



HB 984 - Maryland State Bank Task Force - Establishment

Committee: House Economic Matters Committee

Date: March 9, 2022

Position: Oppose

The Maryland Bankers Association (MBA) represents FDIC-insured community, regional, and national banks, employing more than 29,000 Marylanders and holding more than \$201 billion in deposits in over 1,300 branches across our State. The Maryland banking industry serves about 4 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.

HB 984 would establish the Maryland State Bank 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 seven prior legislative sessions (2021, 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 is currently only one public bank operating in the United States. The Bank of North Dakota was chartered in 1919 to address circumstances that no longer exist in that state or anywhere else. It was created nearly 100 years ago and only because banking was mostly non-existent in that state. American Samoa recently created one because this island is 2,500 miles from the U.S. and risked becoming unbanked.

On the other hand, Maryland is served by a strong and healthy banking industry with dozens of banks and over 1,300 branches. Over thirty of those banks are headquartered in Maryland. In addition, nearly 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.

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:

- A State Bank will not be profitable for years. 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 (released on July 6, 2020), over 81,300 Paycheck Protection Program loans totaling more than \$10 billion were made to businesses and nonprofits across Maryland. These loans helped support an impressive 938,434 jobs in Maryland and helped sustain the State's businesses and nonprofits. This is just one example of the ways Maryland banks are working to support small businesses.

The Maryland banking industry is committed to the 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 Bankers fully support, but MBA believe forming a public bank is not the way to achieve this and formation of a State bank Task Force is unnecessary. Accordingly, MBA strongly urges an **UNFAVORABLE** report on HB 984.