dozen viable efforts underway all across
13 the United States to form public banks at
14 the municipal level, led by similar
15 citizen, grassroots organizations as you
16 will hear from today. The City of Santa
17 Fe, New Mexico, for example, became the
18 first American city to complete a study
19 affirming the benefits and feasibility of
20 a public bank in that city. We can put
21 you in touch with those officials when
22 that is appropriate.

23 But Philadelphia is the fifth
24 largest city in the nation and occupies a
25 storied place in American history because

1 2/22/16 - COMMERCE - RES. 160045
2 of its innovations in societal
3 problem-solving. Leadership on the part
4 of this City Council to implement public
5 banking will pave the way for many other
6 cities. It's time to decentralize
7 municipal finance.

8 Today, we want to present to
9 you the voices of this city to explore
10 with you how a public bank can serve the
11 citizens of this great city. You will
12 hear how a public bank can help
13 Philadelphia from continuing its slide to
14 becoming an Apartheid city.

15 You will hear how a public bank
16 can support the many citizen
17 organizations throughout the City.

18 You will hear from several
19 local community bankers how a public bank
20 can support local credit, commerce,
21 create jobs, and provide resources to
22 rebuild the City's crumbling
23 infrastructure.

24 You will hear why the
25 Philadelphia Area Cooperative Alliance

1 2/22/16 - COMMERCE - RES. 160045

2 supports a public bank.

3 You will hear from a Temple
4 professor whose specialty is business
5 ethics and how her research has concluded
6 that the governance of a Philadelphia
7 public bank can be kept fair and ethical.

8 And, finally, you will hear
9 from the Vice Chairman of the
10 Philadelphia Neighborhood Networks why
11 divesting from dependence on the Wall
12 Street banks will serve the City of
13 Philadelphia.

14 Before getting started, let me
15 bring you greetings from my friend and
16 colleague, Mike Krauss, who is the
17 founder of both the Pennsylvania Public
18 Bank Project and the Public Banking
19 Institute. He is very sorry that he
20 cannot be here today. Mike has worked
21 tirelessly for many years on the effort
22 to bring public banking to the forefront
23 of the attention of many states and
24 municipalities, and these efforts require
25 his presence elsewhere today.

1 2/22/16 - COMMERCE - RES. 160045

2 So thank you for this hearing.

3 And with that, I will turn our microphone
4 over to Anlin Wang, who is a graduate of
5 the Fox School of Business at Temple
6 University, graduating in 2015. He lives
7 in West Philadelphia and works here in
8 the City.

9 COUNCILMAN JONES: If it is the
10 pleasure of the Committee, we'll wait for
11 the panel to testify and then ask
12 questions on each panel. Is that all
13 right? Unless there's a compelling
14 question, we'll interrupt. Thank you.

15 MR. WANG: Mr. Chairman,
16 members of this Committee, I'm very
17 honored to be here today. My name is
18 Anlin Wang. I grew up in Allentown and I
19 graduated from Temple University with a
20 degree in economics last year.

21 I first encountered the idea of
22 a public bank in my junior year after
23 reading about the Bank of North Dakota.
24 For reasons I think will become clear
25 throughout the course of these

1 2/22/16 - COMMERCE - RES. 160045
2 testimonies, I and many other students
3 have concluded that a similarly modeled
4 public bank will be a great tool for
5 addressing the long-term fiscal health of
6 the City and be a cost-effective way to
7 help spread prosperity among all
8 Philadelphians.

9 Like most millennials that live
10 here, I think Philadelphia has a lot to
11 offer, especially if you are well
12 educated. This observation might seem
13 obvious on face, but when a third of
14 Philadelphia's schoolchildren are not
15 graduating high school, the clear
16 implication is that without serious and
17 immediate action, Philadelphia risks
18 becoming an Apartheid city.

19 I bore witness to this
20 phenomenon myself during my four years
21 living in North Philly where the wealth
22 of my alma mater, the Fox School of
23 Business, stood in stark contrast to the
24 primary and the secondary schools nearby.
25 The \$80 million Alter Hall provides a

1 2/22/16 - COMMERCE - RES. 160045
2 state-of-the-art business education for
3 its students lucky enough to attend,
4 while just two streets over, Tanner
5 Duckery only barely survived the
6 budgetary axe, and that was at the
7 expense of MH Stanton.

8 As Temple and its students have
9 grown in wealth and prosperity, the
10 campus is in peril of becoming an oasis
11 of this prosperity in a neighborhood
12 whose needs are not being met.

13 I'm not here to tell horror
14 stories today, but I do think it's common
15 knowledge at this point that the chronic
16 underfunding of Philadelphia schools has
17 turned education closer to an obstacle
18 course than a clear path to opportunity
19 that it should be.

20 I saw similar educational
21 disparities in my own hometown, where my
22 high school was able to pay for \$3,000
23 Smart Boards in every single one of our
24 classrooms, while the school district
25 next door could barely afford up-to-date

1 2/22/16 - COMMERCE - RES. 160045
2 textbooks. It should come as no surprise
3 there was a 30 point differential in our
4 school district's graduation rates. If
5 action is not taken now, even more of
6 Philly's youth will see their futures
7 turn into sentences.

8 For those that do make it
9 through high school and want to continue
10 on to college, they are faced with a debt
11 burden that cripples them and, by
12 extension, the City. These are students
13 whose debts mean less consumption
14 spending, less opportunity to invest
15 their wealth for their futures, and less
16 time to engage Philadelphia, from
17 exploring its wonderfully active arts
18 scene to engaging in the local political
19 process. These are students who love the
20 City, but far too many times many of them
21 find themselves forced to migrate for
22 economic or financial reasons.

23 Of course, though, education is
24 not only key to prosperity. There must
25 also be opportunity. That often, though,

1 2/22/16 - COMMERCE - RES. 160045

2 takes more than just hustle and
3 determination, and I assure you my
4 generation lacks not for those qualities.
5 It also takes money. Specifically, the
6 affordable credit to help start-ups,
7 businesses, and entrepreneurs, and the
8 affordable credit for people to buy homes
9 and not be priced out by gentrification
10 that leaves countless locked out of the
11 future of their own city.

12 I think public banking is an
13 invaluable tool and innovative tool to
14 help address these issues so that every
15 young person in the City has the same
16 opportunity for a prosperous and
17 productive future that I hope to have.

18 Council, I urge you to move
19 forward to create a public bank for the
20 City, to provide leadership, and to
21 approach this task as if the future of
22 this city depended on it, because I think
23 that it very well may prove so for many
24 of us.

25 Thank you for your time. I'll

1 2/22/16 - COMMERCE - RES. 160045

2 let Ms. Conni Bille take it from here.

3 COUNCILMAN JONES: Thank you
4 for your testimony, Mr. Wang.

5 MS. BILLE: Thank you. Good
6 afternoon, Chairman and members of the
7 Committee. Can you hear me?

8 COUNCILMAN JONES: Yes.

9 MS. BILLE: Thank you for the
10 opportunity to address you and to tell
11 you why I am enthusiastic about the idea
12 of public banking in Philadelphia. I am
13 very grateful to Chairman Jones and
14 Councilman Green for introducing the
15 resolution and for the entire City
16 Council for unanimously supporting the
17 idea to go ahead and take a serious look
18 at public banking.

19 I am Conni Bille and I have
20 lived in Germantown for more than 35
21 years, and I have served on the boards of
22 a few large non-profit organizations in
23 Northwest Philadelphia. I helped two of
24 them to avoid bankruptcy. I am just a
25 citizen concerned with the poverty in my

1 2/22/16 - COMMERCE - RES. 160045
2 community and the financial struggles of
3 my city, especially our schools and
4 ordinary people. Charitable institutions
5 cannot do what a vibrant economy can do
6 to improve the lives of the people of
7 Germantown.

8 Three years ago I came across
9 an announcement that there was going to
10 be a two-day conference on public banking
11 held at the Friends Center over on Cherry
12 Street. I had never heard of such a
13 thing and I was intrigued. The
14 conference had a modest fee and was
15 inviting local participation, so I
16 thought it would be a good thing to do
17 with my weekend. Ever since the fiscal
18 collapse of 2008, the "too big to fail"
19 U.S. banks have been a source of great
20 concern to me and to a lot of other
21 people. In the current presidential
22 race, Senator Sanders has brought new
23 focus on Wall Street abuses. The Occupy
24 movement for all of its excesses and
25 disruption did succeed in drawing

1 2/22/16 - COMMERCE - RES. 160045
2 attention to Wall Street with a deeper
3 examination of its exotic brew of
4 financial magic tricks like credit
5 default swaps. By attending that
6 conference and doing a lot of homework, I
7 finally understood what the heck those
8 things were and how they have been so bad
9 for our economy.

10 I also came to understand why
11 the name of my neighborhood bank, which
12 had been on the corner of Germantown
13 Avenue and School House Lane for over a
14 century, went from Germantown Savings
15 Bank to something else, to CoreStates, to
16 Wachovia, to Wells Fargo. From my
17 perspective, those were not helpful
18 changes, and the resulting -- and they
19 did nothing to improve the development of
20 Germantown, which over the same period
21 has seen a shocking decline in our
22 central business corridor. Big banks
23 like Wells Fargo are not good sources of
24 loans for small businesses, and in fact,
25 many, if not most, people in large areas

1 2/22/16 - COMMERCE - RES. 160045
2 of Germantown don't use banks at all.
3 They go to the check cashing places on
4 Cheltenham Avenue and they buy money orders
5 at the post office.

6 The bank fees are absurd. I
7 opened a little passbook savings account
8 in trust for my grandson when he was born
9 and I financed it with a couple of
10 hundred dollars. I intended to use it as
11 a way to teach him how to save a little
12 bit of money over time, so when he got
13 older, he would learn the value, just as
14 I had done for my children. But the
15 banks changed names and policies, and
16 since the account was inactive for a
17 while, they decided to charge it \$10 a
18 month for just letting my money sit there
19 so they could use it. They actually
20 reduced the account by 16 percent before
21 I closed it and took all my money out and
22 put it elsewhere.

23 So I was intrigued by this idea
24 of public banking, and when I attended
25 that conference, I was even more

1 2/22/16 - COMMERCE - RES. 160045
2 intrigued by the people I met there.
3 What struck me most was how diverse the
4 audience was. And I don't mean
5 ethnically diverse. There were minority
6 people certainly represented, but the
7 audience was mostly white, mostly from
8 the eastern seaboard, and they came from
9 as far away as Canada, California, and
10 other western states. But what struck me
11 was, and very much impressed me, was how
12 philosophically diverse the audience was.

13 I spoke with conservative and
14 liberal democrats and libertarians,
15 republicans, Canadians, veterans of the
16 Occupy movement. There were bankers,
17 lawyers, entrepreneurs, information
18 technology professionals, and so many
19 others. I have never been in such a
20 group. It was astounding and so
21 heartening. What we all had in common
22 was seeking an alternative to the
23 financial mess we were in. And the more
24 we learned about public banking, the more
25 we felt we really did have a way to come

1 2/22/16 - COMMERCE - RES. 160045
2 together for the common good despite our
3 very different perspectives.

4 It's no surprise to me that
5 Senator Sanders has attracted so much
6 enthusiasm. People are tired of old
7 solutions and we're looking to a new
8 solution that depends on ourselves, not
9 some billionaire with assets in the
10 Cayman Islands. And here we are
11 presented with a solution that has been
12 working for 95 years in North Dakota. A
13 public bank helped that state weather the
14 Great Depression as well as the recent
15 Great Recession.

16 So I am not a banker or a
17 financial expert. You will hear from
18 those. I am an ordinary citizen who is
19 excited by a new idea that can bring a
20 new source of revenue without additional
21 taxation to this, my beloved and
22 beleaguered city.

23 Thank you.

24 COUNCILMAN JONES: Thank you so
25 much for your time. You gave me a

1 2/22/16 - COMMERCE - RES. 160045
2 flashback of my PSFS passbook account
3 when I was in grade school. And
4 Councilman Green and Councilwoman Parker
5 talked about getting a lollipop if you
6 made a good deposit. So I don't know who
7 merged with them, but they have my money.
8 We'll figure it out one day.

9 A couple of questions, and I
10 know other members will have plenty of
11 them. There are different compositions
12 and origins of community banks. I
13 remember PCDC being funded by Community
14 Development Block Grant money, which had
15 certain restrictions, and then PIDC
16 having a wealth of money that came from
17 Urban Development Action Grants, which
18 had less strings attached.

19 So if you could, any of the
20 members of the panel, give me a general
21 idea about where the sources and uses of
22 funds would come from and, more
23 importantly, whether they would be
24 governed by state banking laws, Community
25 Reinvestment Act and things like that.

1 2/22/16 - COMMERCE - RES. 160045

2 MR. NUSSLE: Sure. Great

3 question, Councilman. So any public bank

4 established by the City of Philadelphia

5 would have to comply with the state

6 banking laws. So once the City

7 determines that this is a feasible

8 idea -- and I think we would recommend a

9 feasibility study for that. But once you

10 determine that it is a good idea, then

11 you would have to apply to the state for

12 a bank charter. So there are two ways to

13 get a charter. One is to apply to the

14 state for that charter. The other way

15 would be to buy a bank that has the

16 charter. And you're going to hear from a

17 couple of community bankers in a moment,

18 and they might have a few more ideas for

19 you around that question.

20 I think the first part of your

21 question related to how to finance a

22 Philadelphia public bank.

23 COUNCILMAN JONES: Correct.

24 MR. NUSSLE: And we have a

25 forensic accountant who was unable to be

1 2/22/16 - COMMERCE - RES. 160045

2 here today, unfortunately, who has done a
3 very thorough analysis of the balance
4 sheet of the City of Philadelphia balance
5 sheet. Now, if you look at the income
6 statement of the City of Philadelphia,
7 you could say that the City doesn't have
8 any money. If you look at the balance
9 sheet, apparently there are billions and
10 billions of dollars that are liquid
11 assets that the City owns and that are
12 basically being invested primarily
13 through the Wall Street banks. And so
14 you could take some portion of the liquid
15 assets that the City has. One idea is
16 rainy day funds. So you have all these
17 organizations, the Police Department, the
18 Fire Department, your various other
19 departments, all of whom have squirreled
20 away rainy day funds.

21 We have worked closely with the
22 City of Reading, and the City of Reading
23 does not itself have the asset structure
24 to form a public bank, but they did have
25 lots of money sitting in rainy day funds,

1 2/22/16 - COMMERCE - RES. 160045

2 which they consolidated and then
3 distributed to their local banks, which
4 allowed them to save a lot of money on
5 the funds that they had deposited in
6 Wells Fargo.

7 So that would be -- the whole
8 issue of financing a public bank for the
9 City of Philadelphia would be one key
10 component of the feasibility study. So
11 basically there's a roadmap to the
12 creation of this bank. The first thing
13 is the mission, and that is probably
14 something that you would want to have a
15 conversation with a whole community
16 about, what is the mission of a public
17 bank. And the second gets to your
18 question, and that's about
19 capitalization, how are you going to
20 capitalize it. Then the deposit days.
21 So kind of technical issue. Then there's
22 governance. So how are you going to
23 govern the bank. Then there's
24 management. And those are two separate
25 things. You want professional bankers to

1 2/22/16 - COMMERCE - RES. 160045
2 manage the bank. And then there's the
3 issue of risk management, and that's a
4 term that I'm sure you guys in the
5 Commerce Committee are quite familiar
6 with. And there's the issue of
7 accountability, and then there's the
8 issue of transparency.

9 So looking at all of these
10 factors in a feasibility study and then,
11 from that, determining whether a public
12 bank is the right thing for the City of
13 Philadelphia to do would be the purpose
14 of that feasibility study.

15 COUNCILMAN JONES: The Chair
16 recognizes Councilman Green.

17 COUNCILMAN GREEN: Just a
18 follow-up on some of your comments, and
19 maybe you can explain to members of
20 Council and to the audience. My
21 understanding is that a public bank is a
22 partnership bank, in the sense that it
23 does not have branches or retail
24 customers and it relies and helps other
25 banks grow. I think some people at first

1 2/22/16 - COMMERCE - RES. 160045

2 blush might hear the word "public bank"
3 is in direct competition with other type
4 of banks or retail deposit and customers,
5 and my understanding is that it is not
6 that type of bank. It's actually a
7 partnership bank and it would help
8 various banks like a United Bank or a
9 credit union to help grow.

10 I think one of the challenges
11 that occurred over the years when we've
12 had these other institutions get started,
13 like a credit union or United Bank or
14 other smaller banks, they don't have the
15 lending ability per se to give loans up
16 to a certain size. And so that causes
17 frustration and challenges, because
18 people put their dollars to create like
19 a -- I think in my church I grew up in,
20 Canaan Baptist Church, it created a
21 credit union, and the people would go to
22 the credit union thinking they can get a
23 loan for a mortgage or X dollars, and the
24 union does not have but so many assets,
25 so it can't loan but so many dollars.

1 2/22/16 - COMMERCE - RES. 160045

2 So could you maybe explain a
3 little bit on what a partnership bank is
4 of the public bank.

5 MR. NUESSELE: Yeah, absolutely.

6 In fact, Councilman, that's a great,
7 great question. This is a municipal
8 finance innovation. So there is a very
9 large education component to it. But a
10 public bank does not compete with
11 community banks. It basically -- in
12 fact, if you look at the State of North
13 Dakota on a per capita basis, the State
14 of North Dakota, which has a population
15 of about half of what the City of
16 Philadelphia, the population of North
17 Dakota is about 750,000, but on a per
18 capita basis, they have more community
19 banks than any other state in the United
20 States.

21 So another example of the power
22 of a public bank to support local banking
23 is, let's say -- we'll just, for the sake
24 of discussion, say that Amazon wants to
25 put a warehouse somewhere in this area

1 2/22/16 - COMMERCE - RES. 160045
2 and they need \$10 million in financing
3 for that. And let's say -- well, let's
4 make it bigger. Let's say it's \$100
5 million. So they have a relationship
6 with a local bank in the City of
7 Philadelphia, but that local bank can
8 only take 10 million of it. Then the
9 bank of -- the public bank of
10 Philadelphia then could take the other 90
11 million, because without that support of
12 a public bank, then Amazon has to go to
13 one of the Wall Street banks.

14 Does that answer your question?

15 COUNCILMAN GREEN: Yes.

16 COUNCILMAN JONES: Thank you,
17 Councilman.

18 The Chair recognizes
19 Councilwoman Parker.

20 COUNCILWOMAN PARKER: Thank
21 you, Mr. Chair, and thank you, Councilman
22 Green, for your leadership on the
23 exploration of the issue of public
24 banking.

25 One question sort of came to

1 2/22/16 - COMMERCE - RES. 160045
2 mind when you talked about the
3 capitalization of a public bank. Someone
4 watching this hearing is going to say
5 thanks to Councilman Green's question,
6 Okay, I get that a public bank doesn't
7 compete with the community bank, but if
8 this was a concept that Philadelphia was
9 interested in adopting, what's the floor?
10 Is there a dollar amount or a floor
11 associated with how you get a public bank
12 established or is it some sort of
13 formula, you know, looking at the balance
14 sheet, the amount of assets and so forth?

15 MR. NUESSELE: Well, the
16 threshold is quite low. And we have a
17 couple of community bankers that I think
18 might want to address that, but it's my
19 understanding that all you need to
20 capitalize a public bank is \$8 million.

21 COUNCILWOMAN PARKER: I'm
22 sorry?

23 MR. NUESSELE: Eight million
24 dollars. And the thing about -- the real
25 advantage to the City of a public bank --

1 2/22/16 - COMMERCE - RES. 160045

2 let's say that you capitalize it with 100
3 million. That means that then the City
4 of Philadelphia can actually loan out up
5 to a billion dollars. I mean, it's the
6 fractional reserve banking system, which
7 allows a bank to actually create money.
8 This is something that -- in fact, John
9 Kenneth Galbraith said years ago -- of
10 course, he was responsible in large part
11 for Bretton Woods and for the world
12 financial system that we now have. And
13 he said once that the way money is
14 created is so simple, the mind is
15 repelled. And so if you had your own
16 public bank, then you could actually
17 finance your public schools, you could
18 finance the infrastructure that needs
19 improvement, and you don't have to have a
20 Wall Street bank in the middle of that
21 unless you wanted to. That's not to say
22 that you would stop doing business with
23 the major banks, but you would have much
24 more control on your own assets and which
25 would allow you to invest in some of the

1 2/22/16 - COMMERCE - RES. 160045
2 infrastructure investments required that
3 are not getting attention right now. And
4 certainly as Anlin mentioned, schools are
5 certainly a top priority there.

6 Does that answer your question?

7 COUNCILWOMAN PARKER: Yes, sir.

8 COUNCILMAN JONES: So before I
9 go to -- thank you, Councilwoman. That's
10 a good question. But it is intriguing in
11 a sense.

12 If I understood your answer
13 correctly, the charter or mission
14 statement would determine what the best
15 use for that 8 million or \$80 million.
16 So you could capitalize a bank and say, I
17 just want to go to refinance homes in
18 districts or I want to just do small
19 businesses or I want to do both of them.

20 MR. NUESSELE: Right.

21 COUNCILMAN JONES: I want to go
22 to industrial lending. But it is
23 determined by how that feasibility study
24 and whatever discussions we have to say
25 this is our mission.

1 2/22/16 - COMMERCE - RES. 160045

2 MR. NUESSELE: Yeah. Exactly,
3 yeah. And the basic mission of the Bank
4 of North Dakota is to use the assets to
5 serve their constituency, period, you
6 know. In other words, it's real simple.
7 You don't have to make it real
8 complicated or to put a lot of
9 restrictions on it. But, you know, it
10 would be very interesting -- and I'm not
11 a forensic accountant, so I don't really
12 know where the liquid assets of the City
13 of Philadelphia are now being invested,
14 but I'll bet that they aren't being
15 invested in West Philadelphia. And
16 shouldn't they be?

