



HB 41 – Maryland State Bank Task Force - Establishment
Senate Finance Committee
March 23, 2021
Oppose

The Maryland Bankers Association represents FDIC-insured community, regional and nation-wide banks that employ more than 26,000 Marylanders and hold more than \$182 billion in deposits in over 1,400 branches across our State. The Maryland banking industry serves about 6 million customers across the State and provides an array of financial services including residential mortgage lending, business banking, estates and trust services, consumer banking and more.

House Bill 41 would establish the Maryland State Banking Task Force to review and evaluate the creation of a Maryland State Bank. MBA appreciates the bill sponsor's interest in the concept of a State Bank, as well as, supporting the economic development of the State. However, **MBA is opposed to creating a State bank or creating a Task Force to study forming a State bank, which would require an effort that we believe is unnecessary and would provide no benefit to Maryland residents or businesses.** Similar legislation has been introduced in six prior legislative sessions (2017, 2013, 2012, 2011, 2010, and 2009) and has never advanced.

The implications of creating a State bank pose risks to Maryland's taxpayers and would saddle the State with significant, unwarranted costs to replicate a highly competitive, regulated and federally-insured banking system that exists in towns and cities across Maryland.

There are currently only one public bank operating in the U.S. However, the American Samoa recently created one because this island is 2,500 miles from the US and risked becoming unbanked. The Bank of North Dakota was chartered in 1919 to address circumstances that no longer exist in that state or anywhere else. Because it was created nearly 100 years ago, the Bank of North Dakota existed before most banks in that state were created. It provides banking services to businesses and consumers directly and serves as a bankers' bank for other banks in the state.

On the other hand, Maryland is served by a strong and healthy banking industry with 83 banks with 1,400 branches. Thirty-eight of those banks are headquartered in Maryland. In addition, about 100 credit unions serve the State. Maryland continues to be a market of choice and competition among financial institutions in this region is robust.

Starting a public bank would consume public funds that could be used for other, urgent needs such as health and safety, infrastructure and community development instead of offering financial services which are already provided efficiently by tax-paying, private-sector banks operating in a highly competitive marketplace.

Similar study legislation has been considered, and rejected, in other states. The Federal Reserve Bank of Boston conducted a study of a state bank for Massachusetts in 2011. The study states, "Capitalizing a new bank along the lines of the initial size of Bank of North Dakota would require funds roughly equal to one-fifth of the state's general obligation debt" or \$3.6 billion. The potential costs of starting up a state-owned bank in Maryland would be significant. When similar bills were introduced in Illinois and Washington State in the prior decade, those states estimated the costs for creating a State Bank today at \$827 million and \$155 million respectively.

San Francisco recently conducted a study of public banking in the city. Its study estimated that an investment between \$184 million and \$3.9 billion would be needed to operate a public bank, depending on its mission, and it would take anywhere between 10 and 56 years before it would break-even.

While proponents may assert that a State Bank will generate profits for the State, we do not believe this will be the case and, instead, such a bank will put taxpayers at risk. In considering the risk that creating a State Bank would cause to taxpayers, many questions emerge, including:

- Can a startup bank reach the size and scale necessary to provide diverse products and services to banks, credit unions and other financial services companies while achieving profitability?
- Typically, the State Bank will not be profitable for three years or more, which is the typical timeframe for profitability for a newly formed bank. The bank may never reach the size necessary to create meaningful profits. The potential return of profits to the State is likely insignificant relative to the risk.
- What impact will this new risk have on the State's credit rating? How would the rating agencies feel about the potential risk of the state operating a bank?
- Banks are either regulated by the State of Maryland *and* a federal banking regulator or they are regulated at the federal level by the Office of the Comptroller of the Currency. Deposits in these institutions are all insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor per account. There would be no federal deposit insurance for deposits in the State Bank, nor would the State Bank be subject to extensive federal regulations and examination oversight, which are necessary for protecting depositors and preserving the safety and soundness of the bank.

Proponents in the past have asserted that banks aren't lending and therefore this new State Bank will increase access to credit. Banks are in the business of lending and are lending and working with their customers and business clients to meet their current and developing needs. For example, in Maryland, according to the SBA data by August 8, small businesses and nonprofits, across Maryland, received over 86,000 forgivable loans totaling more than \$10 billion. Maryland banks deployed almost 90% of the PPP loans. These loans helped support more than 950,000 in Maryland and helped sustain the State's businesses and nonprofits. And this and commitment from Maryland banks remains strong. As of late February, 35,700 round three PPP loans have been made to Maryland businesses totaling \$2.95 billion. This totals over 120,000 Maryland PPP loans in less than a year. This is just one example of the ways Maryland banks are working to support small businesses, help the economy and support Maryland jobs and employment.

The Maryland banking industry is committed to our State's communities and citizens. Banks support non-profits through financial contributions and volunteer service, with each bank officer dedicating more than 100 volunteer hours each year to community/charitable organizations.

Expanding access to financial services is a goal we fully support, but we believe forming a public bank is not the way to achieve this and formation of a State bank Task Force is unnecessary. **The MBA respectfully urges an unfavorable Committee report.**