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February 22, 2023

House Economic Matters Committee

Chair: Delegate C.T. Wilson
House Bill 548 - Financial Regulation - Maryland Community Investment Venture Fund - Establishment (Access to Banking Act)

Re: Letter of Support

The Office of the Commissioner of Financial Regulation's ("OCFR") goal is to operate a modern regulatory system that promotes respect for consumers, safety and compliance, fair competition, responsible business innovation, and a strong state economy. Included in that mission is the objective of ensuring that all Marylander's and their respective communities have access to financial services.

At the end of 2021 OCFR produced a report on the banking environment in Maryland. The report included research related to "bank deserts" and included references to studies raising an issue as to whether "bank deserts" are purely a geographical issue or driven by other issues within communities. Considering the research, this bill proposes to both (a) encourage the expansion of access to depository institution services to those who do not regularly use them and (b) encourage the continued availability of depository institution services to those Marylanders who currently have access. This bill proposes this to accomplish two specific goals.

First, the bill seeks to promote communities' access to physical branches of depository institutions. To that end, the bill would change the assessment system for depository institutions to provide an incentive for institutions to establish de novo branches and to retain existing branches in low-to-moderate income ("LMI") communities.

Current law requires OCFR to assess each banking institution and credit union with a fee to cover the expense of regulating their respective industries. The assessment is based on the institution's asset size and is unrelated to the costs incurred by OCFR. Assessed funds are paid into the Banking Institution and Credit Union Regulation Fund (the "Special Fund") which is dedicated to use in funding OCFR's depository supervisory activities. Over time the Special Fund has amassed a surplus and the bill proposes to use a portion of that surplus to provide an assessment credit for banks that provide access to their branches to LMI communities. The credit is in the amount of $0.06 per $1,000 of deposits on branches currently existing in LMI communities and, for a period of five years, $0.12 per $1,000 of deposits on de novo branches established in LMI communities. The proposed assessment credit for credit unions would be in the amount of $0.04 per $1,000 of deposits on branches currently existing in LMI communities and $0.08 per $1,000 of deposits on de novo branches established in LMI communities for a period of 5 years. The assessment credit would apply only to branches of banks or credit unions with a composite 1 or 2 rating and would be capped by the average national growth rate in deposits. The legislation would codify implementation of this credit accordingly.

Second, the bill would authorize OCFR to utilize funds from the Special Fund to seed a private fund (the "Venture Fund"). The Venture Fund will leverage a portion of the revenues that have accumulated in the Special Fund in the past four years to foster financial innovation to assist Maryland lenders in reaching businesses in LMI communities. In addition to funding the organizational costs, the Special Fund will provide the initial capitalization of $2.5 million to the Venture Fund which will be last-out capital. As an "encouragement" to banks and credit unions to reinvest the assessment credit received under this bill each year, OCFR would commit to match (from the Special Fund) any amount invested in the Venture Fund by any Maryland State-chartered bank or credit union up to the amount of the assessment credit received by that bank or credit union that year. This commitment would continue for 5 years through FY 2028. For example, if every bank and credit union were to invest the full amount of their assessment credit in the Venture Fund each year, the Special Fund's match would be approximately $1.35 million - assuming both an 8% deposit growth rate (which is the average asset growth rate for the past 6 years) and no loss of banks or credit unions from the current assessment base. The Special Fund has a sufficient balance to support such an investment and OCFR's ongoing operations.

The goal of the Venture Fund will be to find ways to increase lending to small businesses in LMI areas. The Venture Fund will aid in that endeavor. To accomplish that goal, the Venture Fund would invest in "Fintechs" that (1) develop data points and/or data streams that can be utilized to successfully underwrite small (or micro) business credit in LMI communities; or (2) find ways to utilize existing data points for underwriting credit and capital investments for small businesses in LMI communities. As these underwriting capabilities are developed, the Venture Fund would serve as a source of capital for loans to, or investments in, these small businesses as proof of concept.

For example, a potential investment type would be a Fintech creating systematized information streams for relevant underwriting data to be used for developing scoring models. Fintechs have worked to develop non-traditional approaches to consumer. The Venture Fund would provide capital for similar entities to develop comparable approaches with respect to small business lending. In addition to the access to capital, the potential for a Fintech company to leverage any successful developments beyond the state of Maryland would serve as an added incentive for beneficial small business development.

To facilitate the establishment of the Venture Fund, this bill amends section 2-118 of the Financial Institutions Code to allow for the use of the funds from the Special Fund for this purpose. Under current law, funds can only be used for "costs and expenses… relating to the regulation of banking institutions and credit unions." Current law includes two examples of costs meeting this requirement, and this legislation adds a third to include the Venture Fund. This bill would add new section 2-118.1 that specifies the purpose and duration of the Venture Fund. When the five-year funding period ends, there would be no further authority to invest Special Funds for this purpose without additional approval from the Legislature.

We believe this bill helps all Marylanders, by encouraging access to banking and encouraging investment in a strong state economy. We urge a favorable report.