17 COUNCILMAN JONES: Yeah,
18 particularly the 3rd and the 4th
19 District.

20 COUNCILWOMAN BLACKWELL: That's
21 right. That's right.

22 COUNCILMAN JONES: The Chair
23 recognizes Councilman Oh.

24 COUNCILMAN OH: Thank you very
25 much, Chairman, and thank you very much,

1 2/22/16 - COMMERCE - RES. 160045

2 Councilman Green, for this hearing.

3 I'll confess, I really don't
4 know what you're talking about, so bear
5 with me. I actually did serve on a small
6 bank on the Board of First Commercial
7 Bank of Philadelphia, which was a
8 start-up bank and was sold to HSBC.

9 So I am confused, because I
10 understand PSFS and the history of PSFS,
11 which was actually an opportunity to
12 provide savings to people who did not
13 have a savings mechanism and an
14 opportunity to change their habit, so
15 they began to conserve money for their
16 retirement, and when they got the
17 opportunity to start investing, they did
18 a bad job because that was not something
19 that they did and we lost a wonderful
20 asset.

21 But what you're talking about
22 is -- it sounds to me what you're talking
23 about is something that the Mayor's
24 Office does when it deals with our
25 finances and bond market and other things

1 2/22/16 - COMMERCE - RES. 160045
2 in terms of looking at future income and
3 our credit worthiness to get money to pay
4 for capital or operational projects that
5 we have today. But then you start
6 talking about making loans to start-up
7 businesses and people, leveraging the
8 City's assets, which places them at risk,
9 unless we have professional risk
10 managers, and we do have to get a return
11 on that, and I actually don't think we
12 have that much liquid assets. We have
13 pension funds and other things that are
14 tremendously indebted. We are actually
15 facing a rather large financial problem.
16 The School District is an entirely
17 different matter that is funded through
18 the state system, the SRC, and has those
19 type of problems.

20 So could you kind of go back
21 and explain to me as opposed to what is
22 going on right now with what the City
23 does, the Finance Department, what does
24 this public bank do if it is not like
25 PSFS, if it is a different system? What

1 2/22/16 - COMMERCE - RES. 160045
2 is different about it than the finance
3 obligations or responsibilities of the
4 Mayor's Office?

5 MR. NUESSELE: Another really
6 great question, and the way I would
7 answer that is in two parts. First off,
8 the City of Philadelphia does a lot of
9 business with Wall Street banks.

10 COUNCILMAN OH: Yes.

11 MR. NUESSELE: And there's a
12 fairly significant cost to that.

13 COUNCILMAN OH: Yes.

14 MR. NUESSELE: And if you had
15 your own public bank, you could -- I
16 don't think you could eliminate those
17 costs, but I think you could reduce them
18 significantly.

19 COUNCILMAN OH: Because we are
20 putting what up against the --

21 MR. NUESSELE: Well, because you
22 are using money that comes from the
23 Philadelphia public bank and you aren't
24 borrowing it from Wells Fargo.

25 COUNCILMAN OH: Yes, but we are

1 2/22/16 - COMMERCE - RES. 160045
2 leveraging something. We are indebted.
3 We're putting something at risk, are we
4 not? In other words, it's not tax
5 funded. You're putting up a trust that
6 we have to the people of Philadelphia to
7 ensure that 50 years from now we're going
8 to have these assets available. We're
9 putting them up to get cash to then go
10 into creating loans, which is not
11 actually our expertise, but let's say we
12 set it up or however we do it, but why
13 would we do that?

14 MR. NUESSELE: Well, with regard
15 to the expertise question, that's why you
16 want the bank to be managed by
17 professional bankers, and as I mentioned
18 earlier, there are lots of factors. I
19 mean, this is not an operation that you
20 want run, excuse me for -- you don't want
21 it run by elected officials. You want it
22 run by bankers.

23 COUNCILMAN OH: Like from Wall
24 Street.

25 MR. NUESSELE: Well, actually, I

1 2/22/16 - COMMERCE - RES. 160045
2 don't think you'd have to go to Wall
3 Street because I think -- and you're
4 going to hear from a couple of community
5 bankers in just a moment, and I think
6 some of these questions would be quite
7 relevant for them because they have --
8 they've studied this.

9 But to the second part of your
10 question around, yes, these liquid assets
11 that the City of Philadelphia has are
12 being invested for income. And so that
13 would -- yeah. And they would still be
14 invested for income, but they would be
15 invested in the City of Philadelphia.
16 I'm not at all saying that the City of
17 Philadelphia establishes a public bank
18 and then just hands out money.

19 COUNCILMAN OH: No. I
20 understand you're not saying that. What
21 I'm trying to understand is, for example,
22 the City, not me, but the Mayor's
23 Administration, they do -- and the
24 Pension Board and whatnot, they do invest
25 the money. They get a rate of return,

1 2/22/16 - COMMERCE - RES. 160045
2 and there is tax dollars and other
3 things. But all of that put together,
4 the City is in debt and an increasing
5 amount of debt. The interest that we pay
6 on that debt grows every year.

7 MR. NUESSELE: Right.

8 COUNCILMAN OH: So the balance
9 sheet I think is misleading, because we
10 have long-term debt that is growing and
11 we have growing costs like health
12 insurance and other things that as we sit
13 here today, we will not be able to match
14 the amount of debt that is growing. It
15 just grows consistently.

16 MR. NUESSELE: Well, if the City
17 of Philadelphia had its own public bank,
18 it could reduce that amount of debt.

19 COUNCILMAN OH: In what manner?

20 MR. NUESSELE: Well, by actually
21 loaning money to itself.

22 COUNCILMAN OH: And where does
23 that money come from?

24 MR. NUESSELE: Well, it comes
25 from the public bank. Just like I said,

1 2/22/16 - COMMERCE - RES. 160045
2 a bank is allowed to actually generate
3 loans in the amount of ten times the
4 amount of capitalization.

5 COUNCILMAN OH: I understand
6 that. What I am trying to understand is
7 when you make a loan ten times greater
8 than you're capitalized, you're at a
9 certain amount of risk.

10 MR. NUESSELE: And generally you
11 wouldn't want to get that far out, but
12 that's for a banker -- that's for
13 professional bankers to deal with.

14 COUNCILMAN OH: So when you --
15 you have to take some asset of the City
16 and basically --

17 MR. NUESSELE: Liquid assets,
18 yes.

19 COUNCILMAN OH: -- leverage it
20 or take the liquid asset, and whereas it
21 is in Wall Street, let's say, earning a
22 certain rate of return, you're going to
23 then take that money, put it in your
24 public bank, loan it out and try to get
25 the same or greater rate of return.

1 2/22/16 - COMMERCE - RES. 160045

2 MR. NUESSELE: Well, yeah. I
3 mean, that would be one strategy. In
4 fact, all of what you're saying is pretty
5 much what a feasibility study should
6 analyze.

7 Did you have something that you
8 wanted to say to that?

9 MR. WANG: Well, Councilman Oh,
10 it sounds like your question is
11 predicated on the notion that the
12 currently existing assets are
13 definitely --

14 COUNCILMAN JONES: You got to
15 pull that a little closer.

16 MR. WANG: It sounds like the
17 way -- based on what I'm understanding is
18 that your question is premised on the
19 notion that the current assets as the way
20 they're allocated are going to earn a
21 higher rate of return than a public bank.
22 So I think that a feasibility study would
23 help to answer the question of whether
24 that would be the case or not. But I
25 also think we do have an existing data

1 2/22/16 - COMMERCE - RES. 160045
2 point in the Bank of North Dakota and we
3 can look at that and say that they are
4 earning clearly positive rates of return
5 over the course of -- I don't know, how
6 long has it been in existence for? Like
7 well over 20 years at this point, I
8 believe.

9 COUNCILMAN OH: Say that again.

10 MR. WANG: The Bank of North
11 Dakota, we do have an existing data point
12 on whether a public bank can earn a
13 positive rate of return. The answer is
14 yes with the Bank of North Dakota.

15 COUNCILMAN OH: What are the
16 number of years you're looking at?

17 MR. WANG: I don't have the
18 numbers in front of me. I'm sure we can
19 supply you with those.

20 MR. NUESSELE: Actually, that's
21 an excellent point. And this is all on
22 the record, and the Bank of North Dakota
23 has a very significant rate of return to
24 its citizens. And I would wager -- and
25 it's just a wager at this point -- that

1 2/22/16 - COMMERCE - RES. 160045
2 it's better than what the City of
3 Philadelphia is earning through the Wall
4 Street banks when you take into account
5 all of the charges and other things.

6 COUNCILMAN OH: Yeah. I mean,
7 I'd love to see this study, and I
8 certainly appreciate that. I would say
9 that North Dakota is altogether a
10 different economy with different things.
11 It also has a large investment in Bakken
12 crude oil and oil extraction and other
13 things, much like Texas, that makes it a
14 little -- not a little, but quite a bit
15 different than Philadelphia with its
16 urban issues and current deterioration of
17 infrastructure and other things.

18 MR. WANG: Well, the Bank of
19 North Dakota has been earning positive
20 rates of return not just on the energy
21 investments. And, again, I don't have
22 the numbers in front of me. I'm sure
23 Mr. Krauss would be happy to supply them
24 when he does get back or even before
25 then, but it earns positive investments

1 2/22/16 - COMMERCE - RES. 160045
2 on its other -- on the other loans it
3 makes too. So, for example, before 2010
4 it would also engage in student loans,
5 and those are a positive rate of return
6 as well, I believe.

7 MR. NUESSELE: The Bank of North
8 Dakota has been operating since 1913.
9 And so there's a very significant
10 historical record. And, yes, it's a very
11 different situation than the City of
12 Philadelphia would present, but it's also
13 a good model. And Conni is reminding me
14 that last year the Bank of North Dakota
15 had an earning on assets of 17 percent.
16 And I would again wager that that was
17 not -- that the City of Philadelphia was
18 not able to return that.

19 But the other factor,
20 Councilman, is the savings in interest
21 costs, and that can be very significant.

22 COUNCILMAN OH: Thank you very
23 much for answering my question.

24 MR. NUESSELE: You're very
25 welcome.

1 2/22/16 - COMMERCE - RES. 160045

2 COUNCILMAN JONES: Thank you,
3 Councilman.

4 COUNCILMAN OH: Thank you,
5 Chairman.

6 COUNCILMAN JONES: We're going
7 to go to Councilman Taubenberger.

8 COUNCILMAN TAUBENBERGER: Thank
9 you, Mr. Chairman.

10 I'd have to agree very, very
11 enthusiastically with Councilman Oh that
12 North Dakota is really an entirely
13 different land. I mean, it has the size
14 of -- half the size of Philadelphia
15 population-wise in a state that is about
16 the size of Pennsylvania. It's isolated.
17 It's heavily rural by tradition. It's a
18 big agricultural state. One thing about
19 agriculture is the fact that you can sort
20 of depend on crops. You may not get it
21 exactly, but there's a whole different
22 formula.

23 I know a lot of bankers because
24 I was former President of the Northeast
25 Philadelphia Chamber of Commerce, and

1 2/22/16 - COMMERCE - RES. 160045
2 they all said, Hey, Taubenberger, it's
3 pretty easy that -- the easy part is
4 making loans. You can make a lot of
5 loans. The very hard work is getting
6 repaid.

7 MR. NUESSELE: Right.

8 COUNCILMAN TAUBENBERGER: What
9 assurance can you make that our bank, if
10 we were to go to that level, would get
11 these loans repaid?

12 MR. NUESSELE: Well, I can give
13 you no insurance at all because I have no
14 idea what the mission of the bank is
15 going to be or how the bank of
16 Philadelphia, the public bank of
17 Philadelphia, would want to use its
18 assets. And you're absolutely right, and
19 that's the reason why our recommendation
20 around a public bank of Philadelphia is
21 that the bank be run by professional
22 bankers and there is no -- and this is
23 the reason for the feasibility study.

24 MS. BILLE: I think the
25 distinction you keep raising about how

1 2/22/16 - COMMERCE - RES. 160045

2 much return do the banks make, no, we're
3 paying interest to the Wall Street banks.
4 When you have your own bank, you're
5 earning interest. The bank is making
6 interest on its loans. So it becomes a
7 totally different thing. And, yes, it
8 must be professionally managed, but it's
9 like going into the business of banking.
10 So that's what I see.

11 COUNCILMAN TAUBENBERGER: Well,
12 there's no question about there's risk
13 involved. You've said that. It's true
14 about any type of banking, but the
15 guarantee -- and as actually Councilman
16 Oh has said and I think was said even
17 earlier than that is the fact that we
18 have limited resources in the City.
19 We're not in the best financial
20 situation.

21 MS. BILLE: But where we have
22 put our risk has been in Wall Street, and
23 Wall Street has turned into a casino and
24 Wall Street has led this entire country
25 into a very bad place.

1 2/22/16 - COMMERCE - RES. 160045

2 (Applause.)

3 MS. BILLE: And what we're

4 saying is don't put all your eggs in one

5 casino basket. By unbundling and putting

6 your assets locally, controlled locally,

7 you actually have more control over

8 what's going to happen, and the kind of

9 risk -- you know better the risk of a

10 new -- building a new bridge, repairing

11 our roads. Are those going to get paid

12 back if you loan money to a contractor

13 who needs to, you know, hire people in

14 order to build a road, section of road?

15 You know the risk you're taking. I think

16 you know that risk better than somebody

17 sitting on Wall Street who is looking at

18 their million dollar bonus they're going

19 to get next year.

20 Just my opinion. I'm not a

21 banker.

22 COUNCILMAN TAUBENBERGER:

23 That's why we have you here, for your

24 opinion.

25 MR. NUESSELE: Actually, there's

1 2/22/16 - COMMERCE - RES. 160045
2 a wonderful example of what a public bank
3 would have done for the State of
4 California. I actually lived in San
5 Francisco when the earthquake happened in
6 1989. And so they studied forever
7 replacing that bridge from Oakland over
8 to San Francisco. They finally finished
9 one last year. The bridge itself cost \$7
10 billion, and it was actually financed by
11 a public-private consortium, but the
12 interest on that \$7 billion is another \$7
13 billion. Now, I'm not -- now, if the
14 State of California had had its own
15 public bank, that interest factor could
16 have been reduced very, very
17 significantly.

18 So I hope that -- we have
19 another six or seven people cued up to
20 present to you. We're happy to stay here
21 and answer all of your questions.

22 COUNCILMAN TAUBENBERGER: You
23 did have a quote -- one last question I
24 have, but very simply, you had a quote
25 from John Kenneth Galbraith. What was

1 2/22/16 - COMMERCE - RES. 160045

2 that quote again?

3 MR. NUESSELE: From Galbraith?

4 COUNCILMAN TAUBENBERGER: Yes.

5 MR. NUESSELE: Basically what he
6 said was that the way money is created is
7 so simple, the mind is repelled.

8 COUNCILMAN TAUBENBERGER: Okay.

9 MR. NUESSELE: And what he's
10 talking about there is the fractional
11 reserve system. And when -- debt and
12 credit are two sides of the same coin.
13 So if someone has credit -- money goes
14 into circulation when a debt is incurred.
15 So if I buy a house for \$300,000 and I
16 put 50,000 down and I borrow 250, then
17 that 250 goes to pay the people that
18 actually build the house, and then that's
19 how money is put into circulation.
20 That's what he was talking about.

21 COUNCILMAN TAUBENBERGER: Thank
22 you.

23 COUNCILMAN JONES: Thank you,
24 Councilman.

25 The Chair recognizes Councilman

1 2/22/16 - COMMERCE - RES. 160045

2 Domb.

3 COUNCILMAN DOMB: Thank you for
4 coming in today. It's very informative.

5 I've been using private banks,
6 so I know they're making money. I know
7 that for a fact. But my question to you
8 is, I've heard a lot of positive things.
9 If you're sitting over where we are, tell
10 us what you think the negative things --
11 two or three of the biggest negative
12 things might be in the public's mind in
13 launching a public bank. I think one of
14 them is probably the risk of making the
15 loan and not getting repaid. That's
16 probably your biggest.

17 MR. NUESSELE: Well, but there
18 are lots of things that the City of
19 Philadelphia wants to invest in not to
20 get a return but to build infrastructure.
21 So what kind of return is there for a
22 sewer system or for a water distribution
23 system to eliminate the lead piping. And
24 so there would be some sort of, you know,
25 decisions and guidance around what the

1 2/22/16 - COMMERCE - RES. 160045
2 bank actually invested in. And so
3 certainly infrastructure, but the example
4 that I used of Amazon building a
5 distribution in the City of Philadelphia,
6 that kind of investment, which would
7 create jobs, which would support the
8 overall benefit of all the citizens, that
9 would be investment that would require
10 some kind of a return. And then it would
11 be competitive. You know, the return
12 that the public bank of Philadelphia
13 could expect should be competitive with
14 other investments that other people are
15 making.

16 COUNCILMAN DOMB: Could you
17 explain for myself and everyone else here
18 the spread. When you borrow the money
19 from government and what they lend it out
20 at, what those spreads usually run and
21 how the City could save money by not
22 having that spread.

23 MR. NUSSLE: Could you repeat
24 that? I'm sorry. I'm having trouble
25 hearing you.

1 2/22/16 - COMMERCE - RES. 160045

2 COUNCILMAN DOMB: So if you put
3 \$8 million, you're able to access a
4 maximum of 80 million, I believe, right?
5 Ten times. Ten times the equity.

6 MR. NUESSELE: Right.

7 COUNCILMAN DOMB: So when you
8 go to borrow that money from the
9 government, I assume, they're lending it
10 to you at a rate, and banks then add on
11 to that rate, because whether it's prime
12 or LIBOR or whatever they're basing it
13 on, there's usually a spread of, what,
14 two and a half to three points on top of
15 that rate? What I'm trying to
16 demonstrate is the savings we could
17 achieve if we didn't have that spread.

18 MR. NUESSELE: Well, you know
19 what? We have two community bankers.
20 I'm going to let them answer that
21 question, because I'm not a banker guy.
22 Is that all right?

23 COUNCILMAN DOMB: That's
24 perfectly fine. Thank you very much.
25 Thank you.

1 2/22/16 - COMMERCE - RES. 160045

2 COUNCILMAN JONES: Thank you,
3 Councilman.

4 And I want to recognize for the
5 record Councilwoman Gym is here, and if
6 she'd like to participate, even though
7 you're not on the Committee, you can.

8 COUNCILWOMAN GYM: Thank you.

9 COUNCILMAN JONES: The Chair
10 recognizes Councilman Green.

11 COUNCILMAN GREEN: I think some
12 of the confusion that's been regarding
13 the public bank concept is that when I
14 thought about public banks, my initial
15 thought process was in reference to sweep
16 accounts. Every large institution -
17 Commonwealth of Pennsylvania, City of
18 Philadelphia, Camden - every day puts
19 millions of dollars into a bank
20 institution that overnight will invest
21 that money, and that money gets swept out
22 of the accounts and back into the
23 institution's funds and coffers. And the
24 City of Philadelphia will try to make a
25 return on that, but also pays a fee on

1 2/22/16 - COMMERCE - RES. 160045

2 that process.

3 The question is, what's the
4 balance between the fee we may earn or
5 impact that we have through a sweep
6 account versus lending dollars out? And
7 remember when we're doing the lending,
8 that's as a partnership bank after
9 another institution, maybe a smaller
10 community bank, has already done the
11 credit analysis. So we're not just --
12 although there's still a risk issue and
13 being a former banker, I'm still
14 concerned about that issue of risk and
15 I'm really interested in a feasibility
16 study, but it's the balance between
17 what's the impact of fees, especially if
18 you're looking just at bank deposits,
19 from fees and other sweep fees versus the
20 lending as a follow-up to another
21 institution. I think that's the balance
22 through a feasibility study where we can
23 see as well as the other perspective when
24 you talked about main replacement and
25 other things where we're not really

1 2/22/16 - COMMERCE - RES. 160045
2 trying to get a large return, but
3 minimize some of the issues that we have
4 by not having dollars being available.

5 MR. NUESSELE: Absolutely. In
6 fact -- and this was why the City of
7 Reading brought us in, because they were
8 having all of this because all their
9 money was -- all these rainy day funds
10 and all that in and out was happening in
11 the Wall Street banks. So they've
12 established something to eliminate that.
13 And basically so what they've done is
14 they've eliminated a lot of those fees,
15 and because of that cash flow of money in
16 and out that you're speaking about,
17 Councilman, the only banks that can
18 really do that are the Wall Street banks,
19 and you are paying significant for that.

20 Now, I have heard that the Wall
21 Street banks themselves want to get out
22 of that business. And so this is not
23 something that might not also be of
24 benefit to them.

25 COUNCILMAN JONES: If there are

1 2/22/16 - COMMERCE - RES. 160045

2 no other questions for this panel, we
3 will thank you, and if you'd like to
4 stick around --

5 MR. NUESSELE: Thank you very
6 much.

7 COUNCILMAN JONES: -- there may
8 be some follow-up questions that you can
9 address. Thank you very much.

10 Will the Clerk please read the
11 names of the next people to testify.

12 THE CLERK: Jeffrey Beck,
13 Dr. Emma Chappell, Peter Frank.

14 (Witnesses approached witness
15 table.)

16 COUNCILMAN JONES: Thank you
17 for your patience. Welcome. When you
18 testify, please state your name for the
19 record so that the stenographer can
20 record that.

21 MR. BECK: Surely. My name is
22 Jeffrey Beck. Good afternoon,
23 Mr. Chairman and members of the Council.
24 I'm honored to have the privilege of
25 addressing you today. By way of

1 2/22/16 - COMMERCE - RES. 160045
2 background, I spent a number of years
3 working in this fine city at Industrial
4 Valley Bank and Trust Company and its
5 successor bank, Fidelity, and retired in
6 the year 2004 as President of Advanta
7 Bancorp in Salt Lake City, Utah.

