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# A Public Bank Could Help Ensure All Marylanders Have Access to Financial Services

## Position Statement in Support of House Bill 41

*Given before the Senate Finance Committee*

Access to a community bank can be a critical component for building long-term economic security and stability, both for families and the community at large. In addition to the basics like having a place to safely save funds, earn interest on those savings, and cash or depositing checks, having a relationship with a financial institution helps people secure loans to make bigger investments like buying a car, home, or starting a business. In part because of a long history of discriminatory practices in the private financial services sector, too many Marylanders have limited or no access to a bank, particularly those in communities of color.

For these reasons, the Maryland Center on Economic Policy supports House Bill 41, which would form a task force to study the creation of a public bank in Maryland.

Public banks serve multiple functions, all of which are focused on serving the best interests of the communities they serve – not to make profits for Wall Street investors. They serve as the depository for state or local funds, which can then be leveraged to support community needs. This practice is also fiscally responsible, saving millions of dollars over time by eliminating fees paid to private banks, according to the Public Banking Institute.

Public banks are committed to serving local community needs, while partnering rather than competing with local community banks. This creates opportunities to meet the needs of communities that don't have access to banks today, which are primarily lower income, Black and Brown communities. About 4 in 10 Black residents of Baltimore City were "underbanked" in 2013, meaning that they sometimes have to rely on services like check cashers and payday lenders to meet their financial needs, and 6 percent had no access to a bank at all.<sup>i</sup> Bank access is especially vital during the coronavirus pandemic, as some consumers and businesses fear that cash transactions could put them at risk of infection.

Lack of banking access also harms communities by reducing the amount of lending available to small businesses. Without access to loans, small businesses might have a harder time expanding or may never get off the ground in the first place. Research has shown that as the number of banks in Baltimore declined over the last decade, so did the amount of small business lending.<sup>ii</sup>

As a growing number of cities and states explore public banking, it is worthwhile for Maryland to take a serious look at establishing a public bank here as well. A task force is an appropriate next step to evaluate this concept and how it could serve Maryland families and communities.

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the Finance Committee give a favorable report to House Bill 41.**

## Equity Impact Analysis: House Bill 41

### *Bill Summary*

House Bill 41 would form a task force to review and evaluate the creation of a public bank in Maryland. The purpose of a state bank would be to increase access to capital for Maryland businesses, provide stability to the state's financial sector, and reduce the state's costs for banking services.

### *Background*

The state of North Dakota has operated a public bank since 1919. The bank holds state funds, invests in the local economy, and issues student loans. The bank returned more than \$140 million in net earnings to the state budget in 2017.<sup>iii</sup>

In Germany, a network of regional municipal banks increases low-income Germans' access to financial services and invests in local economies.

### *Equity Implications*

- A 2015 survey by the Federal Deposit Insurance Corporation found that 6 percent of people living in the Baltimore metropolitan area did not have any relationship with a mainstream banking institution, and another 21 percent relied partially on services like check cashers and payday lenders.
- In 2013, the last year for which data are available, 13 percent of Black residents of the Baltimore region were fully unbanked, and less than half were "fully banked," not needing to rely on check cashing or similar services at all.
- Practices ostensibly intended to increase access to financial services through the private sector have historically backfired. For example, expanding access to credit was one stated purpose of subprime mortgages, which ultimately triggered the 2008 financial crisis and disproportionately pushed Black homeowners into foreclosure.

### *Impact*

House Bill 41 would likely **improve racial, gender, and economic equity in Maryland.**

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<sup>i</sup> Sean Vanatta, "The Municipal Banking Movement, an Opportunity for Baltimore," The Abell Foundation, July 2019, [https://abell.org/sites/default/files/files/Public%20Banking%207\\_10\\_19.pdf](https://abell.org/sites/default/files/files/Public%20Banking%207_10_19.pdf)

<sup>ii</sup> Vanatta, 2019

<sup>iii</sup> Vanatta, 2019