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To: House Committee on Commerce and Consumer Protection

RE: HB 2966

Dear Members of the House Committee on Commerce and Consumer Protection,

I am writing to express Umpqua Bank's opposition to House Bill 2966, which proposes the creation of a State Public Finance Task Force to study the establishment of a state-owned bank in Oregon. While the proponents of this bill argue that a state-owned bank would create new jobs and spur economic growth by providing loans to small businesses, I believe this is speculative at best and raises several concerns.

Firstly, if several banks have already rejected a loan, it is questionable whether a state bank should make risky loans to unqualified borrowers in the name of economic development. There are already numerous federal and state programs, as well as private corporations, that facilitate financing in partnership with traditional banks. These include partial loan guarantees, loan participations, and additional collateral support.

Many Oregon banks, including Umpqua Bank, are fiercely competing to attract borrowers. Lending is how banks succeed, so they are highly motivated to lend. Although regulatory oversight has increased, and compliance has become more burdensome, strict adherence to long-standing best practices in the loan review process remains essential.

Moreover, state-owned banks would unfairly compete with the private sector, leading to less competition and consumer choice. The current banking marketplace already offers many options for consumers, and there is no evidence to suggest it is failing to meet banking needs. Should evidence be presented that banks are failing to meet a need, the industry is willing to work with stakeholders to address that need. A state-owned bank would compete with community banks that take deposits and make commercial loans. The loss of community banks could lead to the loss of business growth, jobs, and be detrimental to the communities they serve.



Establishing a state-owned bank would require a significant financial commitment from the state to become well-capitalized. State taxpayer dollars would be at risk because a state-owned bank would not have deposit insurance, such as that provided by the Federal Deposit Insurance Corporation (FDIC). Potential cost-savings resulting from not paying bank fees must be balanced against the expense of operating a bank. Banking is highly regulated, meaning that a new bank must comply with an extensive set of federal and state laws and regulations to operate lawfully.

A state bank could be susceptible to political pressure to make lending decisions based on political purposes rather than sound underwriting criteria. Private-sector banks have significant banking expertise, and taking deposits and making loans is not the expertise and function of the state. A state-owned public bank could make risky loans because it does not have expertise and sophistication in loan origination. Additionally, a state-owned bank may face legal obstacles in providing adequate collateral to support government banking requirements.

There is also the fundamental question of whether the government should compete with the private sector, given its significant competitive advantages. Oregon already has a well-established and diverse financial services industry. Therefore, there is no need for the state to enter the banking business. At a time when Oregon has so many economic needs, it seems counterintuitive to expand government into the banking sector.

Furthermore, state ownership of banks does not solve the marijuana banking issue. Marijuana remains illegal under federal law, and banking the proceeds from the sale of marijuana remains illegal. A state-owned bank would require approval from the Federal Reserve to access the payment system to move funds electronically. Banks have extensive obligations under federal law related to knowing their customers, tracing the source of funds, filing reports on suspicious activity, and working collaboratively with law enforcement. Extending credit to businesses operating illegally under federal law faces significant risk of loss due to federal asset forfeiture laws.

A state bank would be a risky and expensive proposition, largely duplicating much of what the Oregon Treasurer's Office is already doing. As such, Umpqua Bank opposes the creation of a state bank for the reasons stated above.

I appreciate the opportunity to provide you with this information. If you require any additional data on this issue, please let me know. Thank you for your consideration.

Sincerely,

Trent Wright