8 I think that capitalism is the
9 best economic basis upon which to
10 allocate private capital. But that does
11 not make it a perfect system for all
12 applications, and that is why I am here
13 today. The advantage of capitalism is
14 that private capital will seek out the
15 most efficient and profitable returns.
16 It encourages innovation that can benefit
17 the retail and commercial customer, but
18 it also can have negative consequences.

19 In today's world, it has
20 created an environment seeking gain with
21 every quarterly report, impairing the
22 ability to take a longer term view of
23 benefit. It encourages consolidation so
24 that size and the economies of scale help
25 produce those necessary quarterly

1 2/22/16 - COMMERCE - RES. 160045
2 returns. It rewards banking leaders with
3 outsized compensation that only makes
4 sense to them and those that can reap a
5 reward from the next quarterly report.
6 And in banking, it highlights the fact
7 that banks take risk, real risk, with the
8 deposits entrusted to them for which they
9 have a fiduciary responsibility.

10 Depositors want safety, owners
11 want maximum return, and the way to that
12 return is to take risk. Hence the need
13 for the extensive regulatory environment
14 that exists with the Federal Reserve
15 banking system, the Treasury Department
16 regulators, the FDIC, and state
17 regulatory structures. This oversight is
18 a method to provide a third-party check
19 to taking excess risk. But it doesn't
20 always work.

21 And as an aside, as you may
22 know, PSFS was taken over by the FDIC and
23 shut down and, after an extensive battle
24 in courts, admitted that they made a
25 mistake. So I know Councilman Jones will

1 2/22/16 - COMMERCE - RES. 160045

2 find his passbook savings dollars
3 somewhere with the FDIC. Good luck
4 getting that back.

5 But how does that help the
6 local community? In Pennsylvania, Act 72
7 requires that municipal deposits must be
8 collateralized with safe investments,
9 limiting the profitability of such
10 deposits to the bank since its risk
11 application is limited. In fact, some
12 banks are now seeking to shed those
13 deposits, because in this low interest
14 rate environment, they are simply a drag
15 on the next earnings growth that they
16 must report each quarter.

17 So what happens is banks
18 consolidate and get bigger, look for
19 larger investments and larger returns to
20 keep existing capital and attract new
21 capital, and in the process, local
22 community consideration is left behind.

23 Now, community banks can help,
24 and that's what they're trying to do, but
25 the fact of the matter is the regulatory

1 2/22/16 - COMMERCE - RES. 160045

2 environment is really stacked against
3 them. Banking regulations today were
4 designed for and apply to big banks, but
5 they actually end up being an outsized
6 burden within a community banking system,
7 and in fact you'll see community banks
8 having to consolidate to be able to
9 generate enough revenue to cover the cost
10 of simply being regulated.

11 And the reality is, investors
12 are not going to accept lower returns
13 just for the good of the community. The
14 regulators are not going to change the
15 regulatory environment for something that
16 looks new and untested. But there does
17 exist an alternative where depositor
18 interest and ownership interest align,
19 where a long-term view of community
20 benefit can prevail, and where some
21 reduction in immediate return can be
22 accommodated to focus on that longer term
23 gain. These are the benefits of the
24 public bank operated under a safe and
25 sound banking practice.

1 2/22/16 - COMMERCE - RES. 160045

2 There are many obstacles to
3 creating a public bank. Private bankers
4 fearful of any possible competition, real
5 or not, will object. Regulators fearful
6 of a new approach only seen in North
7 Dakota will object. Diverting public
8 deposits and capital into a dedicated
9 bank will raise objections by those who
10 are losing power or the economic
11 opportunity associated with those funds.
12 Creating a strong and professional
13 governance system that can be insulated
14 from destructive political influence will
15 require courage. But the benefits are
16 there and have been demonstrated in North
17 Dakota.

18 In today's system, you cannot
19 ask private bankers to run counter to
20 their ownership and regulatory interests.
21 And it's not because they're bad people.
22 It's because the system has no incentive
23 for them to do so. Therefore, an
24 alternative system is required to focus
25 on the community and bring to it the

1 2/22/16 - COMMERCE - RES. 160045
2 benefits to come with its own public
3 bank.

4 Thank you.

5 COUNCILMAN JONES: Thank you so
6 much for your testimony. We're going to
7 do as we did in the first panel and allow
8 people testifying to complete their
9 testimony and then we'll open up for
10 questions.

11 Thank you and welcome back.
12 You're no stranger to that table.

13 DR. CHAPPELL: Are you talking
14 to me?

15 COUNCILMAN JONES: Yes.

16 DR. CHAPPELL: Yes. Thank you.
17 I feel kind of short here, though.

18 Good afternoon Mr. Chairman and
19 members of the Committee. I am Emma
20 Chappell, known to many of you as the
21 banker in the City. As founder, CEO, and
22 President of United Bank, the first
23 minority-owned, full-service commercial
24 bank established in Center City
25 Philadelphia. I also have a long

1 2/22/16 - COMMERCE - RES. 160045

2 experience in municipal finance.

3 I and many in this city now
4 strongly support the creation of a
5 Philadelphia public bank. Others have
6 spoken to or will speak to the many
7 benefits of such a bank for the people of
8 Philadelphia and the finances of the
9 City. I want to speak to the impact on
10 banking in the City.

11 This is what bankers in North
12 Dakota have to say about their public
13 bank of North Dakota, now in very
14 successful operation for almost 100
15 years.

16 Rick Clayburgh, President,
17 North Dakota Bankers Association, said,
18 The Bank of North Dakota is a very good
19 partner for our banks in the state, a
20 very useful tool.

21 Gary Petersen, President of
22 Lakeside State Bank, a mid-sized
23 community bank, said, When the crash hit,
24 the Bank of North Dakota never blinked
25 and the credit kept flowing.

1 2/22/16 - COMMERCE - RES. 160045

2 And Karl Bollingberg, Senior
3 Vice President of Alerus Financial, a
4 large North Dakota-based regional bank,
5 said, With the Bank of North Dakota, we
6 can go toe to toe with the big boys.

7 When Mr. Bollingberg -- what he
8 is saying there, if I can translate from
9 bankers speak, the way bankers speak, is
10 that all banks have limits above which
11 they cannot lend, depending on their
12 reserves and other factors. If a valued
13 customer comes to you for a loan above
14 that limit, a banker has two choices:
15 turn the business down and the customer
16 goes to a larger competitor or invite a
17 larger bank to participate in the loan,
18 and this, of course, is called
19 syndication, and the larger bank will
20 begin to cross-sell its other products
21 and again the small community bank may
22 lose the customer.

23 But in North Dakota, the
24 smaller local bank can turn to the Bank
25 of North Dakota as a partner, do the

1 2/22/16 - COMMERCE - RES. 160045

2 larger loan and keep the customer,
3 because the Bank of North Dakota does not
4 offer retail banking products.

5 Let me add to that. The public
6 bank has had a very positive impact on
7 banking in North Dakota. The state has a
8 robust, healthy local banking industry.
9 North Dakota has more branch offices of
10 banks per capita than any state in the
11 nation, and it has no bank failures
12 throughout the long Great Recession.

13 Compare that to Philadelphia,
14 if you will, which has been steadily
15 losing banks and bank branches. This
16 shrinkage in the banking system is a
17 function of the private bank's need to
18 post increasing quarterly earnings and
19 the relentless drive by the regulatory
20 community to achieve uniform and
21 expensive risk management systems at each
22 bank regardless of its size. The result
23 is fewer mega banks and shrinking
24 community banks.

25 Last October the Philadelphia

1 2/22/16 - COMMERCE - RES. 160045
2 Business Journal reported that the total
3 number of local bank branches fell for
4 the sixth straight year to 1,562 from
5 1,607 in 2013, 1,659 in 2012, and 1,761
6 in 2011. So it lost 200 local bank
7 branches in the community.

8 The number of institutions also
9 declined to 110 from 114 last year, 117
10 in 2012, 120 in 2011, and 131 in
11 pre-recession 2008. So we lost 20
12 financial institutions in Philadelphia.

13 Philadelphia has been dominated
14 for many years by six banks - Wells
15 Fargo, TD, Citizens, PNC, and Bank of
16 America. And unfortunately none of these
17 banks are headquartered in Philadelphia,
18 and they did not grow up here in
19 Philadelphia. Their focus is elsewhere,
20 and increasing in size remains their
21 goal. The answer for this problem is a
22 new system, the public bank, where the
23 incentives to perform align with the
24 community.

25 We have concluded that a public

1 2/22/16 - COMMERCE - RES. 160045
2 bank will not only get more affordable
3 credit flowing in the City, but it can
4 also strengthen those local banks that,
5 like United Bank and others, that remain
6 in the City.

7 I want to offer one more
8 important comment. There are some steps
9 from today to creating a bank, and we
10 talked about some of them a little
11 earlier when Frank was talking. The last
12 is that the proposed bank will need to
13 get a charter from the Pennsylvania
14 Department of Banking and Securities. My
15 colleague, Jeff Beck, and I have been
16 down that road and in fact have already
17 had meetings with the Department about a
18 Philadelphia public bank on behalf of the
19 Pennsylvania Public Bank Project. That
20 means a full business plan must be
21 presented with projections, policies, and
22 the senior management team identified by
23 name.

24 So I want to thank you for
25 these hearings, Mr. Chairman and other

1 2/22/16 - COMMERCE - RES. 160045
2 members of the Committee, the important
3 work you have begun, and I want you to
4 begin to think now about the next step.
5 What is your process to deal with the
6 issues of mission, capitalization,
7 deposit base, governance and the others
8 that will get to the point where a
9 comprehensive business plan can be
10 submitted to secure the necessary
11 charter.

12 And I want to add that when I
13 created the business plan for United Bank
14 of Philadelphia, I took that plan to
15 Pennsylvania Department of Banking to get
16 the charter. It was the most difficult
17 process that I ever had, but we got the
18 charter, as you all know. So we need to
19 work together in that effort so that when
20 we go before the state, we get the
21 approval we need for this important
22 institution.

23 Thank you again for listening.

24 COUNCILMAN JONES: Thank you so
25 much.

1 2/22/16 - COMMERCE - RES. 160045

2 So we're going to allow you to
3 testify and then there's a plethora of
4 questions I see.

5 MR. FRANK: Sure. Thank you.
6 And before I begin, I have some materials
7 I'd like to distribute to the Committee.
8 Is it possible for a Sergeant-At-Arms
9 or -- thank you.

10 Good afternoon. My name is
11 Peter Frank. I'm the Executive Director
12 of the Philadelphia Area Cooperative
13 Alliance. I'm here to talk to you about
14 how a public bank could support
15 community-owned cooperative businesses.

16 There are over 170 co-op
17 businesses in the Philadelphia area.
18 These businesses include credit unions
19 with over a billion dollars in assets,
20 but also small neighborhood pre-school
21 co-ops, worker co-ops that build wealth
22 in low-income communities, and food
23 co-ops that anchor commercial corridors
24 and provide access to quality food.
25 Co-ops are businesses that are owned and

1 2/22/16 - COMMERCE - RES. 160045
2 controlled by their members, the people
3 in the community that benefit directly
4 from the services of the co-op.

5 There are many community
6 benefits from co-ops. They provide
7 access to essential services and they
8 build community wealth. But the thing
9 that unites all co-ops is that they are
10 community owned and controlled.
11 Community ownership of cooperative
12 businesses ensures that they survive and
13 thrive for generations by staying
14 relevant to the needs of the community.

15 Cooperatives share many values
16 with public banks. They create
17 transparency and accountability through
18 local control. They're engines of
19 economic development and job creation.
20 They recirculate their profits back into
21 the communities, and they survive at
22 greater rates in times of economic
23 hardship.

24 Co-ops have been in
25 Philadelphia since Ben Franklin

1 2/22/16 - COMMERCE - RES. 160045
2 co-founded the first co-op in the U.S., a
3 mutual insurance company, and today
4 co-ops in Philadelphia are experiencing a
5 renaissance. My organization's member
6 co-ops have seen the revenues increase by
7 20 percent, and their membership has
8 grown by 40 percent. These are not small
9 insignificant businesses created by
10 hippies in the '60s. These are
11 businesses that are relevant to today's
12 needs and operate in all sectors of the
13 economy.

14 We're also supporting 20
15 start-up co-ops in the region, many of
16 which would benefit greatly from the type
17 of lending that would be supported by a
18 public bank. Some of these co-ops are
19 being designed intentionally to support
20 marginalized communities, such as
21 immigrants and returning citizens. There
22 are also multiple food co-ops in
23 formation in the City, along with an
24 incubator brewery co-op and a
25 construction co-op. These start-ups need

1 2/22/16 - COMMERCE - RES. 160045
2 support in terms of capital, but also
3 business development support.

4 Public banks are one way to
5 fund co-ops, because traditional lending
6 institutions have been reluctant to do
7 so. Banks are limited in the amount that
8 they can lend to co-ops because of
9 collateral requirements, personal
10 guarantees from owners, which doesn't
11 make sense for co-ops because there's
12 many, many owners, and also the concept
13 of a community-owned business is
14 unfamiliar to many lenders.

15 Philadelphia's co-ops have
16 proven to be a good public investment.
17 As an example, Mariposa Food Co-op, a
18 grocery store at 49th and Baltimore,
19 received financing and grants from public
20 dollars for their expansion in 2012. As
21 a result, they created 40 new
22 livable-wage retail jobs with benefits.
23 They greatly increased the community's
24 access to healthy food and are an
25 important anchor business on Baltimore

1 2/22/16 - COMMERCE - RES. 160045
2 Avenue, with annual sales of over \$5
3 million a year. The return on this
4 investment comes back in increased tax
5 base for the City, healthier residents, a
6 more vibrant neighborhood, and more
7 dollars cycled through the local economy
8 than other forms of business.

9 You have an exciting
10 opportunity to invest public dollars back
11 into Philadelphia's communities through a
12 public bank, which could in turn grow
13 Philadelphia's community-rooted
14 cooperative businesses. I'm eager to
15 continue this conversation with you all
16 as you consider how best to invest in our
17 communities. If you would like to learn
18 more about our region's co-ops, you can
19 check out the materials I've distributed
20 and also our website, which is
21 Philadelphia.coop.

22 Thank you for your time.

23 COUNCILMAN JONES: Thank you.

24 With those testimonies, the
25 Chair recognizes Councilman Green.

1 2/22/16 - COMMERCE - RES. 160045

2 COUNCILMAN GREEN: Thank you
3 for your testimony. I have just a few
4 questions for the panel, and I'll just
5 read those questions off going forward.

6 You talked about co-ops. I
7 live in a community that's very vested in
8 co-ops in Mount Airy, a member of Weavers
9 Way and my son went to Childspace, which
10 is a co-op. It used to be on Germantown
11 Avenue, now it's on the New Covenant
12 campus. So that cooperative spirit is
13 very important in Mount Airy and also the
14 City of Philadelphia.

15 You talked about Ben Franklin,
16 and it reminds me of United. I mean, not
17 only United Bank's track record but also
18 Valley Green Bank, which was started by
19 residents in the Mount Airy community who
20 saw this dynamic of where in a much more
21 of a European or Asian banking model, we
22 have these large institutions and these
23 smaller banks. Unfortunately, Valley
24 Green Bank was acquired by Uninvest.
25 We'll see how that will go forward in

1 2/22/16 - COMMERCE - RES. 160045

2 reference to that cooperative spirit.

3 So I guess the question is,

4 considering some of the things that

5 United Bank has done over the years and

6 how they started and in co-ops, is there

7 an ability for a public bank to be

8 created not only with public dollars,

9 could other entities partner with a

10 public bank? I know various labor unions

11 around the City of Philadelphia have

12 invested in various institutions like

13 hotels and other economic opportunities.

14 So is there a possibility that a public

15 bank could be started not only with City

16 resources but also resources of a labor

17 union or of a healthcare institution or

18 educational institution to help create a

19 seed for capitalization of a public bank?

20 So that's question one.

21 Question two, what are some of

22 the initiatives in other cities? We

23 talked about Santa Fe. What are some of

24 the other cities doing in the interest of

25 public banking? How are those type of

1 2/22/16 - COMMERCE - RES. 160045
2 initiatives going forward? How are they
3 capitalizing or thinking about
4 capitalizing their ideas for a public
5 bank in other cities?

6 And the third question is,
7 there's been a concern about risk and
8 defaults, and as a former banker, I'm
9 always looking at default rates. So what
10 are some of the default rates from the
11 Bank of North Dakota? That will also be
12 interesting.

13 MR. FRANK: I'm not a banker,
14 so I can't speak to how technically
15 non-governmental institutions or
16 organizations would invest in
17 capitalizing or in the bank, but I can
18 say that co-ops are particularly
19 interested in investing in other co-ops.
20 As part of the values of being a
21 cooperative business is helping other
22 ones get going. And some of the co-ops
23 in the City of Philadelphia are
24 particularly interested in helping these
25 start-ups as well as other existing

1 2/22/16 - COMMERCE - RES. 160045
2 co-ops grow. And if it is possible for a
3 public bank to assist with that, I think
4 that would be a great thing.

5 I'll let the two bankers next
6 to me speak.

7 MR. BECK: I think the way to
8 look at a public bank is to juxtapose it
9 to a publicly owned private bank, where
10 you've got a diverse group of people who
11 have said, All right, I'm going to become
12 an owner of this institution as long as
13 you're going to produce rates of return
14 on my investment that I find attractive,
15 and if that doesn't happen, I'm taking my
16 marbles and I'm going somewhere else.
17 Whereas, in a public bank, there's a
18 different focus in terms of the mission
19 of that bank and its ownership, where not
20 necessarily maximization of return is the
21 single mission of that institution.

22 So you could have multiple
23 ownership of a public bank, but I would
24 say the more diverse that ownership may
25 be, the more conflicted their expected

1 2/22/16 - COMMERCE - RES. 160045
2 outcomes might be, if that makes any
3 sense. So if you have a governmental
4 entity and a non-profit organization that
5 are aligned and have shared desired
6 outcomes, absolutely it could work. But,
7 again, as you spread the number of those
8 organizations into that ownership, then
9 you're more likely to have conflicts of
10 interest in terms of what they want as an
11 outcome, if that makes any sense.

12 COUNCILMAN GREEN: Right. But
13 you could also possibly segregate risk
14 pools as well. So if you had, say, an
15 educational institution or a teachers
16 pension union that wanted to participate
17 and help in funding community banks -- I
18 mean, community schools or other types of
19 initiatives, they could say we're going
20 to segregate our funds to a lending pool
21 just for that purpose.

22 MR. BECK: You could, and of
23 course, as you know, I mean, the more you
24 slice and dice that, the more difficult
25 it becomes to manage and segregate that.

1 2/22/16 - COMMERCE - RES. 160045

2 As a banker, one of the things
3 obviously you want is diversification in
4 terms of risk management. So the more
5 things get channeled, the more difficult
6 it is to have that diversification.

7 And to the point about raising
8 risk, you don't want to have more risk in
9 this institution than is appropriate to
10 the mission.

11 COUNCILMAN GREEN: And then
12 just a follow-up on what's happening in
13 other cities and the default risk for the
14 Bank of North Dakota on loans.

15 MR. BECK: We're the banking
16 consultants, and I have to tell you, I
17 can't answer that question.

18 COUNCILMAN GREEN: Or if anyone
19 else that is participating has
20 information on default risk for Bank of
21 North Dakota or initiatives in other
22 cities.

23 (Witness approached witness
24 table.)

25 MR. NUESSELE: Yeah. I'm sorry.

1 2/22/16 - COMMERCE - RES. 160045

2 Could you repeat that question, please.

3 COUNCILMAN JONES: And state
4 your name for the record, please.

5 MR. NUESSELE: My name is Frank
6 Nuessle from the Pennsylvania Public Bank
7 Project.

8 COUNCILMAN GREEN: Right. Just
9 to repeat the questions. If you happen
10 to know what the average range of
11 defaults on loans at the Bank of North
12 Dakota over its track record, and that's
13 something maybe someone in the audience
14 can research quickly. And, two, what are
15 some of the initiatives -- we talked
16 about Santa Fe and other initiatives in
17 other cities across the nation for public
18 banking.

19 MR. NUESSELE: Well, as far as
20 the default rate of loans for the Bank of
21 North Dakota, all I can -- I can't give
22 you an exact number, but that information
23 is available, and I can assure you that
24 it's lower than any of its community
25 banks and much, much lower than the Wall

1 2/22/16 - COMMERCE - RES. 160045
2 Street banks and -- yeah. All this
3 information is available. And I guess
4 what I would say is that what we came
5 here prepared to do today was to deal
6 with the question of why, and then the
7 question of the more detailed technical
8 questions of how and what's the track
9 record of the Bank of North Dakota, et
10 cetera, we can certainly dig into that
11 information for you. And we're keeping
12 track of all of these questions so that
13 we can respond to the Committee both for
14 what we hear today and any future
15 inquiries that you might have.

16 COUNCILMAN JONES: Councilman,
17 just for the record, at PCDC, which was a
18 25-year institution, the highest default
19 ratio -- and it was teetering on
20 closing -- was 10 percent, but we were
21 able to get it down to below 4 percent,
22 and that was better than the banking
23 institutions. I will admit that we
24 weren't as -- we were somewhat risk
25 averse. We were super cautious because

1 2/22/16 - COMMERCE - RES. 160045
2 of that. But we did about \$10 million a
3 year and were able to go into some of the
4 non-traditional places that ironically,
5 because our capital went in first, are
6 now prosperous, including places like
7 Wadsworth Avenue. I think even up there.

8 So Councilman Oh.

9 COUNCILMAN OH: Thank you very
10 much, Mr. Chairman.

11 For in particular Jeffrey Beck,
12 do you have examples of public banks that
13 are operating elsewhere in the world that
14 are successful?

15 MR. BECK: I'm just aware that
16 there are public banks in other
17 countries, but that's really not been a
18 focus of my attention.

