



HOUSE ECONOMIC MATTERS COMMITTEE
Written Testimony of Mark Kaufman
House Bill 41
Submitted 1/18/21

I want to thank Delegate Smith for inviting me to provide testimony for this Committee as it considers House Bill 41. The Bill would create a task force to study the creation of a public bank.

The public banking effort has been growing around the nation, fueled in large part by the need to enhance financial access for individuals and small businesses. Longstanding structural racism and disinvestment have starved low income and minority communities of capital and entrenched a cycle of poverty and despair. Often lacking access to traditional financial services providers, these communities are further victimized by nonbank check cashers and payday lenders that move in to fill the financial void. Over 25% of Baltimore residents are currently characterized as unbanked or underbanked by the Federal Deposit Insurance Corporation. The sponsors of this bill propose to examine a public alternative is one potential way to meet this need.

I testified on a similar legislative proposal roughly a decade ago as Maryland's Commissioner of Financial Regulation. At the time, I noted the significant challenges in structuring such an enterprise, not the least of which is the immense requirement of capital, both human and financial, necessary to launch such an initiative. Likewise, any institution would need to secure federal deposit insurance from the FDIC. Alternatives that rely on state coverage raise echoes of the dark days of the late 1980s when the collapse of the state's savings and loan industry took down the state-backed insurance fund and cost Maryland taxpayers dearly.

As this committee considers and studies new structures, I note that there are a cadre of mission focused financial services providers already working hard to meet the needs of the underbanked and underserved. Community Development Financial Institutions (CDFIs) are private financial institutions - both banks and non-banks - that are dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people and communities join the economic mainstream. These organizations work collaboratively with traditional banks, foundations, government and other stakeholders to deliver innovative and flexible financial products, along with the technical support to make them work.

Further, I note that government can pursue opportunities to work collaboratively with these institutions and support their efforts. I currently serve as the CEO of Baltimore's new Neighborhood Impact Investment Fund or NIIF (www.Baltimoreniif.org). Our fund was launched in 2019 with a mission to deliver capital and promote inclusive, equitable growth in Baltimore's historically disinvested neighborhoods. NIIF has been initially capitalized with a \$51.7 million loan from Baltimore City. We are an independent 501(c)(3) loan fund operating in alignment with Baltimore City and working to provide

loans and investments that accelerate economic growth, catalyze business activity, deliver needed services, and create greater economic opportunity for residents. In our first two years of operations, we have committed over \$15 million and leveraged over \$70 million in outside investment. Just last week, we received our certification as a CDFI from the US Treasury Department.

But NIIF is hardly alone. Baltimore Community Lending, Neighborhood Housing Services of Baltimore, Harbor Bank and Latino Economic Development Center (LEDC) are all local CDFIs working to meet credit needs in the Baltimore market. Similar institutions such as City First, Maryland Capital Enterprises, and FSC First also operate in other parts of the state while national CDFIs such as Enterprise and Reinvestment Fund maintain sizeable commitments in the state. These organizations and others in our industry provide a range of products including home mortgage loans, small business loans and commercial financing where others will not - to fuel inclusive economic growth where it is needed most. As you continue to examine this legislation, I urge you to consider CDFIs as a viable tool in your legislative toolkit. Supporting existing institutions and infrastructure can provide an immediate and impactful way to meet these important goals.