



MD|DC
Credit Union Association

Chairman Dereck Davis
Room 231
House Office Building
Annapolis, Maryland 21401

HB 41: Maryland State Bank Task Force - Establishment
Testimony on Behalf of MD|DC Credit Union Association
Position: Support

Chairman Davis, Vice-Chair Dumais, and Members of the Committee:

On behalf of the MD|DC Credit Union Association and the 77 Credit Unions and their 2.2 million members that we represent in the State of Maryland, we appreciate the opportunity to testify on this legislation. Credit Unions are member-owned, not-for-profit financial cooperatives whose mission is to promote thrift and provide access to credit for provident and productive purposes for our members. **We are in support of this bill as amended to include:**

"Advocate for and support the implementation of laws and regulations allowing not-for-profit financial cooperatives and community based financial institutions to serve as the financial stewards for government entities and encourage government entities to use these entities for their financial needs."

We have the same goals as the bill sets out, and would like to work together to accomplish them.

I. The Root of the Problem.

One of the primary perspectives that has "fostered advocacy for public banking in America, especially in recent years...is the view that governments pay more for banking services with private, profit-maximizing financial institutions than they would with a public bank. Additionally, any profit made from service fees and earnings derived from deposits of public funds would not necessarily be directed back to their source economy. Furthermore, it is believed a public bank would allow for the partial or complete divestment of public funds from Wall Street banks, thus relinquishing taxpayer support of some considerably dangerous and harmful commercial banking practices."¹

¹ NYMBUS Corp. Public Banking Feasibility Study For the Government of the District of Columbia, 2020. P. 5.



In "DC the primary reason identified by public banking advocates is to have the District government stop using 'Wall Street Banks,' which would save costs, keep the dollars local, and divest from banks that engage in harmful practices."²

II. The State can partner with Credit Unions to accomplish the goals stated in this bill.

As the bill language states, some potential focuses of this task force are to:

"strengthen the economic and community development needs of Maryland ... reduce the costs paid by the State for basic banking services; and return profits, beyond those necessary to accomplish the mission and sound operations of the Bank, to the General Fund of the State."

A. Strengthen the economic and community development needs of Maryland.

Credit unions are chartered to serve specific communities or groups (called a "field of membership"), and we can only serve the community in which we are chartered. We cannot (and would not) pick up and leave a community because it wasn't profitable enough for investors because we have no investors! Our members own the credit union one-hundred-percent, and this relationship allows credit unions to fully become a part of the community they serve. As proof of our community relationships, since 2004, credit union branches have increased by more than 1,500 nationwide in low to moderate-income areas, while other financial services branches have decreased.³

The DC study found that "Credit unions also [in addition to other community financial institutions] are a valuable resource for small business lending in the District. Credit unions are ideal loan providers for sole proprietorship small businesses since they typically provide lower interest rate loans and have less stringent criteria than commercial institutions when they are determining loan eligibility. In 2015, credit unions approved 43 percent of all loans, double the amount approved by large banks.⁴ Credit unions often direct their services to low-income and minority areas and offer additional education and support for members."⁵

B. Reduce the costs paid by the State for basic banking services and return profits beyond those necessary to accomplish the mission and sound operations of the Bank to the General Fund of the State.

² Id. At ii

³ NCRC Report "Bank Branch Closures from 2008-2016: Unequal Impact in America's Heartland"

⁴ Id. Quoting from "Small Business Lending Index. "Biz2Credit, June, 2018. <https://www.biz2credit.com/small-business-lending-index/june-2018>

⁵ Id. at 53



Credit Unions are 501(c) member-owned tax-exempt financial co-ops and do not have any "outside" financial stakeholders or investors. Credit Union National Association (CUNA) estimates that Maryland credit unions provided \$292 million in direct economic benefits to the State's nearly 2 million members in 2019. Credit union members see this benefit from the tax exemption through lower rates on loans, lower fees on services, and higher returns on deposits.⁶ **The State and the General Fund would benefit from the credit union structure in the same way that individual members do!**

C. Unfortunately, Maryland is one of the few states that doesn't allow government entities to utilize credit unions for their financial needs.

Thirty-five states have provisions in their state law that allow credit unions to receive, or government entities to provide, public deposits. Of these 35 states, 26 have laws that explicitly allow both the depositing and accepting public funds by credit unions. We have introduced legislation that would allow credit unions to act as stewards for public funds but have not successfully passed anything. **If the State engages credit unions as a financial partner, we can likely accomplish the stated goals.**

III. We support this bill because this taskforce goes farther than just looking into a public bank's feasibility. It will conduct a full examination of whether or not public funds are being used in a manner that is best for the public. We support this mission.

The MD|DC CUA was heavily involved in the District of Columbia's public bank study conducted by NYMBUS Corp from 2018 to 2020. The feasibility of public banks has been studied in several jurisdictions, and the conclusion is generally the same. While we aren't against the taskforce looking into any possible solutions to the problem, we expect that Maryland will have similar outcomes as other states, to any studies that are conducted.

A. Use existing private or public infrastructure to further support public policy goals.⁷

Some feasibility studies, to include DC's, recommended using existing institutions to address identified needs instead of starting a new public bank. **This is precisely our position.** The State should fully engage current, local, resources such as

⁶ Congress estimates that the credit union tax expenditure "costs" the federal government of \$1.9 billion annually, however, consumers benefit to the tune of \$18.9 billion annually because credit unions are tax-exempt.

⁷ NYMBUS at P. 67.



credit unions as their financial partner.

B. Barriers to a public bank.

Creating a banking institution from the ground up that can handle significant amounts of capital is exceedingly costly. As the DC Feasibility Study found, "Startup costs and initial capitalization are significant barriers. Specifically, the ability to sustain banking operations over time is a major impediment to forming a public bank due to the significant initial outlay of public funds required for a solvent institution and the public interest nature of loan portfolios."⁸ The below chart (table 4.1) shows the capitalization and operating costs found in several studies.

Table 4.1 – Estimates of Potential Capitalization and Operating Costs from Public Bank Feasibility Studies³⁹

Location	Capitalization	Annual Operating Costs
Oakland, CA	\$50,000,000	\$1 million
Maine	\$100,000,000	\$25 million years 1-4
Massachusetts	\$3,600,000,000	Not estimated
North Dakota	\$325,000,000 ⁴⁰	\$30,886,000 ⁴¹
Hawaii	\$500,000,000	Not estimated-
Illinois	\$9,800,000,000	Not estimated
San Francisco, CA	n/a	\$3,700,000
Santa Fe, NM	\$10,000,000	\$270,000
Vermont	\$400,000,000	\$16,500,000
Washington (state)	\$100,000,000	n/a

Source: See Appendix C for Feasibility Studies

As always, we appreciate the ability to have our voices heard and look forward to a continued partnership. Please reach out to me at jbratsakis@mddccua.org or our VP of Advocacy, Rory Murray, at rmurray@mddccua.org with comments or questions.

Thank you!

Sincerely,

John Bratsakis
President/CEO
MD|DC Credit Union Association

⁸ Id. At 63