19 MR. NUESSELE: I can answer that
20 somewhat. I would say that a good 40
21 percent of international banking is done
22 through public banks, and sort of the
23 poster child for that would be Germany.
24 Germany has cantons, which are somewhat
25 equivalent to states here in the United

1 2/22/16 - COMMERCE - RES. 160045

2 States, and every canton has its own
3 public bank. And one of the reasons that
4 Germany is so far ahead of the United
5 States in renewable energy -- and for a
6 country that far north to be investing as
7 they have in solar energy speaks to the
8 viability of that -- is that they have
9 this network of public banks which gives
10 them the ability to invest in future
11 infrastructure and not need the kind of
12 return that the private banking sector
13 needs.

14 COUNCILMAN OH: Thank you very
15 much. So I'm a little bit familiar with
16 Germany. I'm particularly familiar with
17 Asia. But, for example, in Seoul in the
18 first half of 2015, Seoul received about
19 a little over \$3 billion in overseas
20 investments and foreign direct
21 investments in partnership with their
22 banking system, which is somewhat tied to
23 the government. And the reason I'm
24 bringing it up is because -- and I was
25 kind of addressing, but whoever can

1 2/22/16 - COMMERCE - RES. 160045
2 answer this. In your public banking
3 models, are you looking at models that
4 include foreign direct investment and
5 foreign free trade zones and foreign
6 investment, EB-5's and all that type of
7 thing?

8 MR. NUESSELE: Generally, no.
9 I'm kind of stepping out on a limb
10 because I don't know really how Mike
11 Krauss would answer that question, but
12 what we see as the benefit of a public
13 bank is the leveraging of public assets
14 to serve the City of Philadelphia. So we
15 are not really -- I think our situation
16 and your situation here in Philadelphia
17 is a little bit different than Seoul.

18 COUNCILMAN OH: Well, for
19 example, when we did the Convention
20 Center, I think we had \$75 million in
21 foreign investment, which does not put
22 the City or the taxpayers at any kind of
23 risk. It is done kind of commercially.
24 It was run through PIDC. But when I look
25 at, for example, the City of Incheon,

1 2/22/16 - COMMERCE - RES. 160045
2 where Councilman Jones has been and I
3 know the other Councilpersons are aware
4 of, it's like a \$50 billion investment
5 into a very modern international district
6 that has attracted, in a very logical
7 way, billions of dollars of overseas
8 investment, but it is somewhat very kind
9 of similar to how you're saying the
10 public interest kind of occupies a space
11 between private and community and Wall
12 Street. It isn't a complete success.
13 I'm a big fan of it, but they did get the
14 UN Green Climate Fund, which is expected
15 to generate about \$800 million a year for
16 that city.

17 I guess the concern that I have
18 is that sometimes I see Philadelphia put
19 in new technology that's like yesterday's
20 technology, and it always bothers the
21 heck out of me that we spend all this
22 money and time putting something that
23 isn't really going to last very long, and
24 I would just love to see that when you do
25 the public bank, that you look at some of

1 2/22/16 - COMMERCE - RES. 160045

2 the best models that have been so
3 successful, as you said, with Germany.
4 And I'm not sure what's going on, but I'm
5 pretty sure -- I was just showing the
6 Councilwoman unfortunately this graphic
7 video that the World Economic Forum
8 tweeted out today of the global economy
9 in the last 35 years, from 1980 to 2015,
10 and the U.S. shrinking the entire time.

11 So we do really need to look at
12 what these other countries are doing.
13 And I've been a guest of Incheon and
14 Seoul in their investment practices,
15 which is so purposeful and so very
16 targeted.

17 MR. NUESSELE: And a public bank
18 of the City of Philadelphia would not
19 preclude any of that sort of
20 investigation or involvement.

21 COUNCILMAN OH: All right.
22 Thank you very much.

23 Thank you, Mr. Chairman.

24 COUNCILMAN JONES: Just for the
25 record, Ms. Chappell was on that trip to

1 2/22/16 - COMMERCE - RES. 160045

2 Incheon with us that brought back Rotem
3 Company that is making railcars here
4 today.

5 DR. CHAPPELL: Thank you. I
6 wanted to make a comment, something about
7 Chairman Green mentioned. When I was at
8 Continental Bank -- I was at Continental
9 Bank 30 years before I started United
10 Bank -- I ran a loan portfolio that was
11 like \$40 million in assets -- I mean in
12 loans, and one of the things that
13 happened is -- and I served basically a
14 community, basically a minority --
15 different ethnic groups but mostly
16 minority, and we had \$40 million in loans
17 out there and we had less than a 1
18 percent loss ratio, and it was on that
19 track record that I was able to start
20 United Bank. So that when the regulators
21 looked at my previous experience, they
22 felt that we could really manage the
23 money by creating the bank. And I think
24 that's what's going to happen here.
25 They're going to look at different ways

1 2/22/16 - COMMERCE - RES. 160045
2 of making loans and do so in a protected
3 manner so that the City is not
4 vulnerable, more vulnerable or more at
5 risk than any other bank of this nature.
6 Because we've been to Trenton. They're
7 looking at creating the same thing. So
8 since we're all Philadelphians, we really
9 wanted to make sure that we got here
10 before Council, we talked about what it
11 is we want to do, and hopefully you all
12 will help us get to the next level. We
13 really want to take first Philadelphia.
14 That's our mission.

15 COUNCILMAN JONES: Councilwoman
16 Parker.

17 COUNCILWOMAN PARKER: Thank
18 you, Mr. Chairman.

19 Dr. Chappell, I wanted to go
20 back to your comments in the closure of
21 your testimony when you sort of take us
22 back to the very sort of practical
23 process that we must go through as it
24 relates to the charter and the
25 Commonwealth of Pennsylvania.

1 2/22/16 - COMMERCE - RES. 160045

2 DR. CHAPPELL: Yes.

3 COUNCILWOMAN PARKER: And you

4 very methodically mentioned mission,

5 capitalization, deposit base, governance

6 and other issues, and you described the

7 very tumultuous time in your experience

8 in working through this process as it

9 related to United Bank. Tell us, if you

10 will, A, does the state sort of provide

11 you with some sort of rubric to follow

12 while you're going through the process?

13 And as you sort of reflect on what that

14 experience was like that you briefly

15 touched on, what do you perceive as being

16 those things that would be the most

17 challenging?

18 DR. CHAPPELL: Well, I think

19 the most difficult part is we're talking

20 about creating something that's unique,

21 and, you know, when you do something

22 different, people have a problem with

23 things that are different, things that

24 they don't necessarily understand. And

25 when I created United Bank, we did so

1 2/22/16 - COMMERCE - RES. 160045
2 based on, like Frank said, we needed a
3 feasibility study, and I had done the
4 feasibility study and determined that
5 there was a particular group of people in
6 the City that were not being served. And
7 once we did the feasibility study, we saw
8 that there was support for this effort.

9 And that's what we're doing
10 now. We need the feasibility study to
11 show that there's support for the effort,
12 that there is -- almost like you're
13 finding a niche. And when I went to the
14 state Department of Banking, I had a hard
15 time because no one understood that there
16 was a real need for a minority bank.
17 They felt that all the other banks were
18 servicing. And I think a lot of it comes
19 from the fact that the big banks didn't
20 want us to exist. So roadblocks were
21 placed in my way. I went up there with a
22 fully worked out business plan, and the
23 business plan, they had no problems with
24 that, but where the problems were was I
25 didn't have sufficient capital. Now, I

1 2/22/16 - COMMERCE - RES. 160045
2 had more capital than was required to get
3 the bank started. However, the Secretary
4 of Banking -- I'll never forget this --
5 said, Well, you don't have enough
6 capital. And I asked her how much did I
7 need, and she doubled the amount at the
8 time. And in all of the regs that I
9 read, there was -- no other bank was
10 required to have that.

11 So we need to make sure --
12 that's why I was very practical in my
13 presentation. We need to make sure that
14 we think through how much capital we need
15 and that we do that as we go along, not
16 that we show up with the business plan
17 and the capital to the Secretary or the
18 Department of Banking already set. We
19 need to make sure they're working with us
20 all along so that we don't get the
21 roadblocks that I encountered.

22 And I came back and what I had
23 to do was talk to the community about the
24 fact that they said I need more than 3
25 million to get started, and fortunately

1 2/22/16 - COMMERCE - RES. 160045
2 the community came forward, because we
3 had already determined that the support
4 was there, and the community came forward
5 and we raised \$6 million to get the bank
6 started, and we grew it real quick to
7 \$150 million because there was -- the
8 business was there. And I think that's
9 what's going to happen with this public
10 bank. Once we're able to educate the
11 people, the City and the community on why
12 this bank is going to be critical to the
13 City of Philadelphia, that we'll get all
14 the support we need, and once we have
15 that and we have your Committee or
16 whoever it is help us work out these
17 very -- what people say might be mundane
18 things that we have to have, but they are
19 very practical, Councilwoman. We have to
20 have those in place, but we need to do it
21 in concert with the state working with
22 us. That's why Jeff and Mike and all of
23 us went up to the state to talk about
24 what we want to do, and fortunately I
25 think they were open to it and they

1 2/22/16 - COMMERCE - RES. 160045

2 didn't -- there was no naysayers. They
3 listened, which is more than they did
4 when I went to start the minority bank.

5 COUNCILWOMAN PARKER: Thank
6 you, Dr. Chappell.

7 Thank you, Mr. Chairman.

8 COUNCILMAN JONES: Thank you.

9 The Chair recognizes
10 Councilwoman Gym.

11 COUNCILWOMAN GYM: Thank you so
12 much, Mr. Chair. Thank you so much to my
13 colleague, Derek Green, for hosting this
14 important discussion.

15 My question comes maybe a
16 little bit for Mr. Nuessle. So the
17 biggest example that we have is -- well,
18 I mean in the U.S. -- would be the Bank
19 of North Dakota. And then I know a
20 number of states have introduced banking
21 regulations, and I believe, as you said,
22 that Santa Fe was a city that's doing it,
23 but I guess part of my question is a
24 little bit about how you or why you
25 imagine the push for municipal as opposed

1 2/22/16 - COMMERCE - RES. 160045
2 to a state-owned public bank and whether
3 capacity was a major issue. And in that
4 case, some of our wonderful local banker
5 representatives can talk about that.

6 COUNCILMAN JONES: State your
7 name again.

8 MR. NUESSELE: My name is Frank
9 Nuessle.

10 That's a great question, and
11 there is no reason why they have to be
12 mutually exclusive. So for me
13 personally, I would have -- see, I came
14 to this from my study about
15 sustainability or about what is the new
16 economic model, because right now we
17 operate under what I would call either
18 corporate capitalism, oligarchic
19 capitalism. There's a lot of different
20 terms you could use for it. And I like
21 to think in terms of -- capitalism works,
22 but capitalism needs to evolve to a new
23 model, and I think of it as distributed
24 capitalism.

25 So if the engine of capitalism

1 2/22/16 - COMMERCE - RES. 160045
2 is money, then we need to distribute more
3 evenly the decision-making process over
4 what happens with that money. So that's
5 what a public bank can assist with, and
6 there's no reason why there can't be a
7 state public bank and a city public bank.
8 We actually -- it's difficult to say how
9 this is all going to evolve. It's sort
10 of like our political system. I mean, we
11 had this two-party system, and now it
12 seems to be, you know, in a state of
13 perturbation so that there's changes
14 afoot, and we need to look at the
15 financial system in the same way. Right
16 now everything of any significance in the
17 financial health of a city like
18 Philadelphia or a state like Pennsylvania
19 has to go through Wall Street, and it
20 doesn't have to be that way. That's just
21 the way it has been.

22 COUNCILWOMAN GYM: Is there a
23 particular advantage with the municipal
24 versus the state level that you are
25 seeing right now, whether it's being able

1 2/22/16 - COMMERCE - RES. 160045
2 to move on it politically? I'm sure
3 other people who will follow you can
4 answer. In that case, I'll definitely
5 read the entire block of the testimony.

6 MR. NUESSELE: Well, actually I
7 think that's another great question, and
8 my personal belief is that the closer you
9 get the decision-making to the public,
10 the better. So that would argue for a
11 public bank in the City of Philadelphia.

12 COUNCILWOMAN GYM: And then
13 another question I would ask is that if
14 it would take \$8 million to start a
15 public bank, my assumption is is that is
16 not nearly -- I mean, that's just a
17 fraction of the amount of money that
18 we're investing in the more traditional
19 structure, but I guess one of the
20 questions is is that the distribution
21 across different banks as we move things
22 makes it hard for us potentially to track
23 money, how it's moving and how we're
24 keeping accountable for all of this. I
25 mean, a core aspect of the public bank is

1 2/22/16 - COMMERCE - RES. 160045
2 this issue of accountability and
3 transparency. I think that's a huge
4 advantage. But if the monies are
5 distributed in multiple funds with
6 different institutions, how do you
7 envision that as being -- like how can we
8 ensure that accountability and
9 transparency actually happens?

10 I'm unhappy with the
11 institution and the depositing of
12 everything into one Wall Street bank. At
13 the end of the day, however, we can
14 actually look at what happens with one
15 Wall Street bank, and whether or not we
16 agree or like it, at least we can be kind
17 of focused, and I'm curious about -- and
18 all of our esteemed bankers can also
19 weigh in on this -- the movement of
20 monies around through different
21 institutions, how would you envision that
22 as being like -- I mean, to me in one
23 aspect, unless I'm completely -- this is
24 a really big brand new area for me, so
25 you have to forgive me, but that is a

1 2/22/16 - COMMERCE - RES. 160045
2 major aspect about how to move forward
3 with the feasibility study. It doesn't
4 seem like it's a technical issue. It
5 seems to me like it's a major issue, but
6 I could be wrong.

7 MR. NUESSELE: Yeah. Well, you
8 know, maybe you'd like to weigh in on
9 that, but, you know, as far as tracking
10 data around money flow, where it's going,
11 what it's being -- I really don't see
12 that as being much of an issue from the
13 standpoint that those systems already
14 exist. And so keeping track of it --
15 actually, a public bank would probably
16 simplify things and make things much more
17 transparent.

18 I would be curious -- I don't
19 know the answer to this question, but how
20 many rainy day funds does the City of
21 Philadelphia have?

22 COUNCILMAN JONES: Good
23 question.

24 MR. NUESSELE: And are you
25 familiar with rainy day funds? Yeah. So

1 2/22/16 - COMMERCE - RES. 160045
2 I'm guessing -- you know, I mean, that
3 was sort of a rhetorical question,
4 because I really don't expect anyone here
5 to have that answer, but there is an
6 answer to that question, and if you had a
7 public bank, you wouldn't need rainy day
8 funds. And, in fact, the perfect example
9 of that is a flood that happened on the
10 Red River in the State of North Dakota
11 and how they were able to marshal
12 resources to correct and respond to that
13 immediately, and they didn't have to have
14 all these different agencies determining
15 where they're going to get the money,
16 because it was all in one place.

17 COUNCILMAN JONES: Councilwoman
18 Gym, thank you.

19 Councilman Green.

20 COUNCILMAN GREEN: I guess
21 because I've been around this place a
22 little while, I know former Councilman,
23 now Mayor Kenney wanted to create a rainy
24 day fund for the City of Philadelphia
25 during a previous administration. We

1 2/22/16 - COMMERCE - RES. 160045
2 don't have a rainy day fund. However, we
3 do have various entities' deposits that
4 are spread around through various banks,
5 like Water Department has a stabilization
6 fund and other funds. So we do have
7 various assets, liquid assets, that are
8 spread around through various banks.
9 That goes to my earlier point.

10 MR. NUESSELE: Thank you.

11 COUNCILMAN JONES: We're going
12 to allow the last panel to speak, but we
13 call it a surplus that we keep in
14 order -- a fund balance that we keep in
15 order for big snowstorms, this, that or
16 the other, emergencies, but it shrinks
17 down to almost unacceptable forms.

18 What we want to do is, if we
19 could, because we have another hearing at
20 3:00, allow the last panel to testify.

21 MR. NUESSELE: Okay. Great.

22 COUNCILMAN JONES: Thank you so
23 much for your testimony.

24 DR. CHAPPELL: Mr. Chairman,
25 thank you.

1 2/22/16 - COMMERCE - RES. 160045

2 THE CLERK: Dr. Lynne
3 Andersson, Stan Shapiro, Carol Duncan.
4 (Witnesses approached witness
5 table.)

6 COUNCILMAN JONES: Thank you so
7 much. It's such an exciting topic that
8 we want to weigh in and kind of get a
9 sense of what the possibilities are and
10 what some of the potential risks are as
11 well. So thank you. Please state your
12 name and begin your testimony.

13 DR. ANDERSSON: Hi. My name is
14 Lynne Andersson and I am an Associate
15 Professor of Business Society and Ethics
16 at the Fox School of Business at Temple
17 University. I'm also on the Board of
18 Directors of the Philadelphia Sustainable
19 Business Network, and I've lived in
20 Germantown now over 20 years, 25 years.

21 My work at Fox focuses mostly
22 on teaching and on scholarship on the
23 dark side of business. So I look at
24 practices that impact society and the
25 public sector in sort of the

1 2/22/16 - COMMERCE - RES. 160045
2 public-private interface, including
3 things like organizational corruption,
4 corporate misgovernance, the flawed
5 doctrine of corporate personhood, fraud
6 in the financial services industry, and
7 cronyism among government and business
8 elites. As my research has uncovered and
9 as this national election cycle is
10 revealing, these practices are fostering
11 anger, cynicism, and distrust toward big
12 business and government among the
13 electorate.

14 Because of this, I strongly
15 support a public bank for Philadelphia,
16 in the hopes it will produce real and
17 long-lasting benefits for the people of
18 the City, including many small and local
19 business persons who are currently being
20 taken advantage of by large banking
21 institutions.

22 For the banks to work, however,
23 it is vital that it's governed in a more
24 just and democratic manner than are the
25 current big banks that have brought down

1 2/22/16 - COMMERCE - RES. 160045
2 our system. So I'm very interested in
3 the governance side of this. And that
4 it's free from insider dealing, cronyism,
5 and corruption that all too often blights
6 our government.

7 So a public bank of
8 Philadelphia must be independent of
9 political authority and professionally
10 managed by bankers with public interest.
11 At the same time, though, we are talking
12 about money of the people, for which this
13 City Council has special responsibility
14 as fiduciaries to ensure its wise and
15 honest use. Therefore, the bank, while
16 managed independent of political
17 authority, must be accountable to that
18 authority.

19 How might such a good
20 governance practice, how might these be
21 achieved? From my experience in looking
22 at corporate misgovernance, I'd make
23 these suggestions:

24 The Mayor could nominate and
25 the Council could approve a Board of

1 2/22/16 - COMMERCE - RES. 160045
2 Directors. The Board should be diverse
3 in terms of member experiences and
4 backgrounds, but should also include
5 directors of course with relevant
6 banking, financial, and senior management
7 experience.

8 None of the Board members
9 should represent any interest other than
10 those of the one and only shareholder of
11 the -- who are the people of
12 Philadelphia, who are the real
13 shareholder here.

14 The Directors could serve
15 staggered terms to ensure both continuity
16 and a separation from the election cycle
17 of the political authority.

18 These Directors could be
19 responsible for identifying and hiring a
20 qualified CEO. So a governance structure
21 set up similar to what a corporate
22 governance structure might look like when
23 it's practiced properly.

24 The CEO could staff the bank
25 according to the standard operating

1 2/22/16 - COMMERCE - RES. 160045
2 procedures adopted by the Directors and
3 meeting the approval of the Pennsylvania
4 Department of Banking and Securities and
5 other relevant regulatory authorities.

6 The CEO and Directors could be
7 removed by a vote of Council for cause,
8 which could range from failure to achieve
9 the mission defined by the political
10 authority, mismanagement, misfeasance or
11 malfeasance.

12 Additionally, the Board of
13 Directors could be advised by a Citizens
14 Advisory Committee who are tasked
15 especially to advise on the mission of
16 the bank, as adopted by the Council at
17 the bank's formation and modified by the
18 Council annually.

19 I think these are vital
20 governance measures for which I am sure
21 the Council will give careful
22 consideration. I think there's great
23 potential for a public bank, but I think
24 good governance is absolutely essential,
25 especially my research area has been on

1 2/22/16 - COMMERCE - RES. 160045
2 cynicism and mistrust of large
3 institutions and I think this could be
4 something that could really counter that
5 mistrust.

6 Thank you very much.

7 COUNCILMAN JONES: Thank you
8 for your testimony.

9 MS. DUNCAN: Hi. Thank you for
10 this hearing. I really appreciate it.
11 My name is Carol Duncan. I am the Deacon
12 at Saint Martin in the Fields Episcopal
13 Church in Chestnut Hill and I am Co-Chair
14 of POWER's Economic Dignity Team, and I'm
15 here really speaking for POWER. And I'm
16 assuming that you all know what POWER is?
17 Yeah. I thought you would.

18 So POWER is excited that
19 Philadelphia is considering establishing
20 a public bank. POWER's deepest value is
21 to support our city's most vulnerable
22 populations, and what we want is living
23 wage jobs and full fair funding for our
24 public schools.

25 One campaign we're pursuing

1 2/22/16 - COMMERCE - RES. 160045
2 right now is called POWER of Green Jobs.
3 Its purpose is to generate electric power
4 in cooperation with PECO, and we are
5 working with EQAT, which is a Quaker
6 group, hoping to put these solar panels
7 on the roofs of community buildings and
8 homes in low-income areas of
9 Philadelphia. This project will need
10 financing and will not be large enough to
11 qualify for the huge private bank
12 funding. Such a project will reduce
13 energy costs for the schools and
14 community centers where the panels are
15 installed and will end the tragedy of
16 cutting off heat when somebody can't pay
17 their bill.

18 So POWER's 45-member
19 congregations urge the Council to look at
20 the concept of public banking. And
21 Reverend Holston, who is my other
22 Co-Chair, pastor of New Vision United
23 Methodist Church, he talks about Jimmy
24 Stewart's movie, It's a Wonderful Life,
25 just as an example. We want to invest

1 2/22/16 - COMMERCE - RES. 160045

2 locally for the local people.

