Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 591 (Delegate Conaway)
Economic Matters Finance

Task Force to Study the Local Economic Impact of Bank Deserts in Maryland

This bill establishes the Task Force to Study the Local Economic Impact of Bank Deserts in Maryland, staffed by the Department of Labor, Licensing, and Regulation (DLLR). The task force must identify bank deserts in the State where citizens have limited access to financial services or are living in areas without a credit union or bank branch. In addition, the task force must study and make recommendations regarding (1) the economic effect of opening a credit union or bank branch within a one-mile radius of a bank desert and within a one-mile radius of the Coppin State University (CSU) campus and (2) ways to incentivize and attract financial institutions to locate and open a credit union or bank branch in a bank desert in the State. The bill specifies the membership of the task force and requires it to report findings and recommendations to the General Assembly by January 1, 2018.

The bill takes effect July 1, 2017, and terminates June 30, 2019.

Fiscal Summary

State Effect: General fund expenditures increase by approximately $51,300 in FY 2018 only for DLLR to contract with a consultant with expertise on local labor markets. Any expense reimbursements for task force members and staffing costs for DLLR are assumed to be minimal and absorbable within existing budgeted resources. Revenues are not affected.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	$0	$0	$0	$0	$0
GF Expenditure	51,300	0	0	0	0
Net Effect	($51,300)	$0	$0	$0	$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The study must also examine (1) whether a credit union or bank would reduce citizen reliance on check cashing institutions and services and, if so, the extent to which reliance on them is reduced and (2) the effect a credit union or bank would have on area employment.

Current Law/Background: According to the Federal Deposit Insurance Corporation (FDIC), households that lack access to mainstream financial institutions may opt to rely on alternative financial services (AFS) providers, such as nonbank check cashers, payday lenders, or pawn shops. Households that rely on these AFS providers do not receive the full range of consumer protections that are available through the traditional banking system.

Access to an account at a federally insured institution allows households to conduct basic financial transactions, save for emergency and long-term security needs, build credit history, and obtain access to credit on fair and affordable terms. Participation in the banking system also protects households from theft and reduces their vulnerability to discriminatory or predatory lending practices. Despite these benefits, many people (particularly low- to moderate-income households) do not access mainstream financial products, such as bank accounts and low-cost loans, and are considered "*un*banked." Other households may have access to a bank account but still rely on nonbank financial services providers. These households are considered "*under*banked."

National Survey of Unbanked and Underbanked Households

FDIC regularly conducts the National Survey of Unbanked and Underbanked Households. The survey estimates the proportion of households that either do not participate in the banking system or have a relationship with a federally insured institution but also remain underbanked by virtue of their reliance on AFS providers. FDIC has also developed a series of pilot programs, campaigns, alliances, and other initiatives designed to increase services offered by banks and to promote financial education among unbanked and underbanked consumers.

The most recent survey data available revealed that, in 2015, 7% of all U.S. households were unbanked and 19.9% were underbanked. Thus, a total of 26.9% of U.S. households were either unbanked or underbanked. The unbanked amount declined by 0.7 percentage points from 2013 to 2015 and was lower than in any prior FDIC survey. FDIC attributes about half of the decline to improvements in the socioeconomic circumstances of U.S. households.

In the 2015 survey, about three-fourths of all households (76.6%) perceived that banks were "very interested" or "somewhat interested" in serving households like theirs. On the other hand, a majority of unbanked households (55.8%) thought that banks were "not at all interested" in serving households like theirs. The survey also asked unbanked households why they did not have an account. The most commonly cited reason (selected by 57.4% as *a* reason, and by 37.8% as *the main* reason) was "do not have enough money to keep in an account."

Unbanked and Underbanked Households in Maryland

The FDIC survey also indicated that Maryland households are less likely to be unbanked than households nationally. Although 7% of all U.S. households were unbanked, only 4.8% of Maryland households were unbanked. However, a slightly higher percentage of Maryland households were underbanked (22.4%) compared to all U.S. households (19.9%). In the Baltimore metropolitan area, 5.9% of households were unbanked and 21.1% were underbanked. Of U.S. households, 6.5% used check cashers at some point in the 12 months prior to the survey, compared to 5.0% of Maryland households and 6.3% of Baltimore metropolitan area households. **Exhibit 1** shows national, State, and metropolitan area rates of unbanked and underbanked households, in addition to the rates of households that use check cashers.

Exhibit 1
Percentage of Unbanked and Underbanked Households and
Percentage of Households Using Check Cashers:
United States, Maryland, and the Baltimore Metropolitan Statistical Area

	United States	Maryland	Baltimore MSA
Unbanked	7.0%	4.8%	5.9%
Underbanked	19.9%	22.4%	21.1%
Used check casher in past 12 months	6.5%	5.0%	6.3%

MSA: metropolitan statistical area

Source: Federal Deposit Insurance Corporation

Coppin State University

CSU is a residential liberal arts university located in Baltimore City that provides academic programs in the arts and sciences, teacher education, nursing, graduate studies, and continuing education. An HBCU (Historically Black College and University), CSU is a fully accredited institution that offers 53 majors and 9 graduate-degree programs.

State Expenditures: Although the bill requires the task force report to include information on how a bank would affect area employment, DLLR advises that the Office of the Commissioner of Financial Regulation does not have staff with the necessary expertise required to evaluate the economic effect of placing a new bank or credit union within a one-mile radius of a bank desert or within a one-mile radius of the CSU campus. Therefore, general fund expenditures increase by $51,261 in fiscal 2018 only for DLLR to contract with an outside economist with expertise regarding how banks affect local labor markets. Because the report is due January 1, 2018, this analysis assumes the contractual position terminates on that date.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): University System of Maryland; Department of Labor, Licensing, and Regulation; Federal Deposit Insurance Corporation; Department of Legislative Services

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