OREGON BANKERS ASSOCIATION

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Testimony in Opposition to HB 2743
House Business and Labor Committee

Chair Holvey, Vice Chair Grayber, Vice Chair Bonham and Members of the Committee, thank you for the opportunity to provide testimony on House Bill 2743. The Oregon Bankers Association and our sister organization, the Community Banks of Oregon, represent state and national FDIC-insured banks doing business in the State of Oregon.

Oregon's banks are the premier providers of credit – particularly small business credit – in Oregon. They are also responsible for the safekeeping of $79 billion in Oregonians' hard-earned dollars. More than 20,000 people work for banks at over 944 locations in Oregon. These banks also support over 1,000 nonprofits and community organizations in Oregon donating $20.7 million and 225,600 volunteer hours each year. They are cornerstones of the communities they serve.

In addition, Oregon's banks have provided extraordinary assistance to Oregon families and businesses impacted by the COVID-19 pandemic. Some of this assistance was in partnership with the state and federal government, including forbearance for government-backed mortgage loans, origination of 85% of the Paycheck Protection Program loans that have so far reached more than 70,000 Oregon businesses, and assisting the state with cash distributions to those awaiting unemployment. Less visible is the assistance banks have provided every day to their customers and communities, including extensive payment deferrals, fee waivers, loan modifications, and emergency assistance. From housing families displaced by wildfires to restructuring debt for COVID-impacted small businesses, Oregon's banks have gone above and beyond to assist our state during the past year. They will continue to do so in the year ahead.

With that said, we are deeply concerned about House Bill 2743, which would allow the creation of publicly-owned municipal banks in Oregon.

The Concept of a Public Bank is Not a New Idea

The concept of public banks is not new. Public bank bills, whether creating state banks or municipal banks, have been introduced numerous times in Oregon over many decades but have repeatedly failed to advance because they are unnecessary and a risky use of taxpayer dollars. Proponents often note the Bank of North Dakota as an example of a successful public bank. That entity, however, was established a century ago because of a lack of banking services in North Dakota at the time, a situation that does not exist now in Oregon nor in North Dakota. The Bank of North Dakota's ongoing success is that it has been allowed to operate like a "Bankers Bank," which means is interwoven into the fabric of the North Dakota banking community and provides partnership opportunities similar to what Business Oregon provides in Oregon. In

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fact, the bank itself and the industry as a whole in North Dakota have said such a bank would not be established there today.

Mechanisms to Enhance Credit Availability in Oregon Already Exist

Oregon banks, credit unions, and other non-bank lenders provide extensive banking services and loans throughout the state. These institutions have access to funding that is leveraged to provide billions of dollars of credit in Oregon annually. In addition to this direct lending to Oregon individuals and businesses, there are numerous organizations and public/private partnerships that provide or leverage additional credit. Business Oregon, a strong financial institution partner, provides a variety of direct lending and loan guarantee programs, including the Capital Access Program and the Credit Enhancement Fund. Financial institutions also partner with federal organizations like the Small Business Administration and the Department of Agriculture to reach additional borrowers that might otherwise struggle to obtain a loan. Financial institutions also partner with community development financial institutions, like Craft3 and other non-profits, to provide access to credit for those not yet able to obtain a bank loan. With these organizations and mechanisms in place, the focus should be on supporting their efforts rather than creating a duplicative public entity.

Creation of a Municipal Bank is a Risky Proposition

It is not clear in House Bill 2743 what a municipal bank would do and what problem it would address. The bill has essentially no detail about what it's purpose would be or what role it would serve. It defines "municipal bank" very broadly as an organization to conduct banking business in the state as directed by an ordinance or resolution of a local government. The bill purports to allow a "municipal bank" to be a public depository, but little else is provided in terms of detail, sideboards, or explanations.

In addition to lacking a clear purpose and definition, the bill does not address the multitude of complexities, risks, expenses, and concerns related to the creation and operation of a bank. Banks are among the most heavily regulated industries with rules and regulations governing nearly every bank activity, including corporate governance, enterprise risk management, loan underwriting standards, risk rating assessments, loan portfolio standards, loan concentration limits, capital requirements, liquidity requirements, depository services and more. Regulations also oversee the duties of bank boards, directors and officers. Suffice it to say, creating a bank is an expensive and time-intensive effort.

The following are just some of the questions unanswered by the bill:

- How would a municipal bank be capitalized? How much would be required to capitalize such an entity? Who would provide those resource and under what conditions? What will serve as contingent capital should the bank experience unexpected losses?
- How will the bank define its tolerance for loan losses? This then begs the question of what activity it would provide that existing financial institutions do not without taking on too much risk?
- How would a municipal bank be politically independent and not subject to the political decisions of city and local officials to make risky loans to favored individuals, causes, and communities? Would the day-to-day operations of the bank be run by political appointees?

- Who would perform the underwriting?
- Would the bank take deposits? If the bank sought to take deposits, would the bank be able to access FDIC insurance? If accessing FDIC insurance was not possible, would an effort be made to forego FDIC insurance or provide some other depositor guarantee?
- If the bank does not take deposits, where would its funding come from and why would it need to be established as a bank versus simply funding a loan program?
- Would the bank be able to access the payment systems? Under what circumstances?
- If the bank is a public depository, how would it go about collateralizing and insuring the safety of public funds? Would it have to rely on other banks as part of Oregon's pooled collateral model?
- Who bears the burden of bank losses? The city or local government? Would the state have a role? What would happen if a municipal bank failed?
- How would the bank compete with other regulated financial institutions, especially Oregon-chartered community banks and credit unions?

These are only the tip of the iceberg in terms of concerns and considerations that a municipal or other public bank would face. These issues are not addressed in the bill and create substantial risk for local governments and tax payers.

In short, creating a municipal bank would not solve any existing problems with access to credit for certain individuals and businesses. It would instead be a risky and unnecessary experiment that jeopardizes taxpayer resources.

Vote No on House Bill 2743.

If you have questions, please contact OBA Lobbyists Paul Cosgrove at (503) 799-5679 or Tim Martinez at (503) 510-9019.