3 (Applause.)

4 MS. DUNCAN: That's all.

5 COUNCILMAN JONES: All right.

6 That's a lot. Thank you.

7 Good afternoon.

8 MR. SHAPIRO: Good afternoon.

9 Thank you very much. My name is Stanley
10 Shapiro. I'm Vice Chair of Neighborhood
11 Networks. I want to first say how proud
12 I am that I was colleagues with some of
13 the people who are now at that table, and
14 I'm very proud that I shared that job
15 title with you folks in the past.

16 And so other witnesses have
17 described a wide variety of ways in which
18 a city public bank would respond to the
19 credit needs of Philadelphia and its
20 residents. I'd like to talk a little bit
21 about the risks of not creating a public
22 bank.

23 The City now has its funds --
24 and here I was going to say criminal
25 enterprises, but my wife urged me to tone

1 2/22/16 - COMMERCE - RES. 160045

2 it down a little bit. So I'm really
3 going to say untrustworthy enterprises.
4 There's really no other way to put it
5 this mildly. These institutions have all
6 been subjected to massive penalties for
7 fraud and abuse, much of it perpetrated
8 against black and Latino homeowners and
9 government agencies. We should just look
10 at Wells Fargo, which is the City's main
11 depository institution. Here's just a
12 small part of what I can only call its
13 rap sheet as compiled by the Corporate
14 Research Project.

15 In July 2011, Wells Fargo
16 agreed to pay \$125 million to settle a
17 lawsuit in which a group of pension funds
18 accused it of misrepresenting the quality
19 of pools of mortgage-related securities.
20 That same month the Federal Reserve
21 announced an \$85 million civil penalty
22 against Wells Fargo for steering
23 customers with good qualifications into
24 costly subprime mortgage loans during the
25 housing boom.

1 2/22/16 - COMMERCE - RES. 160045

2 In November 2011, Wells Fargo
3 agreed to pay at least \$37 million to
4 settle a lawsuit accusing it of municipal
5 bond bid rigging. Wells Fargo was one of
6 five large mortgage servicers that in
7 February 2012 consented to a \$25 billion
8 settlement with the federal government
9 and state attorneys general to resolve
10 allegations of loan servicing and
11 foreclosure abuses. The New York
12 Attorney General later sued Wells Fargo
13 for breaching the terms of that
14 settlement.

15 In July 2012, the U.S. Justice
16 Department announced that Wells Fargo
17 would pay \$175 million to settle charges
18 that it engaged in a pattern of
19 discrimination against African American
20 and Hispanic borrowers in its mortgage
21 lending during the period from 2004 to
22 2009.

23 In August 2012, Wells Fargo
24 agreed to pay 6.5 million to settle SEC
25 charges that it failed to fully research

1 2/22/16 - COMMERCE - RES. 160045
2 the risks associated with mortgage-backed
3 securities before selling them to
4 customers such as municipalities and
5 non-profit organizations.

6 In October 2012, the U.S.
7 Attorney for the Southern District of New
8 York filed suit against Wells Fargo
9 charging the bank with engaging in a,
10 quote, "longstanding practice of reckless
11 underwriting and fraudulent loan
12 certification," unquote, for thousands of
13 loans insured by the Federal Housing
14 Administration that ultimately defaulted.
15 Just this month, Wells Fargo settled the
16 case for \$1.2 billion.

17 So that's just a small sample
18 of the cookies that Wells Fargo has been
19 found snatching out of the cookie jar.
20 We also know that right here in
21 Philadelphia Wells Fargo and other big
22 banks sold the City and School District
23 interest rate swaps that were supposed to
24 protect them against interest rate hikes,
25 but instead cost them hundreds of

1 2/22/16 - COMMERCE - RES. 160045

2 millions of dollars. Right now, as we
3 speak, the City Pension Fund is in
4 federal court in New York accusing six
5 giant banks of conspiring to manipulate
6 exchange rates, costing the Pension Fund
7 millions of dollars in losses. A motion
8 to dismiss the suit was denied just last
9 month and a criminal investigation has
10 been opened into the same allegations by
11 the Justice Department.

12 Of course, these fraudulent
13 activities didn't just hurt individuals
14 or just local governments. They almost
15 crashed the entire world economy. And we
16 now know that some of the very steps that
17 have been taken to prevent the recurrence
18 of that near catastrophe may leave
19 depositors in these institutions like the
20 City of Philadelphia in a new state of
21 jeopardy.

22 Soon we may all learn the term
23 "bail in" and come to hope we didn't.
24 That's because the term describes a new
25 back-up plan in the event the Wall Street

1 2/22/16 - COMMERCE - RES. 160045
2 banks once again can't make good on their
3 derivative debts. They will be permitted
4 by Dodd-Frank to use the deposits made by
5 individuals, governments, and businesses
6 to pay off these debts. That's right,
7 derivative counterparties might be paid
8 with our deposits. Our collateral could
9 be worthless.

10 So the bottom line is this when
11 we think of the risks of creating a
12 public bank: There is nothing more risky
13 than placing our faith in the big banks
14 that are still too big to be allowed to
15 fail while we, the City of Philadelphia,
16 are not.

17 So I want to conclude by making
18 one thing clear. This Council has done
19 everything under the leadership of
20 Councilman Goode, who is no longer with
21 this Council but whose efforts will be
22 remembered for a long time, to do its
23 best to bring these big banks to heel.
24 But they are big enough so that no one
25 city can completely control them, can

1 2/22/16 - COMMERCE - RES. 160045
2 rest assured that they will not bring us
3 down with them, and that is really the
4 biggest risk that this city faces, by
5 taking its money back and finding ways to
6 invest it in its own people.

7 Thank you.

8 (Applause.)

9 COUNCILMAN JONES: Thank you.

10 One thing I can assure you is
11 that Councilman Goode is still with us
12 and we still benefit from his wisdom,
13 particularly in this Committee. So we're
14 glad to have him.

15 MR. SHAPIRO: We're all
16 grateful for that.

17 COUNCILMAN JONES: And with
18 that, I'm going to recognize the -- are
19 there any questions for this panel?

20 (No response.)

21 COUNCILMAN JONES: Seeing none,
22 I'm going to recognize Councilman Green
23 for his takeaways.

24 COUNCILMAN GREEN: Thank you,
25 Chairman Jones.

1 2/22/16 - COMMERCE - RES. 160045

2 I want to thank all of the
3 witnesses and attendees for being here
4 today, for providing information and
5 background on public banking and this
6 concept and allowing us to introduce this
7 idea to the City of Philadelphia. My
8 colleague, Councilwoman Parker, who, as
9 many of you know, was a former member of
10 the House of Representatives, she had
11 raised a question in reference to any
12 enabling legislation that may be needed
13 at the state level. Hopefully that will
14 be included in any feasibility study.
15 And there was an initial working group
16 that met prior to this hearing. My goal
17 is to bring that group together again so
18 they could talk about the next steps for
19 a feasibility study. I've already
20 provided information in my meetings with
21 the Administration about my interest in
22 public banking, and so we can continue
23 the conversation and dialogue.

24 So thank you.

25 MS. DUNCAN: Thank you.

1 2/22/16 - COMMERCE - RES. 160045

2 MR. SHAPIRO: Thank you so
3 much.

4 COUNCILMAN JONES: So with
5 that, are there others to testify on this
6 Resolution No. 160045?

7 (No response.)

8 COUNCILMAN JONES: Seeing none,
9 we will recess to the call of the Chair,
10 which means we will reevaluate this at a
11 future point in time.

12 Thank you all.

13 MR. SHAPIRO: Thank you so
14 much.

15 (Applause.)

16 (Committee on Commerce and
17 Economic Development concluded at 3:10
18 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter, and that this is a true and correct transcript of same.

MICHELE L. MURPHY
RPR-Notary Public

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82:9 84:3	16:12,18	112:22	besetting 8:2	97:5	84:24	calling 7:12	48:5
85:13 86:25	17:10 19:24	113:5 114:2	best 32:14	blush 27:2	Broad 2:21	Camden	catastrophe
87:17 88:8	20:24 22:24	114:13,23	47:19 58:9	Board 34:6	2:21 3:10	54:18	113:18
88:9,10,20	23:6 28:22	Baptist 27:20	74:16 87:2	38:24	brought	campaign	cause 106:7
88:23 89:5	29:24 31:6	barely 13:5	114:23	102:17	17:22 56:7	107:25	causes 27:16
90:9,25	47:9,14	13:25	bet 33:14	104:25	88:2 103:25	campus 13:10	cautious
91:16 92:3	59:2,6,15	base 69:7	better 6:12	105:2,8	budgetary	75:12	82:25
92:9 93:5	61:3,6,25	74:5 90:5	43:2 48:9	106:12	13:6	Canaan	Cayman
93:10,12	64:10 66:4	based 41:17	48:16 82:22	boards 13:23	build 48:14	27:20	21:10
94:4,18	66:7,8,16	91:2	97:10	16:21	50:18 51:20	Canada 20:9	Center 17:11
95:2 96:5,7	68:14 69:15	basic 33:3	bid 111:5	body 4:4	70:21 71:8	Canadians	63:24 85:20
96:7 97:11	75:21 76:25	basically	big 5:7 17:18	Bollingberg	building	20:15	centers
97:15,25	80:15 81:18	24:12 25:11	18:22 45:18	65:2,7	48:10 52:4	canton 84:2	108:14
98:12,15	82:22 83:21	28:11 40:16	61:4 65:6	bond 34:25	buildings	cantons 83:24	central 18:22
99:15 100:7	84:12,22	50:5 56:13	86:13 91:19	111:5	108:7	capacity 6:7	century 18:14
103:15	85:2 91:14	88:13,14	98:24	bonus 48:18	burden 6:13	95:3	CEO 63:21
104:7,15	92:4,18	basing 53:12	101:15	boom 110:25	14:11 61:6	capita 28:13	105:20,24
105:24	94:20	basis 28:13	103:11,25	bore 12:19	business 10:4	28:18 66:10	106:6
106:16,23	103:20	28:18 58:9	112:21	born 19:8	11:5 12:23	capital 35:4	certain 22:15
107:20	105:6 106:4	basket 48:5	114:13,14	borrow 50:16	13:2 18:22	58:10,14	27:16 40:9
108:11	108:20	battle 59:23	114:23,24	52:18 53:8	31:22 36:9	60:20,21	40:22
109:18,22	116:5,22	bear 34:4	bigger 29:4	borrowers	47:9 56:22	62:8 73:2	certainly 20:6
112:9	bankruptcy	Beck 57:12	60:18	111:20	65:15 67:2	83:5 91:25	32:4,5 43:8
114:12	16:24	57:21,22	biggest 51:11	borrowing	68:20 69:9	92:2,6,14	52:3 82:10
bank's 66:17	banks 8:13	68:15 78:7	51:16 94:17	36:24	69:13 73:3	92:17	CERTIFIC...
75:17	10:12 17:19	79:22 80:15	115:4	bothers 86:20	73:13,25	capitalism	118:2
106:17	18:22 19:2	83:11,15	bill 108:17	bottom	74:8 77:21	58:8,13	certification
banker 3:21	19:15 22:12	becoming	Bille 6:20	114:10	91:22,23	95:18,19,21	112:12
21:16 40:12	24:13 25:3	9:14 12:18	16:2,5,9,19	boys 65:6	92:16 93:8	95:22,24,25	118:20
48:21 53:21	26:25 27:4	13:10	46:24 47:21	branch 66:9	102:15,16	capitalization	CERTIFY
55:13 63:21	27:8,14	began 34:15	48:3	branches	102:19,23	25:19 30:3	118:3
65:14 77:8	28:11,19	begun 69:3	billion 31:5	3:18 26:23	103:7,12,19	40:4 69:6	certifying
77:13 80:2	29:13 31:23	behalf 68:18	49:10,12,13	66:15 67:3	businesses	76:19 90:5	118:24
95:4	36:9 43:4	beleaguered	70:19 84:19	67:7	6:3 15:7	capitalize	cetera 82:10
bankers 9:19	47:2,3 51:5	21:22	86:4 111:7	brand 98:24	18:24 32:19	25:20 30:20	Chair 1:11
20:16 23:17	53:10 54:14	belief 97:8	112:16	breaching	35:7 70:15	31:2 32:16	26:15 29:18
25:25 30:17	56:11,17,18	believe 42:8	billionaire	111:13	70:17,18,25	capitalized	29:21 33:22
37:17,22	56:21 59:7	44:6 53:4	21:9	Bretton 31:11	71:12 72:9	40:8	50:25 54:9
38:5 40:13	60:12,17,23	94:21	billions 24:9	brew 18:3	72:11 74:14	capitalizing	74:25 94:9
45:23 46:22	61:4,7	beloved 21:21	24:10 86:7	brewery	114:5	77:3,4,17	94:12
53:19 62:3	64:19 65:10	Ben 71:25	bit 19:12 28:3	72:24	buy 15:8 19:4	career 2:20	109:10
62:19 64:11	66:10,15,23	75:15	43:14 84:15	bridge 48:10	23:15 50:15	7:17	117:9
64:17 65:9	66:24 67:14	benefit 6:14	85:17 94:16	49:7,9		careful	Chairman
65:9 78:5	67:17 68:4	52:8 56:24	94:24	brief 5:19	C	106:21	7:11 10:9
98:18	71:16 73:4	58:16,23	109:20	briefly 4:11	cable 7:18	Carol 102:3	11:15 16:6
104:10	73:7 75:23	61:20 71:3	110:2	90:14	California	107:11	16:13 33:25
banking 1:17	79:17 81:25	72:16 85:12	black 110:8	bring 10:15	20:9 49:4	case 41:24	45:5,9
2:13 3:19	82:2 83:12	115:12	Blackwell	10:22 21:19	49:14	95:4 97:4	57:23 63:18
3:25 4:5,6	83:16,22	benefits 8:19	1:11 5:14	62:25	call 95:17	112:16	68:25 83:10
4:12,14,25	84:9 91:17	61:23 62:15	33:20	114:23	101:13	cash 37:9	87:23 88:7
7:14,15,25	91:19 97:21	63:2 64:7	blights 104:5	115:2	110:12	56:15	89:18 94:7
9:5 10:18	101:4,8	71:6 73:22	blinked 64:24	116:17	117:9	cashing 19:3	101:24
10:22 15:12	103:22,25	103:17	block 22:14	bringing 5:20	called 65:18	casino 47:23	115:25
					108:2		

Committee on Commerce and Economic Development
February 22, 2016

challenges 27:10,17	circulation 50:14,19	94:22 96:7 96:17 97:11	77:18,19,22 78:2	45:1,25 46:1 47:1	115:13 117:16	competitive 52:11,13	111:7
challenging 90:17	cities 8:4 9:6 76:22,24	99:20 100:24	coffers 54:23	48:1 49:1	common 13:14 20:21	competitor 65:16	consequences 58:18
Chamber 45:25	77:5 80:13 80:22 81:17	103:18 104:13	coin 50:12	50:1 51:1	21:2	compiled 110:13	conservative 20:13
chance 3:5,24	citizen 8:15 9:16 16:25	109:18,23 112:22	collapse 17:18	52:1 53:1	Commonwe... 54:17 89:25	complete 8:18 63:8 86:12	conserve 34:15
change 5:6 34:14 61:14	21:18 citizens 8:9	113:3,20 114:15,25	collateral 73:9 114:8	54:1 55:1	communities 70:22 71:21	completely 98:23	consider 74:16
changed 19:15	9:11 42:24 52:8 67:15	115:4 116:7 city's 4:16,17	collateralized 60:8	56:1 57:1	72:20 74:11 74:17	consideration 60:22	considering 106:22
changes 18:18 96:13	72:21 106:13	9:22 35:8 107:21	colleague 10:16 68:15	58:1 59:1	community 3:7,16 9:19	complicated 33:8	consolidate 60:18 61:8
channeled 80:5	city 1:2,7 2:4 4:9,13,24	110:10 civil 110:21	colleagues 109:12	60:1 61:1	17:2 22:12 22:13,24	comply 23:5 component 25:10 28:9	consolidated 25:2
Chappell 2:25 57:13	5:3,6,7 6:16 8:5,16,18	classrooms 13:24	college 3:22 14:10	62:1 63:1	23:17 25:15 28:11,18	compositions 22:11	consolidation 58:23
63:13,16,20	8:20,24 9:4 9:9,11,14	Clayburgh 64:16	come 6:22 14:2 20:25	64:1 65:1	30:7,17 38:4 53:19	comprehen... 69:9	consortium 49:11
87:25 88:5	9:17 10:12 11:8 12:6	clear 11:24 12:15 13:18	22:22 39:23 63:2 113:23	66:1 67:1	55:10 60:6 60:22,23	concept 3:25 4:5,6 30:8	conspiring 113:5
89:19 90:2	12:18 14:12 14:20 15:11	114:18 clearly 42:4	39:24 65:13 74:4 91:18	68:1 69:1	61:6,7,13 61:19 62:25	concern 17:20 77:7	constituency 33:5
90:18 94:6	15:15,20,22 16:15 17:3	Clerk 2:8,10 6:19 57:10	94:15 comes 36:22	70:1 71:1	64:23 65:21 66:20,24	86:17 concerned 16:25 55:14	constituents 3:8
101:24	21:22 23:4 23:6 24:4,6	57:12 102:2 Climate 86:14	4:23 51:4 comment 68:8 88:6	72:1 73:1	67:7,24 71:3,5,8,10	81:24 86:11 88:14 92:23	construction 72:25
charge 19:17	24:7,11,15 24:22,22	closed 19:21 closely 24:21	coming 3:22 4:23 51:4	74:1 75:1	71:11,14 75:7,19	93:2,4,11 108:7,14	consultants 80:16
charges 43:5 111:17,25	25:9 26:12 28:15 29:6	closely 24:21 closer 7:5	4:23 51:4 comment 68:8 88:6	76:1 77:1	77:7,19 79:17,18	114:17 10:5 12:3	consulting 7:19
charging 112:9	30:25 31:3 33:12 35:22	closer 7:5 13:17 41:15	comments 26:18 89:20	78:1 79:1	81:24 86:11 88:14 92:23	117:17 conference 17:10,14	consumption 14:13
Charitable 17:4	33:12 35:22 36:8 38:11	13:17 41:15 97:8	commerce 1:3,17 2:11	80:1 81:1	88:14 92:23 93:2,4,11	70:15 73:13 74:13	contained 118:5
charter 23:12 23:13,14,16	38:15,16,22 39:4,16	closing 82:20 closure 89:20	1:3,17 2:11 3:1 4:1 5:1	82:1 83:1	93:2,4,11 108:7,14	community's 73:23	Continental 3:3 88:8,8
32:13 68:13	39:4,16 40:15 43:2	Co-Chair 107:13	3:1 4:1 5:1 6:1 7:1 8:1	84:1 85:1	108:1 109:1 110:1 111:1	community... 70:15 73:13	continue 14:9 74:15
69:11,16,18	44:11,17 47:18 51:18	108:22 co-founded 72:2	6:1 7:1 8:1 9:1,20 10:1	86:1 87:1	110:1 111:1 112:1 113:1	community... 70:15 73:13	116:22 continuing 9:13
89:24	47:18 51:18 52:5,21	72:2 co-op 70:16	9:1,20 10:1 11:1 12:1	88:1 89:1	112:1 113:1 114:1 115:1	community... 70:15 73:13	105:15 contractor 48:12
check 19:3 59:18 74:19	54:17,24 56:6 58:3,7	71:4 72:2 72:24,25	11:1 12:1 13:1 14:1	90:1 91:1	114:1 115:1 116:1 117:1	community... 74:13	contrast 12:23
Chelten 19:4	63:21,24 64:3,9,10	72:24,25 73:17 75:10	13:1 14:1 15:1 16:1	92:1 93:1	116:1 117:1 117:16	community... 74:13	
CHERELLE 1:14	68:3,6 72:23 74:5	70:21,23,25 71:6,9,24	15:1 16:1 17:1 18:1	94:1 95:1	117:16 commercial 6:6,15 34:6	community... 74:13	
Cherry 17:11	75:14 76:11 76:15 77:23	72:24,25 73:17 75:10	17:1 18:1 19:1 20:1	96:1 97:1	6:6,15 34:6 58:17 63:23	company 58:4 72:3	
Chestnut 107:13	85:14,22,25 86:16 87:18	73:17 75:10 co-ops 70:21	19:1 20:1 21:1 22:1	98:1 99:1	58:17 63:23 70:23	confess 34:3 conflicted 78:25	
child 83:23	89:3 91:6 93:11,13	70:21,23,25 71:6,9,24	21:1 22:1 23:1 24:1	99:1 99:1	70:23 commercially 85:23	confused 34:9 confusion 54:12	
children 19:14		71:6,9,24 72:4,6,15	23:1 24:1 25:1 26:1,5	100:1 101:1	85:23 Committee 1:3,17 2:5	confront 79:9 congregatio... 108:19	
Childspace 75:9		72:4,6,15 72:18,22	25:1 26:1,5 27:1 28:1	101:1 101:1	1:3,17 2:5 2:11 7:12	congress 6:20 16:2,19	
choices 65:14		73:5,8,11 73:15 74:18	27:1 28:1 29:1 30:1	102:1 103:1	2:11 7:12 11:10,16	44:13 consented	
chronic 13:15		74:18,22 75:6,8 76:6	29:1 30:1 31:1 32:1	102:1 103:1 104:1 105:1	11:10,16 16:7 26:5		
church 27:19 27:20			31:1 32:1 33:1 34:1	104:1 105:1 106:1 107:1	16:7 26:5 54:7 63:19		
107:13			33:1 34:1 35:1 36:1	106:1 107:1 108:1 109:1	54:7 63:19 69:2 70:7		
108:23			35:1 36:1 37:1 38:1	108:1 109:1 110:1 111:1	69:2 70:7 82:13 93:15		
			37:1 38:1 39:1 40:1	110:1 111:1 112:1 113:1	82:13 93:15 106:14		
			39:1 40:1 41:1 42:1	112:1 113:1 114:1 115:1			
			41:1 42:1 43:1 44:1	114:1 115:1 116:1 117:1			
			43:1 44:1	116:1 117:1 117:16			

