Maryland Consumer Rights Coalition

Testimony to the House Economic MattersCommittee
HB 984: Maryland State Bank Task Force-Establishment
Position: Favorable

March 9, 2022

Honorable C.T. Wilson, Chair
House Economic Matters Committee
Room 231, House Office Building
Annapolis, Maryland 21401
Cc: Members, House Economic Matters Committee

Honorable Chair Wilson and Members of the Committee:

The Maryland Consumer Rights Coalition (MCRC) is a statewide coalition of individuals and organizations that advances financial inclusion and economic justice for Maryland consumers through research, education, direct service, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

MCRC is in strong support of HB 984. HB984 would create a task force to study the formation of a Maryland State Bank.

Banks play a critical role in providing financial products and services to Maryland families. Banks also provide loans to small business owners, home buyers, and to a number of community development projects. While there is a great need for creative capital and new products that provide sustainable and affordable loans to working families, in many cases, traditional banks have fallen short of realizing these opportunities.

In the midst of an economic crisis and health pandemic, banks have provided critical philanthropy to community groups but have also fallen far short in a number of areas, including:

- **Closure of brick and mortar bank branches**

Among 50 metro areas, Baltimore saw the second most bank branch closures -losing 96 branches-between 2017-2021. Local bank branches provide an opportunity to build trust and financial literacy for individuals and small businesses. Yet brick and mortar banks have been closing across the country over the past decade. A February 2022 NCRC report found that between March 2010-March 2020, 11,280 bank branches closed, an average of 98.5 per month. Rural communities and low-income urban communities suffered the worst effects of the bank closures. Yet, throughout the pandemic, since March 2020, banks closed brick and mortars with rapidity with more than 4,000 branch closures, an average of 201 bank branches per month. Bank branch closures have been seen to reduce financial access in low-income communities and communities of color and led to an increase in unbanked and underbanked residents as well as an increase in the use of alternative financial products.

- **Bank consolidation and mergers**

Mergers, acquisitions, and consolidations have decimated small banks, with rural areas being particularly hard-hit. Between 2008-2016, 86 new banking deserts were created in rural areas during the period. These are service gaps in which there were no banks within 10 miles of populated areas.

- **Inequitable lending patterns in PPP loans.**

MCRC's new report on PPP lending in Baltimore City found that the Top 10 banks in Baltimore by deposits (in order: Bank of America, M&T, Wells Fargo, PNC, Truist, Howard, Harbor, Fulton, TD, and Capital One) distributed almost 4000 PPP loans of which 54.8% went to majority Black zip codes – not proportional to the population which is 62.35% Black. More troubling, of the Top 10 banks in Baltimore City, four provided a greater number of loans in majority white zip codes (Howard, M&T, Fulton, TD) and two also lent a greater loan amount in white zip codes (Fulton and TD).

- **Difficult to enforce CRA obligations**

The Community Reinvestment Act (CRA) requires banks to serve the communities that it takes deposits from through affordable lending and other products and services. Yet, even when banks provide mortgage and business lending below their competitors, they often pass CRA exams. CRA is an important tool but it needs to be strengthened and modernized.

Moreover, the recent wave of bank closures makes it more challenging to enforce CRA obligations, because banks are supposed to serve individuals within the banks' footprint but as banks consolidate and merge, there are fewer banks with a local footprint which makes it more difficult to enforce these obligations.

A public bank may provide competition and spur traditional banks to compete for business in underserved communities, or it may complement traditional banks as the Bank of North Dakota does and provide capital, loans, and innovative products designed to invest in neighborhoods that traditional banks have disinvested from or who are unwilling to make more creative investments. California has authorized enabling legislation for cities to establish public banks which may engage in banking activities, including infrastructure lending, wholesale lending, participation lending, and certain retail activities but may not compete with local financial institutions or engage in certain retail activities without partnering with a local financial institution. *To reiterate, public banks may provide important complementary services to traditional banks.*

HB984 creates a workgroup composed of a diverse set of stakeholders to study the issue and provide recommendations about how Maryland should proceed.

For all of these reasons, we support HB 984 and urge a favorable report.

Best,

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Executive Director

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