Committee on Commerce and Economic Development
February 22, 2016

control 31:24 48:7 71:18 114:25 118:23	cost-effective 12:6 costing 113:6 costly 110:24 costs 36:17 39:11 44:21 108:13	54:2,3,9,10 54:11 56:17 56:25 57:7 57:16 59:25 63:5,15 69:24 74:23 74:25 75:2 79:12 80:11 80:18 81:3 81:8 82:16 82:16 83:8 83:9 84:14 85:18 86:2 87:21,24 89:15 94:8 95:6 99:22 100:17,19 100:20,22 101:11,22 102:6 107:7 109:5 114:20 115:9,11,17 115:21,22 115:24 117:4,8	22:9 23:17 30:17 38:4 courage 62:15 course 11:25 13:18 14:23 31:10 42:5 65:18 79:23 105:5 113:12 courses 7:22 court 113:4 courts 59:24 Covenant 75:11 cover 61:9 crash 64:23 crashed 113:15 create 4:18 8:8 9:21 15:19 27:18 31:7 52:7 71:16 76:18 100:23 created 27:20 31:14 50:6 58:20 69:13 72:9 73:21 76:8 90:25 creating 37:10 62:3 62:12 68:9 88:23 89:7 90:20 109:21 114:11 creation 6:2 25:12 64:4 71:19 credit 9:20 15:6,8 18:4 27:9,13,21 27:22 35:3 50:12,13 55:11 64:25 68:3 70:18 109:19 criminal 109:24 113:9 cripples 14:11	critical 93:12 cronyism 103:7 104:4 crops 45:20 cross-sell 65:20 crude 43:12 crumbling 9:22 cued 49:19 curious 98:17 99:18 current 4:16 17:21 41:19 43:16 103:25 currently 41:12 103:19 CURTIS 1:11 customer 58:17 65:13 65:15,22 66:2 customers 26:24 27:4 110:23 112:4 cutting 108:16 cycle 103:9 105:16 cycled 74:7 cynicism 103:11 107:2	94:19 100:10 Dakota-bas... 65:4 dark 102:23 data 41:25 42:11 99:10 DAVID 1:13 day 22:8 24:16,20,25 54:18 56:9 98:13 99:20 99:25 100:7 100:24 101:2 days 25:20 Deacon 107:11 deal 40:13 69:5 82:5 dealing 104:4 deals 34:24 DeBerry 3:13 debt 14:10 39:4,5,6,10 39:14,18 50:11,14 debts 14:13 114:3,6 decentralize 9:6 decided 19:17 decision-ma... 96:3 97:9 decisions 51:25 decline 18:21 declined 67:9 dedicated 62:8 deeper 18:2 deepest 107:20 default 18:5 77:9,10 80:13,20 81:20 82:18 defaulted 112:14 defaults 77:8 81:11 defined 106:9 definitely	41:13 97:4 degree 11:20 democratic 103:24 democrats 20:14 demonstrate 53:16 demonstrat... 62:16 denied 113:8 Department 24:17,18 35:23 59:15 68:14,17 69:15 91:14 92:18 101:5 106:4 111:16 113:11 departments 24:19 depend 45:20 depended 15:22 dependence 10:11 depending 65:11 depends 21:8 deposit 22:6 25:20 27:4 69:7 90:5 deposited 25:5 depositing 98:11 depositor 61:17 depositors 59:10 113:19 depository 110:11 deposits 55:18 59:8 60:7,10,13 62:8 101:3 114:4,8 depressed 5:22 Depression 21:14	Derek 1:12 94:13 derivative 114:3,7 described 90:6 109:17 describes 113:24 designed 61:4 72:19 desired 79:5 despite 21:2 destructive 62:14 detailed 82:7 deterioration 43:16 determinati... 15:3 determine 23:10 32:14 determined 32:23 91:4 93:3 determines 23:7 determining 26:11 100:14 develop 3:5 development 1:4,17 2:5 2:12 6:6,9 18:19 22:14 22:17 71:19 73:3 117:17 dialogue 116:23 dice 79:24 different 21:3 22:11 35:17 35:25 36:2 43:10,10,15 44:11 45:13 45:21 47:7 78:18 85:17 88:15,25 90:22,23 95:19 97:21 98:6,20 100:14 differential 14:3
--	--	--	--	--	---	---	--

difficult 69:16 79:24 80:5 90:19 96:8 dig 82:10 Dignity 107:14 direct 3:17 27:3 84:20 85:4 118:23 directly 71:3 Director 7:13 70:11 directors 102:18 105:2,5,14 105:18 106:2,6,13 discriminat... 111:19 discussion 28:24 94:14 discussions 32:24 dismiss 113:8 disparities 13:21 disruption 17:25 distinction 46:25 distribute 70:7 96:2 distributed 25:3 74:19 95:23 98:5 distribution 51:22 52:5 97:20 district 13:24 33:19 35:16 86:5 112:7 112:22 district's 14:4 districts 32:18 distrust 103:11 diverse 20:3,5 20:12 78:10 78:24 105:2 diversificati... 80:3,6	Diverting 62:7 divesting 10:11 doctrine 103:5 Dodd-Frank 114:4 doing 6:11 18:6 31:22 55:7 76:24 87:12 91:9 94:22 dollar 30:10 48:18 dollars 19:10 24:10 27:18 27:23,25 30:24 31:5 39:2 54:19 55:6 56:4 60:2 70:19 73:20 74:7 74:10 76:8 86:7 113:2 113:7 Domb 1:12 5:16 51:2,3 52:16 53:2 53:7,23 dominated 67:13 Don 3:11 door 13:25 doubled 92:7 dozen 8:12 Dr 2:25 57:13 63:13,16 88:5 89:19 90:2,18 94:6 101:24 102:2,13 drag 60:14 drawing 17:25 drive 66:19 Duckery 13:5 Duncan 102:3 107:9 107:11 109:4 116:25 dynamic 5:6	75:20 Dynamics 7:23 <hr/> E <hr/> eager 74:14 earlier 3:2 37:18 47:17 68:11 101:9 earn 41:20 42:12 55:4 earning 40:21 42:4 43:3 43:19 44:15 47:5 earnings 60:15 66:18 earns 43:25 earthquake 49:5 eastern 20:8 easy 46:3,3 EB-5's 85:6 economic 1:4 1:17 2:5,12 4:18 14:22 58:9 62:10 71:19,22 76:13 87:7 95:16 107:14 117:17 economics 7:16 11:20 economies 58:24 economy 5:22 5:23 17:5 18:9 43:10 72:13 74:7 87:8 113:15 educate 93:10 educated 12:12 education 8:8 13:2,17 14:23 28:9 educational 13:20 76:18 79:15 effectively 6:13 efficient 58:15	effort 10:21 69:19 91:8 91:11 efforts 8:12 10:24 114:21 eggs 48:4 Eight 30:23 either 95:17 elected 4:3 37:21 election 103:9 105:16 electorate 103:13 electric 108:3 eliminate 36:16 51:23 56:12 eliminated 56:14 elites 103:8 emergencies 101:16 Emma 57:13 63:19 enabling 116:12 encountered 11:21 92:21 encourage 4:19 encourages 58:16,23 energy 43:20 84:5,7 108:13 engage 14:16 44:4 engaged 111:18 engaging 14:18 112:9 engine 95:25 engines 71:18 ensure 37:7 98:8 104:14 105:15 ensures 71:12 enterprises 109:25 110:3 enthusiasm	21:6 enthusiastic 16:11 enthusiastic... 45:11 entire 16:15 47:24 87:10 97:5 113:15 entirely 35:16 45:12 entities 76:9 entities' 101:3 entity 79:4 entreprene... 15:7 20:17 entrusted 59:8 environment 58:20 59:13 60:14 61:2 61:15 envision 98:7 98:21 Episcopal 107:12 EQAT 108:5 equity 53:5 equivalent 83:25 especially 12:11 17:3 55:17 106:15,25 essential 71:7 106:24 established 23:4 30:12 56:12 63:24 establishes 38:17 establishing 107:19 esteemed 98:18 et 82:9 ethical 10:7 ethics 10:5 102:15 ethnic 88:15 ethnically 20:5 European	75:21 evaluate 6:11 evenly 96:3 event 113:25 evidence 118:4 evolve 95:22 96:9 exact 81:22 exactly 33:2 45:21 examination 18:3 example 8:17 28:21 38:21 44:3 49:2 52:3 73:17 84:17 85:19 85:25 94:17 100:8 108:25 examples 83:12 excellent 42:21 excess 59:19 excesses 17:24 exchange 113:6 excited 21:19 107:18 exciting 74:9 102:7 exclusive 95:12 excuse 37:20 executive 4:11 70:11 exist 61:17 91:20 99:14 existence 42:6 existing 8:5 41:12,25 42:11 60:20 77:25 exists 59:14 exotic 18:3 expansion 73:20 expect 52:13 100:4 expected	78:25 86:14 expense 13:7 expensive 66:21 experience 3:4 64:2 88:21 90:7 90:14 104:21 105:7 experiences 3:2 105:3 experiencing 72:4 expert 21:17 expertise 37:11,15 explain 26:19 28:2 35:21 52:17 exploration 29:23 explore 9:9 exploring 14:17 extension 14:12 extensive 59:13,23 extraction 43:12 <hr/> F <hr/> face 12:13 faced 5:7 14:10 faces 115:4 facing 35:15 fact 18:24 28:6,12 31:8 41:4 45:19 47:17 51:7 56:6 59:6 60:11 60:25 61:7 68:16 91:19 92:24 100:8 factor 44:19 49:15 factors 26:10 37:18 65:12 faculty 7:20 fail 17:18 114:15	failed 111:25 failure 106:8 failures 66:11 fair 10:7 107:23 fairly 36:12 faith 114:13 familiar 26:5 84:15,16 99:25 fan 86:13 far 14:20 20:9 40:11 81:19 84:4 84:6 99:9 Fargo 18:16 18:23 25:6 36:24 67:15 110:10,15 110:22 111:2,5,12 111:16,23 112:8,15,18 112:21 FDIC 59:16 59:22 60:3 Fe 4:13,24 8:17 76:23 81:16 94:22 fearful 62:4,5 feasibility 8:19 23:9 25:10 26:10 26:14 32:23 41:5,22 46:23 55:15 55:22 91:3 91:4,7,10 99:3 116:14 116:19 feasible 23:7 February 1:8 111:7 federal 59:14 110:20 111:8 112:13 113:4 fee 17:14 54:25 55:4 feel 63:17 fees 19:6 55:17,19,19
---	---	---	---	--	--	---	--

56:14	109:11	forms 74:8	63:23	gentrification	61:14 63:6	grade 22:3	27:19 93:6
fell 67:3	fiscal 12:5	101:17	fully 91:22	15:9	70:2 75:5	graduate	grocery 73:18
felt 20:25	17:17	formula	111:25	Geraldine	77:2,22	7:21 11:4	group 20:20
88:22 91:17	five 111:6	30:13 45:22	118:5	3:12	78:11,13,16	graduated	78:10 91:5
fewer 66:23	flashback	forth 30:14	function	Germantown	79:19 86:23	11:19	108:6
Fidelity 58:5	22:2	fortunate 4:3	66:17	16:20 17:7	87:4 88:24	graduating	110:17
fiduciaries	flawed 103:4	fortunately	fund 73:5	18:12,14,20	88:25 90:12	11:6 12:15	116:15,17
104:14	flood 100:9	92:25 93:24	86:14	19:2 75:10	93:9,12	graduation	groups 88:15
fiduciary	floor 30:9,10	Forum 87:7	100:24	102:20	96:9 99:10	14:4	grow 26:25
59:9	flow 56:15	forward 5:21	101:2,6,14	Germany	100:15	grandson	27:9 67:18
Fields 107:12	99:10	15:19 75:5	113:3,6	83:23,24	101:11	19:8	74:12 78:2
fifth 8:23	flowing 64:25	75:25 77:2	funded 22:13	84:4,16	109:24	Grant 22:14	growing
figure 22:8	68:3	93:2,4 99:2	35:17 37:5	87:3	110:3	grants 22:17	39:10,11,14
filed 112:8	focus 17:23	fostering	funding	getting 10:14	115:18,22	73:19	grown 13:9
finally 10:8	61:22 62:24	103:10	79:17	22:5 32:3	good 2:2,19	graphic 87:6	72:8
18:7 49:8	67:19 78:18	found 112:19	107:23	46:5 51:15	6:21 16:5	grassroots	grows 39:6,15
finance 9:7	83:18	founder	108:12	60:4	17:16 18:23	8:15	growth 60:15
23:21 28:8	focused 98:17	10:17 63:21	funds 22:22	giant 113:5	21:2 22:6	grateful	guarantee
31:17,18	focuses	four 12:20	24:16,20,25	Gilbert 3:11	23:10 32:10	16:13	47:15
35:23 36:2	102:21	Fox 11:5	25:5 35:13	give 22:20	44:13 57:22	115:16	guarantees
64:2	folks 109:15	12:22	54:23 56:9	27:15 46:12	60:3 61:13	great 9:11	73:10
financed 19:9	follow 90:11	102:16,21	62:11 79:20	81:21	63:18 64:18	12:4 17:19	guess 76:3
49:10	97:3	fraction	98:5 99:20	106:21	70:10 73:16	21:14,15	82:3 86:17
finances	follow-up	97:17	99:25 100:8	gives 84:9	83:20 99:22	23:2 28:6,7	94:23 97:19
34:25 64:8	26:18 55:20	fractional	101:6	glad 115:14	104:19	36:6 66:12	100:20
financial 4:16	57:8 80:12	31:6 50:10	109:23	Glenwood	106:24	78:4 95:10	guessing
4:20 14:22	followed 7:17	Francisco	110:17	2:22 3:10	109:7,8	97:7 101:21	100:2
17:2 18:4	food 70:22,24	49:5,8	further 2:21	global 87:8	110:23	106:22	guest 87:13
20:23 21:17	72:22 73:17	Frank 6:19	future 8:9	go 3:22 5:24	114:2	greater 4:18	guidance
31:12 35:15	73:24	7:10 57:13	15:11,17,21	16:17 19:3	Goode 114:20	40:7,25	51:25
47:19 65:3	forced 14:21	68:11 70:5	35:2 82:14	27:21 29:12	115:11	71:22	guy 53:21
67:12 96:15	foreclosure	70:11 77:13	84:10	32:9,17,21	govern 25:23	greatly 72:16	gyps 26:4
96:17 103:6	111:11	81:5 91:2	117:11	35:20 37:9	governance	73:23	Gym 1:13
105:6	forefront	95:8	futures 14:6	38:2 45:7	10:6 25:22	Green 1:12	54:5,8
financing	10:22	Franklin	14:15	46:10 53:8	62:13 69:7	2:7,15,17	94:10,11
25:8 29:2	foregoing	71:25 75:15	<hr/>	65:6 69:20	90:5 104:3	5:11,15,20	96:22 97:12
73:19	118:7,20	fraud 103:5	G	75:25 83:3	104:20	16:14 22:4	100:18
108:10	foreign 84:20	110:7	gain 58:20	89:19,23	105:20,22	26:16,17	<hr/>
find 14:21	85:4,5,5,21	fraudulent	61:23	92:15 96:19	106:20,24	29:15,22	H
60:2 78:14	forensic	112:11	Galbraith	goal 67:21	governed	34:2 54:10	habit 34:14
finding 91:13	23:25 33:11	113:12	31:9 49:25	116:16	22:24	54:11 74:25	half 28:15
115:5	forever 49:6	free 85:5	50:3	goes 50:13,17	103:23	75:2,18,24	45:14 53:14
fine 53:24	forget 92:4	104:4	Gary 64:21	65:16 101:9	government	79:12 80:11	84:18
58:3	forgive 98:25	friend 10:15	general 22:20	going 4:10	52:19 53:9	80:18 81:8	Hall 1:7
finished 49:8	form 8:13	Friends 17:11	111:9,12	7:9 17:9	84:23 103:7	86:14 88:7	12:25
Fire 24:18	24:24	front 42:18	generally	23:16 25:19	103:12	94:13	hands 38:18
first 6:18 8:18	formation	43:22	40:10 85:8	25:22 30:4	104:6 110:9	100:19,20	happen 48:8
11:21 23:20	72:23	frustration	generate 40:2	35:22 37:7	111:8	108:2	78:15 81:9
25:12 26:25	106:17	27:17	61:9 86:15	38:4 40:22	governmen...	115:22,24	88:24 93:9
34:6 36:7	former 45:24	full 5:18	108:3	41:20 45:6	79:3	Green's 30:5	happened
63:7,22	55:13 77:8	68:20	generation	46:15 47:9	governments	greetings	49:5 88:13
72:2 83:5	100:22	107:23	15:4	48:8,11,18	113:14	10:15	100:9
84:18 89:13	116:9	full-service	generations	53:20 61:12	114:5	grew 11:18	happening
			71:13				56:10 80:12

happens 60:17 96:4 98:9,14	helped 16:23 21:13 helpful 18:17 helping 77:21 77:24 helps 26:24 Hey 46:2 Hi 102:13 107:9 high 12:15 13:22 14:9 higher 41:21 highest 5:8 82:18 highlights 59:6 hikes 112:24 Hill 107:13 hippies 72:10 hire 48:13 hiring 105:19 Hispanic 111:20 historical 44:10 history 8:25 34:10 hit 64:23 hold 1:17 2:12 Holston 108:21 homage 8:10 homeowners 110:8 homes 15:8 32:17 108:8 hometown 13:21 homework 18:6 honest 104:15 honored 11:17 57:24 hope 15:17 49:18 113:23 hopefully 4:24 89:11 116:13 hopes 103:16 hoping 108:6 horror 13:13	hosting 94:13 hotels 76:13 house 5:18 18:13 50:15 50:18 116:10 housing 110:25 112:13 HSBC 34:8 huge 98:3 108:11 hundred 19:10 hundreds 112:25 hurt 113:13 hustle 15:2 <hr/> I <hr/> idea 11:21 16:11,17 19:23 21:19 22:21 23:8 23:10 24:15 46:14 116:7 ideas 4:22 5:3 23:18 77:4 identified 68:22 identifying 105:19 imagine 94:25 immediate 12:17 61:21 immediately 100:13 immigrants 72:21 impact 55:5 55:17 64:9 66:6 102:24 impairing 58:21 implement 9:4 implication 12:16 important 5:23 68:8 69:2,21 73:25 75:13 94:14	importantly 22:23 impressed 20:11 improve 4:15 4:20 17:6 18:19 improvement 31:19 inactive 19:16 incentive 62:22 incentives 67:23 Incheon 85:25 87:13 88:2 include 70:18 85:4 105:4 included 116:14 including 8:7 83:6 103:2 103:18 income 24:5 35:2 38:12 38:14 increase 72:6 increased 73:23 74:4 increasing 39:4 66:18 67:20 incubator 72:24 incurred 50:14 indebted 35:14 37:2 independent 104:8,16 individuals 113:13 114:5 industrial 6:8 32:22 58:3 industry 66:8 103:6 influence 62:14 information 20:17 80:20	81:22 82:3 82:11 116:4 116:20 informative 51:4 infrastruct... 8:7 9:23 31:18 32:2 43:17 51:20 52:3 84:11 initial 54:14 116:15 initiative 4:12 4:23 5:5 initiatives 76:22 77:2 79:19 80:21 81:15,16 innovation 28:8 58:16 innovations 9:2 innovative 7:25 15:13 inquiries 82:15 insider 104:4 insignificant 72:9 installed 108:15 Institute 7:14 10:19 institution 54:16,20 55:9,21 69:22 76:17 76:18 78:12 78:21 79:15 80:9 82:18 98:11 110:11 institution's 54:23 institutions 17:4 27:12 67:8,12 73:6 75:22 76:12 77:15 82:23 98:6 98:21 103:21 107:3 110:5	113:19 insulated 62:13 insurance 39:12 46:13 72:3 insured 112:13 integrate 4:15 intended 19:10 intentionally 72:19 interest 39:5 44:20 47:3 47:5,6 49:12,15 60:13 61:18 61:18 76:24 79:10 86:10 104:10 105:9 112:23,24 116:21 interested 30:9 55:15 77:19,24 104:2 interesting 33:10 77:12 interests 62:20 interface 103:2 international 83:21 86:5 interrupt 11:14 intrigued 17:13 19:23 20:2 intriguing 32:10 introduce 116:6 introduced 94:20 introducing 16:14 invaluable 15:13 invest 14:14	31:25 38:24 51:19 54:20 74:10,16 77:16 84:10 108:25 115:6 invested 24:12 33:13 33:15 38:12 38:14,15 52:2 76:12 investigation 87:20 113:9 investing 34:17 77:19 84:6 97:18 investment 43:11 52:6 52:9 73:16 74:4 78:14 85:4,6,21 86:4,8 87:14 investments 32:2 43:21 43:25 52:14 60:8,19 84:20,21 investors 61:11 invite 65:16 inviting 17:15 involved 47:13 involvement 87:20 ironically 83:4 Islands 21:10 isolated 45:16 issue 5:21 25:8,21 26:3,6,8 29:23 55:12 55:14 95:3 98:2 99:4,5 99:12 issues 15:14 43:16 56:3 69:6 90:6 <hr/> J <hr/> JANNIE 1:11 jar 112:19	Jeff 68:15 93:22 Jeffrey 57:12 57:22 83:11 jeopardy 113:21 Jimmy 108:23 job 34:18 71:19 109:14 jobs 8:8 9:21 52:7 73:22 107:23 108:2 John 31:8 49:25 Johnson 5:16 Jones 1:11 2:2,14,18 5:10 6:21 7:4 11:9 16:3,8,13 21:24 23:23 26:15 29:16 32:8,21 33:17,22 41:14 45:2 45:6 50:23 54:2,9 56:25 57:7 57:16 59:25 63:5,15 69:24 74:23 81:3 82:16 86:2 87:24 89:15 94:8 95:6 99:22 100:17 101:11,22 102:6 107:7 109:5 115:9 115:17,21 115:25 117:4,8 Journal 67:2 JR 1:11 July 110:15 111:15 junior 11:22 Justice 111:15 113:11
---	---	--	---	---	--	---	---

minority-o... 63:23 misfeasance 106:10 misgovern... 103:4 104:22 misleading 39:9 mismanage... 106:10 misreprese... 110:18 mission 25:13 25:16 32:13 32:25 33:3 46:14 69:6 78:18,21 80:10 89:14 90:4 106:9 106:15 mistake 59:25 mistrust 107:2,5 model 44:13 75:21 95:16 95:23 modeled 12:3 models 4:19 85:3,3 87:2 modern 86:5 modest 17:14 modified 106:17 moment 23:17 38:5 moments 4:10 Monday 1:8 money 15:5 19:4,12,18 19:21 22:7 22:14,16 24:8,25 25:4 31:7 31:13 34:15 35:3 36:22 38:18,25 39:21,23 40:23 48:12 50:6,13,19 51:6 52:18	52:21 53:8 54:21,21 56:9,15 86:22 88:23 96:2,4 97:17,23 99:10 100:15 104:12 115:5 monies 98:4 98:20 month 19:18 110:20 112:15 113:9 Mooney 3:14 mortgage 27:23 110:24 111:6,20 mortgage-b... 112:2 mortgage-r... 110:19 motion 113:7 Mount 75:8 75:13,19 move 5:21 15:18 97:2 97:21 99:2 movement 17:24 20:16 98:19 movie 108:24 moving 97:23 multiple 72:22 78:22 98:5 mundane 93:17 municipal 8:14 9:7 28:7 60:7 64:2 94:25 96:23 111:4 municipalit... 10:24 112:4 MURPHY 118:14 mutual 72:3 mutually 95:12	<hr/> N name 6:24 7:10 11:17 18:11 57:18 57:21 68:23 70:10 81:4 81:5 95:7,8 102:12,13 107:11 109:9 names 19:15 57:11 nation 8:24 66:11 81:17 national 103:9 nature 89:5 naysayers 94:2 near 113:18 nearby 12:24 nearly 97:16 necessarily 78:20 90:24 necessary 58:25 69:10 need 29:2 30:19 59:12 66:17 68:12 69:18,21 72:25 84:11 87:11 91:10 91:16 92:7 92:11,13,14 92:19,24 93:14,20 96:2,14 100:7 108:9 needed 91:2 116:12 needs 13:12 31:18 48:13 71:14 72:12 84:13 95:22 109:19 negative 51:10,11 58:18 neighborho... 10:10 13:11 18:11 70:20 74:6 109:10 neighborho...	5:24 neighbors 3:7 network 84:9 102:19 Networks 10:10 109:11 never 17:12 20:19 64:24 92:4 new 4:19 8:17 17:22 21:7 21:19,20 48:10,10 60:20 61:16 62:6 67:22 73:21 75:11 86:19 95:15 95:22 98:24 108:22 111:11 112:7 113:4 113:20,24 niche 91:13 nominate 104:24 non-govern... 77:15 non-profit 16:22 79:4 112:5 non-traditi... 83:4 north 4:2 11:23 12:21 21:12 28:12 28:14,16 33:4 42:2 42:10,14,22 43:9,19 44:7,14 45:12 62:6 62:16 64:11 64:13,17,18 64:24 65:4 65:5,23,25 66:3,7,9 77:11 80:14 80:21 81:11 81:21 82:9 84:6 94:19 100:10 Northeast	45:24 Northwest 16:23 notes 118:6 notion 41:11 41:19 November 111:2 Nuesse 6:19 7:9,11 23:2 23:24 28:5 30:15,23 32:20 33:2 36:5,11,14 36:21 37:14 37:25 39:7 39:16,20,24 40:10,17 41:2 42:20 44:7,24 46:7,12 48:25 50:3 50:5,9 51:17 52:23 53:6,18 56:5 57:5 80:25 81:5 81:6,19 83:19 85:8 87:17 94:16 95:8,9 97:6 99:7,24 101:10,21 number 42:16 58:2 67:3,8 79:7 81:22 94:20 numbers 42:18 43:22	<hr/> O Oakland 49:7 oasis 13:10 object 62:5,7 objections 62:9 118:4 obligations 36:3 observation 12:12 obstacle 13:17 obstacles 62:2	obvious 12:13 obviously 80:3 occupies 8:24 86:10 Occupy 17:23 20:16 occurred 27:11 October 66:25 112:6 offer 8:8 12:11 66:4 68:7 office 19:5 34:24 36:4 offices 66:9 officials 8:21 37:21 Oh 1:13 5:18 33:23,24 36:10,13,19 36:25 37:23 38:19 39:8 39:19,22 40:5,14,19 41:9 42:9 42:15 43:6 44:22 45:4 45:11 47:16 83:8,9 84:14 85:18 87:21 oil 43:12,12 Okay 30:6 50:8 101:21 old 21:6 older 19:13 oligarchic 95:18 once 6:4 23:6 23:9 31:13 91:7 93:10 93:14 114:2 ones 77:22 open 2:4 63:9 93:25 opened 19:7 113:10 opening 2:15 operate 72:12 95:17 operated	61:24 operating 44:8 83:13 105:25 operation 37:19 64:14 operational 35:4 opinion 48:20 48:24 opportunities 4:7 76:13 opportunity 4:15 5:2 13:18 14:14 14:25 15:16 16:10 34:11 34:14,17 62:11 74:10 opposed 35:21 94:25 order 7:7 48:14 101:14,15 orders 19:4 ordinary 17:4 21:18 organization 79:4 organizatio... 72:5 organizatio... 7:23 103:3 organizations 8:15 9:17 16:22 24:17 77:16 79:8 112:5 origins 22:12 outcome 79:11 outcomes 79:2,6 outsized 59:3 61:5 ones 77:22 open 2:4 63:9 93:25 opened 19:7 113:10 opening 2:15 operate 72:12 95:17 operated	owned 70:25 71:10 78:9 owner 78:12 owners 59:10 73:10,12 ownership 61:18 62:20 71:11 78:19 78:23,24 79:8 owns 24:11 <hr/> P p.m 1:8 117:18 paid 48:11 114:7 panel 6:18 11:11,12 22:20 57:2 63:7 75:4 101:12,20 115:19 panels 108:6 108:14 Parker 1:14 5:15 22:4 29:19,20 30:21 32:7 89:16,17 90:3 94:5 116:8 part 9:3 23:20 31:10 38:9 46:3 77:20 90:19 94:23 110:12 participate 54:6 65:17 79:16 participating 80:19 participation 17:15 particular 7:7 83:11 91:5 96:23 particularly 6:14 33:18 77:18,24 84:16 115:13 partner 64:19
---	--	--	---	---	---	---	---	---

65:25 76:9	48:13 49:19	Philadelphia	12:14 73:15	politically	105:23	66:17 78:9	81:7 108:9
partnership	50:17 52:14	1:2,7 4:9	74:11,13	97:2	practices	84:12 86:11	108:12
26:22 27:7	57:11 62:21	5:4 6:5,8,16	Philadelphi...	pool 79:20	87:14	108:11	110:14
28:3 55:8	63:8 64:7	8:3,6,23	74:21	pools 79:14	102:24	privilege	projections
84:21	71:2 78:10	9:13,25	Philadelphi...	110:19	103:10	57:24	68:21
parts 36:7	90:22 91:5	10:6,10,13	12:8 89:8	population	pre-recession	probably	projects 35:4
passbook	93:11,17	11:7 12:10	Philly 12:21	28:14,16	67:11	25:13 51:14	properly
19:7 22:2	97:3 103:17	12:17 13:16	Philly's 14:6	population-...	pre-school	51:16 99:15	105:23
60:2	104:12	14:16 16:12	philosophic...	45:15	70:20	problem	proposed
pastor 108:22	105:11	16:23 23:4	20:12	populations	preclude	35:15 67:21	68:12
path 13:18	109:2,13	23:22 24:4	PIDC 6:8	107:22	87:19	90:22	prosperity
patience	115:6	24:6 25:9	22:15 85:24	portfolio 3:6	predicated	problem-sol...	5:24 12:7
57:17	perceive	26:13 28:16	Pine 3:14	3:15 88:10	41:11	9:3	13:9,11
pattern	90:15	29:7,10	pipng 51:23	portion 4:11	premised	problems 8:2	14:24
111:18	percent 19:20	30:8 31:4	place 8:25	24:14	41:18	35:19 91:23	prosperous
pave 9:5	44:15 72:7	33:13,15	47:25 93:20	positive 42:4	prepared	91:24	15:16 83:6
pay 13:22	72:8 82:20	34:7 36:8	100:16,21	42:13 43:19	82:5	procedures	protect
35:3 39:5	82:21 83:21	36:23 37:6	placed 91:21	43:25 44:5	presence	106:2	112:24
50:17	88:18	38:11,15,17	places 19:3	51:8 66:6	10:25	proceedings	protected
108:16	perfect 58:11	39:17 43:3	35:8 83:4,6	possibilities	present 1:10	118:4	89:2
110:16	100:8	43:15 44:12	placing	102:9	9:8 44:12	process 14:19	proud 109:11
111:3,17,24	perfectly	44:17 45:14	114:13	possibility	49:20	54:15 55:2	109:14
114:6	53:24	45:25 46:16	plan 68:20	76:14	presentation	60:21 69:5	prove 15:23
paying 8:10	perform	46:17,20	69:9,13,14	possible 62:4	92:13	69:17 89:23	proven 73:16
47:3 56:19	67:23	51:19 52:5	91:22,23	70:8 78:2	presented	90:8,12	provide 5:2
pays 54:25	peril 13:10	52:12 54:18	92:16	possibly	21:11 68:21	96:3	9:21 15:20
PCDC 22:13	period 18:20	54:24 63:25	113:25	79:13	President	produce	34:12 59:18
82:17	33:5 111:21	64:5,8	please 2:8	post 19:5	45:24 58:6	58:25 78:13	70:24 71:6
PECO 108:4	permitted	66:13,25	6:22 57:10	66:18	63:22 64:16	103:16	90:10
penalties	114:3	67:12,13,17	57:18 81:2	poster 83:23	64:21 65:3	productive	provided
110:6	perpetrated	69:14 70:12	81:4 102:11	potential	presidential	15:17	116:20
penalty	110:7	70:17 71:25	pleasure	102:10	17:21	products	provides 4:6
110:21	person 15:15	72:4 75:14	11:10	106:23	pretty 41:4	65:20 66:4	4:14 12:25
Penn 7:24	personal 2:24	76:11 77:23	plenty 22:10	potentially	46:3 87:5	professional	providing
Pennsylvania	73:9 97:8	85:14,16	plethora 70:3	97:22	prevail 61:20	3:23 25:25	116:4
1:7 7:21	personally	86:18 87:18	PNC 67:15	poverty 5:8	prevent	35:9 37:17	PSFS 22:2
10:17 45:16	95:13	89:13 93:13	point 3:20	16:25	113:17	40:13 46:21	34:10,10
54:17 60:6	personhood	96:18 97:11	13:15 14:3	power 28:21	previous	62:12	35:25 59:22
68:13,19	103:5	99:21	42:2,7,11	62:10	88:21	professiona...	public 1:17
69:15 81:6	persons	100:24	42:21,25	107:15,16	100:25	47:8 104:9	2:13 3:25
89:25 96:18	103:19	102:18	69:8 80:7	107:18	priced 15:9	professionals	4:5,6,12,14
106:3	perspective	103:15	101:9	108:2,3	24:12	2:24 20:18	4:25 7:14
pension 35:13	18:17 55:23	104:8	117:11	POWER's	primary	professor	7:15,25 8:5
38:24 79:16	perspectives	105:12	points 53:14	107:14,20	12:24	10:4 102:15	8:8,13,20
110:17	21:3	107:19	Police 24:17	108:18	prime 53:11	profitability	9:4,10,12
113:3,6	perturbation	108:9	policies 19:15	practical	Princeton	60:9	9:15,19
people 15:8	96:13	109:19	68:21	89:22 92:12	7:17	profitable	10:2,7,17
17:4,6,21	Peter 57:13	112:21	political	93:19	prior 116:16	58:15	10:18,22
18:25 20:2	70:11	113:20	14:18 62:14	practice	priority 32:5	profits 71:20	11:22 12:4
20:6 21:6	Petersen	114:15	96:10 104:9	61:25	private 51:5	Program	15:12,19
26:25 27:18	64:21	116:7	104:16	104:20	58:10,14	7:23	16:12,18
27:21 34:12	phenomenon	Philadelphi...	105:17	112:10	62:3,19	project 7:15	17:10 19:24
35:7 37:6	12:20		106:9	practiced		10:18 68:19	20:24 21:13

23:3,22	49:11 103:2	53:21 55:3	rates 14:4	recognize	regs 92:8	81:2,9	49:1 50:1
24:24 25:8	publicly 78:9	76:3,20,21	42:4 43:20	54:4 115:18	regulated	repelled	51:1 52:1
25:16 26:11	publishing	77:6 80:17	71:22 77:9	115:22	61:10	31:15 50:7	53:1 54:1
26:21 27:2	7:18	81:2 82:6,7	77:10 78:13	recognizes	regulations	replacement	55:1 56:1
28:4,10,22	pull 7:5 41:15	85:11 94:15	113:6	26:16 29:18	61:3 94:21	55:24	57:1 58:1
29:9,12,23	purpose	94:23 95:10	ratio 82:19	33:23 50:25	regulators	replacing	59:1 60:1
30:3,6,11	26:13 79:21	97:7,13	88:18	54:10 74:25	59:16 61:14	49:7	61:1 62:1
30:20,25	108:3	99:19,23	read 2:8 4:11	94:9	62:5 88:20	report 58:21	63:1 64:1
31:16,17	purposeful	100:3,6	6:17 57:10	recommend	regulatory	59:5 60:16	65:1 66:1
35:24 36:15	87:15	116:11	75:5 92:9	23:8	59:13,17	reported 67:2	67:1 68:1
36:23 38:17	pursuing	questions	97:5	recommend...	60:25 61:15	reporter	69:1 70:1
39:17,25	107:25	11:12 22:9	reading 11:23	46:19	62:20 66:19	118:24	71:1 72:1
40:24 41:21	push 94:25	38:6 49:21	24:22,22	record 5:13	106:5	represent	73:1 74:1
42:12 46:16	put 8:20	57:2,8	56:7	6:25 42:22	Reinvestme...	105:9	75:1 76:1
46:20 49:2	19:22 27:18	63:10 70:4	real 30:24	44:10 54:5	22:25	representat...	77:1 78:1
49:15 51:13	28:25 33:8	75:4,5 81:9	33:6,7 59:7	57:19,20	related 23:21	95:5 116:10	79:1 80:1
52:12 54:13	39:3 40:23	82:8,12	62:4 91:16	75:17 81:4	90:9	represented	81:1 82:1
54:14 61:24	47:22 48:4	97:20	93:6 103:16	81:12 82:9	relates 89:24	3:8 5:14	83:1 84:1
62:3,7 63:2	50:16,19	115:19	105:12	82:17 87:25	relationship	20:6	85:1 86:1
64:5,12	53:2 85:21	quick 93:6	reality 61:11	88:19	4:17 29:5	reproduction	87:1 88:1
66:5 67:22	86:18 108:6	quickly 81:14	really 3:5,6	recorded 6:25	relentless	118:21	89:1 90:1
67:25 68:18	110:4	quite 26:5	3:15 20:25	recurrence	66:19	republicans	91:1 92:1
68:19 70:14	puts 54:18	30:16 38:6	33:11 34:3	113:17	relevant 38:7	20:15	93:1 94:1
71:16 72:18	putting 36:20	43:14	36:5 45:12	Red 100:10	71:14 72:11	require 10:24	95:1 96:1
73:4,16,19	37:3,5,9	quorum 5:13	55:15,25	reduce 36:17	105:5 106:5	52:9 62:15	97:1 98:1
74:10,12	48:5 86:22	quote 49:23	56:18 61:2	39:18	relies 26:24	required 32:2	99:1 100:1
76:7,8,10		49:24 50:2	83:17 85:10	108:12	reluctant	62:24 92:2	101:1 102:1
76:14,19,25	Q	112:10	85:15 86:23	reduced	73:6	92:10	103:1 104:1
77:4 78:3,8	Quaker		87:11 88:22	19:20 49:16	remain 68:5	requirements	105:1 106:1
78:17,23	108:5	R	89:8,13	reduction	remains	73:9	107:1 108:1
81:6,17	qualifications	race 17:22	98:24 99:11	61:21	67:20	requires 60:7	109:1 110:1
83:12,16,22	110:23	railcars 88:3	100:4 107:4	reevaluate	remarks 2:16	RES 3:1 4:1	111:1 112:1
84:3,9 85:2	qualified	rainy 24:16	107:10,15	117:10	5:19	5:1 6:1 7:1	113:1 114:1
85:12,13	105:20	24:20,25	110:2,4	reference 4:7	remember	8:1 9:1 10:1	115:1 116:1
86:10,25	qualify	56:9 99:20	115:3	54:15 76:2	6:24 22:13	11:1 12:1	117:1
87:17 93:9	108:11	99:25 100:7	reap 59:4	116:11	55:7	13:1 14:1	research 7:24
95:2 96:5,7	qualities 15:4	100:23	reason 46:19	refinance	remembered	15:1 16:1	10:5 81:14
96:7 97:9	quality 70:24	101:2	46:23 84:23	32:17	114:22	17:1 18:1	103:8
97:11,15,25	110:18	raise 62:9	95:11 96:6	reflect 5:12	reminding	19:1 20:1	106:25
99:15 100:7	quarter 60:16	raised 93:5	reasons 3:3	90:13	44:13	21:1 22:1	110:14
102:25	quarterly	116:11	3:19 11:24	reflected 3:6	reminds	23:1 24:1	111:25
103:15	58:21,25	raising 46:25	14:22 84:3	3:16	75:16	25:1 26:1	reserve 31:6
104:7,10	59:5 66:18	80:7	rebuild 8:7	regard 37:14	removed	27:1 28:1	50:11 59:14
106:23	question	ran 88:10	9:22	regarding	106:7	29:1 30:1	110:20
107:20,24	11:14 23:3	range 81:10	received	1:17 2:13	renaissance	31:1 32:1	reserves
108:20	23:19,21	106:8	73:19 84:18	54:12	72:5	33:1 34:1	65:12
109:18,21	25:18 28:7	rap 110:13	recess 117:9	regardless	renewable	35:1 36:1	residents
114:12	29:14,25	rate 5:8 38:25	Recession	66:22	84:5	37:1 38:1	74:5 75:19
116:5,22	30:5 32:6	40:22,25	21:15 66:12	region 4:21	repaid 46:6	39:1 40:1	109:20
118:15	32:10 36:6	41:21 42:13	recirculate	72:15	46:11 51:15	41:1 42:1	resolution
public's	37:15 38:10	42:23 44:5	71:20	region's	repairing	43:1 44:1	1:16,16 2:6
51:12	41:10,18,23	53:10,11,15	reckless	74:18	48:10	45:1 46:1	2:9,10
public-priv...	44:23 47:12	60:14 81:20	112:10	regional 65:4	repeat 52:23	47:1 48:1	16:15 117:6
	49:23 51:7	112:23,24					

resolve 111:9	revenue 21:20 61:9	roads 48:11	112:22	73:11 79:3	30:14 39:9	slice 79:24	sources 18:23
resources 8:6	revenues 72:6	robust 66:8	schoolchild...	79:11 102:9	110:13	slide 9:13	22:21
9:21 47:18	Reverend 108:21	roofs 108:7	12:14	sentences	shocking	small 6:3	Southern
76:16,16	Reward 59:5	Room 1:7	schools 12:24	14:7	18:21	18:24 32:18	112:7
100:12	rewards 59:2	Rotem 88:2	13:16 17:3	Seoul 84:17	short 63:17	34:5 65:21	space 86:10
respond	Reyes 3:10	RPR-Notary	31:17 32:4	84:18 85:17	show 91:11	70:20 72:8	speak 64:6,9
82:13	rhetorical	118:15	79:18	87:14	92:16	103:18	65:9,9
100:12	100:3	rubric 90:11	107:24	separate	showing 87:5	110:12	77:14 78:6
109:18	Rick 64:16	run 37:20,21	108:13	25:24	shrinkage	112:17	101:12
response	rigging 111:5	37:22 46:21	se 27:15	separation	66:16	smaller 27:14	113:3
115:20	right 11:13	52:20 62:19	seaboard	105:16	shrinking	55:9 65:24	speaking
117:7	rural 45:17	85:24	20:8	Sergeant-A...	66:23 87:10	75:23	56:16
responsibili...	S		SEC 111:24	70:8	shrinks	Smart 13:23	107:15
36:3	26:12 32:3		second 25:17	serious 12:16	101:16	snatching	speaks 84:7
responsibility	33:20 33:21		38:9	16:17	shut 59:23	112:19	special
59:9 104:13	32:21 35:22		secondary	serve 9:10	side 102:23	snowstorms	104:13
responsible	39:7 46:7	safe 60:8	12:24	10:12 33:5	104:3	101:15	specialty 10:4
31:10	46:18 53:4	61:24	Secretary	34:5 85:14	sides 50:12	social 8:2	Specifically
105:19	53:6,22	safety 59:10	92:3,17	105:14	significance	societal 9:2	15:5
rest 115:2	78:11 79:12	Saint 107:12	section 48:14	served 6:7	96:16	society	spend 86:21
restrictions	81:8 87:21	sake 28:23	sector 84:12	16:21 88:13	significant	102:15,24	spending
22:15 33:9	95:16 96:15	sales 74:2	102:25	91:6	36:12 42:23	solar 84:7	14:14
result 66:22	96:25 108:2	Salt 58:7	sectors 72:12	servicers	44:9,21	108:6	spent 58:2
73:21	109:5	sample	secure 69:10	111:6	56:19	sold 34:8	spirit 75:12
resulting	112:20	112:17	securities	services 71:4	significantly	112:22	76:2
18:18	113:2 114:6	San 49:4,8	68:14 106:4	71:7 103:6	36:18 49:17	solution 7:25	spoke 20:13
retail 26:23	risk 26:3 35:8	Sanders	110:19	servicing	similar 5:2	21:8,11	spoken 64:6
27:4 58:17	35:9 37:3	17:22 21:5	112:3	91:18	8:14 13:20	solutions 21:7	sponsored 2:6
66:4 73:22	40:9 47:12	Santa 4:13,24	see 14:6 43:7	111:10	86:9 105:21	somebody	spread 12:7
retired 7:19	47:22 48:9	8:16 76:23	47:10 55:23	session 7:13	similarly 12:3	48:16	52:18,22
58:5	48:9,15,16	81:16 94:22	61:7 70:4	set 37:12	simple 31:14	108:16	53:13,17
retirement	51:14 55:12	save 19:11	75:25 85:12	92:18	33:6 50:7	somewhat	79:7 101:4
34:16	55:14 59:7	25:4 52:21	86:18,24	105:21	simplify	82:24 83:20	101:8
return 35:10	59:7,12,19	savings 18:14	95:13 99:11	settle 110:16	99:16	83:24 84:22	spreads 52:20
38:25 40:22	60:10 66:21	19:7 34:12	seed 76:19	111:4,17,24	simply 49:24	86:8	squirreled
40:25 41:21	77:7 79:13	34:13 44:20	seeing 96:25	settled 112:15	60:14 61:10	son 75:9	24:19
42:4,13,23	80:4,8,8,13	53:16 60:2	115:21	settlement	single 13:23	Soon 113:22	SRC 35:18
43:20 44:5	80:20 82:24	saw 13:20	117:8	111:8,14	78:21	sorry 10:19	stabilization
44:18 47:2	85:23 89:5	75:20 91:7	seek 58:14	seven 49:19	sir 32:7	30:22 52:24	101:5
51:20,21	115:4	saying 38:16	seeking 20:22	sewer 51:22	sit 19:18	80:25	stacked 61:2
52:10,11	risks 12:17	38:20 41:4	58:20 60:12	Shapiro	39:12	sort 29:25	staff 105:24
54:25 56:2	102:10	48:4 65:8	seen 18:21	102:3 109:8	sitting 24:25	30:12 45:19	staggered
59:11,12	109:21	86:9	62:6 72:6	109:10	48:17 51:9	51:24 83:22	105:15
61:21 74:3	112:2	scale 58:24	segregate	115:15	situation	87:19 89:21	Stan 102:3
78:13,20	114:11	scene 14:18	79:13,20,25	117:2,13	44:11 47:20	89:22 90:10	standard
84:12	risky 114:12	scholarship	selling 112:3	share 71:15	85:15,16	90:11,13	105:25
returning	River 100:10	102:22	Senator	shared 79:5	six 49:19	96:9 100:3	standpoint
72:21	road 48:14,14	school 11:5	17:22 21:5	109:14	67:14 113:4	102:25	99:13
returns 58:15	68:16	12:15,22	senior 7:14	shareholder	sixth 67:4	sound 61:25	Stanley 109:9
59:2 60:19	roadblocks	13:22,24	65:2 68:22	105:10,13	size 27:16	sounds 34:22	Stanton 13:7
61:12	91:20 92:21	14:4,9	105:6	she'd 54:6	45:13,14,16	41:10,16	stark 12:23
revealing	roadmap	18:13 22:3	sense 26:22	shed 60:12	58:24 66:22	source 17:19	start 7:10
103:10	25:11	35:16	32:11 59:4	sheet 24:4,5,9	67:20	21:20	34:17 35:5
		102:16					

88:19 94:4 97:14 start-up 34:8 35:6 72:15 start-ups 15:6 72:25 77:25 started 2:20 10:14 27:12 75:18 76:6 76:15 88:9 92:3,25 93:6 state 6:24 21:13 22:24 23:5,11,14 28:12,13,19 35:18 45:15 45:18 49:3 49:14 57:18 59:16 64:19 64:22 66:7 66:10 69:20 81:3 90:10 91:14 93:21 93:23 95:6 96:7,12,18 96:24 100:10 102:11 111:9 113:20 116:13 state-of-the... 13:2 state-owned 95:2 statement 24:6 32:14 states 8:13 10:23 20:10 28:20 83:25 84:2,5 94:20 stay 49:20 staying 71:13 steadily 66:14 steering 110:22 stenographer 57:19 stenographic 118:6	step 7:7 69:4 stepping 85:9 steps 68:8 113:16 116:18 Stewart's 108:24 stick 57:4 stood 12:23 stop 31:22 store 73:18 storied 8:25 stories 13:14 straight 67:4 stranger 63:12 strategy 41:3 Street 2:21 3:15 8:10 10:12 17:12 17:23 18:2 24:13 29:13 31:20 36:9 37:24 38:3 40:21 43:4 47:3,22,23 47:24 48:17 56:11,18,21 82:2 86:12 96:19 98:12 98:15 113:25 streets 13:4 strengthen 68:4 strings 22:18 strong 62:12 strongly 64:4 103:14 struck 20:3 20:10 structure 24:23 97:19 105:20,22 structures 59:17 struggles 17:2 student 44:4 students 12:2 13:3,8 14:12,19 studied 38:8	49:6 study 8:18 23:9 25:10 26:10,14 32:23 41:5 41:22 43:7 46:23 55:16 55:22 91:3 91:4,7,10 95:14 99:3 116:14,19 studying 7:16 subjected 110:6 submitted 69:10 subprime 110:24 succeed 17:25 success 86:12 successful 64:14 83:14 87:3 successor 58:5 sued 111:12 sufficient 91:25 suggestions 104:23 suit 112:8 113:8 summary 4:12 super 82:25 supervision 118:23 supply 42:19 43:23 support 9:16 9:20 28:22 29:11 52:7 64:4 70:14 72:19 73:2 73:3 91:8 91:11 93:3 93:14 103:15 107:21 supported 72:17 supporting 16:16 72:14	supports 10:2 supposed 112:23 sure 23:2 26:4 42:18 43:22 70:5 87:4,5 89:9 92:11,13,19 97:2 106:20 Surely 57:21 surplus 101:13 surprise 14:2 21:4 survive 71:12 71:21 survived 13:5 sustainability 7:22 95:15 Sustainable 102:18 swaps 18:5 112:23 sweep 54:15 55:5,19 swept 54:21 syndication 65:19 system 4:21 31:6,12 35:18,25 50:11 51:22 51:23 58:11 59:15 61:6 62:13,18,22 62:24 66:16 67:22 84:22 96:10,11,15 104:2 systemic 8:2 systems 66:21 99:13 <hr/> T <hr/> table 6:23 7:3 57:15 63:12 80:24 102:5 109:13 take 16:2,17 24:14 29:8 29:10 40:15 40:20,23 43:4 58:22 59:7,12	89:13,21 97:14 takeaways 115:23 taken 14:5 59:22 103:20 113:17 118:6 takes 15:2,5 talk 70:13 92:23 93:23 95:5 109:20 116:18 talked 22:5 30:2 55:24 68:10 75:6 75:15 76:23 81:15 89:10 talking 2:25 34:4,21,22 35:6 50:10 50:20 63:13 68:11 90:19 104:11 talks 108:23 Tanner 13:4 targeted 87:16 task 15:21 tasked 106:14 Taubenber... 1:14 5:17 45:7,8 46:2 46:8 47:11 48:22 49:22 50:4,8,21 taught 7:21 tax 37:4 39:2 74:4 taxation 21:21 taxpayers 6:14 85:22 TD 67:15 teach 19:11 teachers 79:15 teaching 102:22 team 68:22 107:14	technical 25:21 82:7 99:4 technically 77:14 technology 20:18 86:19 86:20 teetering 82:19 television 7:18 tell 13:13 16:10 51:9 80:16 90:9 Temple 10:3 11:5,19 13:8 102:16 ten 40:3,7 53:5,5 tend 5:25 term 26:4 58:22 61:22 113:22,24 terms 35:2 73:2 78:18 79:10 80:4 95:20,21 105:3,15 111:13 testify 6:18 11:11 57:11 57:18 70:3 101:20 117:5 testifying 63:8 testimonies 12:2 74:24 testimony 6:23 7:6 16:4 63:6,9 75:3 89:21 97:5 101:23 102:12 107:8 Texas 43:13 textbooks 14:2 thank 2:17 5:9,10 7:11 11:2,14 15:25 16:3	16:5,9 21:23,24 29:16,20,21 32:9 33:24 33:25 44:22 45:2,4,8 50:21,23 51:3 53:24 53:25 54:2 54:8 57:3,5 57:9,16 63:4,5,11 63:16 68:24 69:23,24 70:5,9 74:22,23 75:2 83:9 84:14 87:22 87:23 88:5 89:17 94:5 94:7,8,11 94:12 100:18 101:10,22 101:25 102:6,11 107:6,7,9 109:6,9 115:7,9,24 116:2,24,25 117:2,12,13 thanking 5:20 thanks 30:5 thing 17:13 17:16 25:12 26:12 30:24 45:18 47:7 71:8 78:4 85:7 89:7 114:18 115:10 things 4:8 18:8 22:25 25:25 34:25 35:13 39:3 39:12 43:5 43:10,13,17 51:8,10,12 51:18 55:25 76:4 80:2,5 88:12 90:16 90:23,23	93:18 97:21 99:16,16 103:3 think 4:5,14 11:24 12:10 13:14 15:12 15:22 23:8 23:20 26:25 27:10,19 30:17 35:11 36:16,17 38:2,3,5 39:9 41:22 41:25 46:24 47:16 48:15 51:10,13 54:11 55:21 58:8 69:4 78:3,7 83:7 85:15,20 88:23 90:18 91:18 92:14 93:8,25 95:21,23 97:7 98:3 106:19,22 106:23 107:3 114:11 thinking 27:22 77:3 third 12:13 77:6 third-party 59:18 thorough 24:3 thought 4:2 17:16 54:14 54:15 107:17 thousands 112:12 three 17:8 51:11 53:14 threshold 30:16 thrive 71:13 tied 84:22 time 2:23 6:4 6:10 9:6 14:16 15:25 19:12 21:25
---	---	---	---	--	---	--	--

74:22 86:22	transcript	94:18	76:5 83:25	veterans	37:20,20,21	37:8 45:6	115:12
87:10 90:7	118:8,21	111:15	84:4 88:9	20:15	40:11 46:17	47:2,19	wise 104:14
91:15 92:8	translate 65:8	112:6	88:20 90:9	viability 84:8	54:4 56:21	48:3 49:20	witness 6:23
104:11	transparency	ultimately	90:25	viable 8:12	59:10,11	55:7,11,25	7:2 12:19
114:22	26:8 71:17	112:14	108:22	vibrant 5:23	64:9 68:7	63:6 70:2	57:14 80:23
117:11	98:3,9	UN 86:14	unites 71:9	8:9 17:5	68:24 69:3	72:14 79:19	80:23 102:4
times 14:20	transparent	unable 23:25	University	74:6	69:12 79:10	80:15 82:11	witnesses
40:3,7 53:5	99:17	unacceptable	7:20 11:6	Vice 10:9	80:3,8	89:8 90:19	6:18 7:2
53:5 71:22	Treasury	101:17	11:19	65:3 109:10	89:11,13	91:9 93:10	57:14 102:4
tired 21:6	59:15	unanimously	102:17	video 87:7	91:20 93:24	97:18,23	109:16
tirelessly	tremendously	16:16	Univest 75:24	view 58:22	101:18	101:11	116:3
10:21	35:14	unbundling	unquote	61:19	102:8	107:25	wonderful
title 2:9	Trenton 89:6	48:5	112:12	Vision 108:22	107:22	115:13,15	34:19 49:2
109:15	tricks 18:4	uncovered	untested	vital 103:23	108:25	we've 27:11	95:4 108:24
today 8:16	trip 87:25	103:8	61:16	106:19	109:11	89:6	wonderfully
9:8 10:20	trouble 52:24	underfundi...	untrustwor...	voices 9:9	114:17	wealth 12:21	14:17
10:25 11:17	true 47:13	13:16	110:3	vote 106:7	116:2	13:9 14:15	Woodland
13:14 24:2	118:7	understand	up-to-date	vulnerable	wanted 3:21	22:16 70:21	3:12
35:5 39:13	truly 6:10	18:10 34:10	13:25	89:4,4	4:4 31:21	71:8	Woods 31:11
51:4 57:25	trust 19:8	38:20,21	urban 22:17	107:21	41:8 79:16	weather	word 27:2
58:13 61:3	37:5 58:4	40:5,6	43:16	<hr/> W <hr/>	88:6 89:9	21:13	words 33:6
68:9 72:3	try 40:24	90:24	urge 15:18	Wachovia	89:19	Weavers 75:8	37:4
82:5,14	54:24	understand...	108:19	18:16	100:23	website 74:20	work 46:5
87:8 88:4	trying 38:21	26:21 27:5	urged 109:25	Wadsworth	wants 7:7	weekend	59:20 69:3
116:4	40:6 53:15	30:19 41:17	use 4:17 8:6	83:7	28:24 51:19	17:17	69:19 79:6
today's 58:19	56:2 60:24	understood	19:2,10,19	wage 107:23	warehouse	weigh 98:19	93:16
62:18 72:11	tumultuous	18:7 32:12	32:15 33:4	wager 42:24	28:25	99:8 102:8	102:21
toe 65:6,6	90:7	91:15	46:17 95:20	42:25 44:16	watching	welcome 7:4	103:22
tone 109:25	turn 11:3	underway	104:15	wait 11:10	30:4	44:25 57:17	worked 2:22
tool 12:4	14:7 65:15	8:12	114:4	Wall 8:10	water 51:22	63:11	10:20 24:21
15:13,13	65:24 74:12	underwriting	useful 64:20	10:11 17:23	101:5	Wells 18:16	91:22
64:20	turned 13:17	112:11	uses 22:21	18:2 24:13	way 5:25 9:5	18:23 25:6	worker 70:21
top 32:5	47:23	unfamiliar	usually 52:20	29:13 31:20	12:6 19:11	36:24 67:14	working
53:14	tweeted 87:8	73:14	53:13	36:9 37:23	20:25 23:14	110:10,15	21:12 58:3
topic 102:7	two 8:11 13:4	unfortunat...	Utah 58:7	38:2 40:21	31:13 36:6	110:22	90:8 92:19
total 67:2	16:23 23:12	24:2 67:16	<hr/> V <hr/>	43:3 47:3	41:17,19	111:2,5,12	93:21 108:5
totally 47:7	25:24 36:7	75:23 87:6	Valley 58:4	47:22,23,24	50:6 57:25	111:16,23	116:15
touch 2:24	50:12 51:11	unhappy	75:18,23	48:17 56:11	59:11 65:9	112:8,15,18	works 11:7
8:21	53:14,19	98:10	value 19:13	56:18,20	73:4 75:9	112:21	95:21
touched	65:14 76:21	uniform	107:20	81:25 86:11	78:7 86:7	went 18:14	world 31:11
90:15	78:5 81:14	66:20	valued 65:12	96:19 98:12	91:21 96:15	75:9 83:5	58:19 83:13
track 75:17	two-day	union 27:9,13	values 71:15	98:15	96:20,21	91:13,21	87:7 113:15
81:12 82:8	17:10	27:21,22,24	77:20	113:25	110:4	93:23 94:4	worthiness
82:12 88:19	two-party	76:17 79:16	variety	Wang 6:20	ways 23:12	weren't 82:24	35:3
97:22 99:14	96:11	unions 70:18	109:17	11:4,15,18	88:25	West 11:7	worthless
tracking 99:9	type 27:3,6	76:10	various 24:18	16:4 41:9	109:17	33:15	114:9
trade 85:5	35:19 47:14	unique 4:7	27:8 76:10	41:16 42:10	115:5	western 20:10	wouldn't
tradition	72:16 76:25	90:20	76:12 101:3	42:17 43:18	we'll 11:10,14	whatnot	40:11 100:7
45:17	85:6	United 8:13	101:4,7,8	want 5:12 9:8	22:8 28:23	38:24	wrong 99:6
traditional	types 79:18	27:8,13	28:19 63:22	14:9 25:14	63:9 75:25	white 20:7	Wyoming
73:5 97:18	<hr/> U <hr/>	68:5 69:13	vehicle 6:2	25:25 30:18	93:13	wide 109:17	3:11
tragedy	U.S 17:19	75:16,17	versus 55:6	32:17,18,19	we're 6:11	wife 109:25	<hr/> X <hr/>
108:15	72:2 87:10		vested 75:7	32:21 37:16	21:7 37:3,7	wisdom	X 27:23

Committee on Commerce and Economic Development
February 22, 2016

Y	117 67:9	96:1 97:1	72:1 73:1	3:00 101:20		
yeah 28:5	120 67:10	98:1 99:1	74:1 75:1	3:10 117:17		
33:2,3,17	125 110:16	100:1 101:1	76:1 77:1	30 14:3 88:9		
38:13 41:2	131 67:10	102:1 103:1	78:1 79:1	30-year 7:17		
43:6 80:25	150 93:7	104:1 105:1	80:1 81:1	300,000		
82:2 99:7	16 19:20	106:1 107:1	82:1 83:1	50:15		
99:25	160045 1:16	108:1 109:1	84:1 85:1	35 16:20 87:9		
107:17	2:6,10 3:1	110:1 111:1	86:1 87:1	37 111:3		
year 11:20,22	4:1 5:1 6:1	112:1 113:1	88:1 89:1	3rd 33:18		
39:6 44:14	7:1 8:1 9:1	114:1 115:1	90:1 91:1	<hr/>		
48:19 49:9	10:1 11:1	116:1 117:1	92:1 93:1	4		
58:6 67:4,9	12:1 13:1	117:6	94:1 95:1	4 82:21		
74:3 83:3	14:1 15:1	17 44:15	96:1 97:1	40 72:8 73:21		
86:15	16:1 17:1	170 70:16	98:1 99:1	83:20 88:11		
years 2:20	18:1 19:1	175 111:17	100:1 101:1	88:16		
3:23 10:21	20:1 21:1	1913 44:8	102:1 103:1	400 1:7		
12:20 16:21	22:1 23:1	1980 87:9	104:1 105:1	45-member		
17:8 21:12	24:1 25:1	1989 49:6	106:1 107:1	108:18		
27:11 31:9	26:1 27:1	<hr/>	108:1 109:1	49th 73:18		
37:7 42:7	28:1 29:1	2	110:1 111:1	4th 33:18		
42:16 58:2	30:1 31:1	2/22/16 3:1	112:1 113:1	<hr/>		
64:15 67:14	32:1 33:1	4:1 5:1 6:1	114:1 115:1	5		
76:5 87:9	34:1 35:1	7:1 8:1 9:1	116:1 117:1	5 74:2		
88:9 102:20	36:1 37:1	10:1 11:1	20 42:7 67:11	50 37:7 86:4		
102:20	38:1 39:1	12:1 13:1	72:7,14	50,000 50:16		
yesterday's	40:1 41:1	14:1 15:1	102:20	5th 3:11		
86:19	42:1 43:1	16:1 17:1	200 67:6	<hr/>		
yield 2:14	44:1 45:1	18:1 19:1	2004 58:6	6		
York 111:11	46:1 47:1	20:1 21:1	111:21	6 93:5		
112:8 113:4	48:1 49:1	22:1 23:1	2008 17:18	6.5 111:24		
young 15:15	50:1 51:1	24:1 25:1	67:11	60s 72:10		
youth 14:6	52:1 53:1	26:1 27:1	2009 111:22	63rd 3:13		
<hr/>	54:1 55:1	28:1 29:1	2010 44:3	65th 3:12		
Z	56:1 57:1	30:1 31:1	2011 67:6,10	<hr/>		
zones 85:5	58:1 59:1	32:1 33:1	110:15	7		
<hr/>	60:1 61:1	34:1 35:1	111:2	7 49:9,12,12		
0	62:1 63:1	36:1 37:1	2012 67:5,10	72 60:6		
<hr/>	64:1 65:1	38:1 39:1	73:20 111:7	75 85:20		
1	66:1 67:1	40:1 41:1	111:15,23	750,000		
1 88:17	68:1 69:1	42:1 43:1	112:6	28:17		
1,562 67:4	70:1 71:1	44:1 45:1	2013 67:5	<hr/>		
1,607 67:5	72:1 73:1	46:1 47:1	2015 11:6	8		
1,659 67:5	74:1 75:1	48:1 49:1	84:18 87:9	8 30:20 32:15		
1,761 67:5	76:1 77:1	50:1 51:1	2016 1:8	53:3 97:14		
1.2 112:16	78:1 79:1	52:1 53:1	22 1:8	80 12:25		
1:10 1:8	80:1 81:1	54:1 55:1	25 102:20	32:15 53:4		
10 19:17 29:2	82:1 83:1	56:1 57:1	111:7	800 86:15		
29:8 82:20	84:1 85:1	58:1 59:1	25-year 82:18	85 110:21		
83:2	86:1 87:1	60:1 61:1	250 50:16,17	<hr/>		
100 6:15 29:4	88:1 89:1	62:1 63:1	2nd 3:14	9		
31:2 64:14	90:1 91:1	64:1 65:1	<hr/>	90 29:10		
110 67:9	92:1 93:1	66:1 67:1	3	95 21:12		
114 67:9	94:1 95:1	68:1 69:1	3 84:19 92:24			
		70:1 71:1	3,000 13:22			