

Massachusetts Credit Unions

Creating Cooperative Power

November 2, 2021

The Honorable Brendan Crighton
The Honorable James Murphy
Chairs
Joint Committee on Financial Services
State House
Boston, MA 02133

BY EMAIL ONLY

Dear Chairs Crighton, Murphy and Members of the Committee:

On behalf of the Cooperative Credit Union Association, Inc. (“Association”)¹ and its members, please accept this letter in opposition to House 1223 and Senate 665, *Acts to Establish a Massachusetts Public Bank*, and Senate 682, *An Act Establishing a Public Bank of Massachusetts*, which were the subject of a public hearing on October 26, 2021.

A. Overview

The general thrust of these bills is to create a state-run bank, owned and operated by the Commonwealth of Massachusetts, which is generally authorized to engage in business that any Massachusetts savings bank, cooperative bank, and trust company is authorized to conduct. Such authority would include the ability to accept deposits from public and quasi-public entities, as well as make loans and investments, accept and solicit property, and all other powers available to Massachusetts banks. A primary duty of the bank is to assist businesses and municipalities in recovering from the COVID-19 pandemic.

The creation of a state-owned bank is not a new idea. In fact, this Legislature authorized a Special Commission in 2011 which studied the appropriateness of creating a state-owned bank.

¹ The Cooperative Credit Union Association, Inc. (“Association”) is the state credit union trade association, serving approximately 160 federally and state-chartered credit unions that are cooperatively owned by 3 million consumers as members. On average, one in three Massachusetts consumers are credit union members. Furthermore, the industry employs over 7,500 full and part-time employees. As not for profit cooperatives, over 2,000 volunteer directors further serve local credit unions who deliver \$310 million in member benefits annually. As of June 2021 call report data, credit union member benefits include higher yield on savings: \$56.5 million; lower fees: \$13.6 million; lower loan rates: \$240.3 million; and savings to nonmembers: \$121.1 million (by impact of credit union presence in the marketplace). CUNA Economics and Statistics.

The Commission's recommendation was not to pursue a state-owned bank.² Since that time to the present, individual legislative proposals to address this issue have also been unsuccessful.³

Massachusetts credit unions strongly believe that consumers and businesses in Massachusetts are well-served by current financial service providers located throughout the state and oppose the creation of a state-owned bank. Furthermore, the Association believes that the credit union charter is best suited to meet the needs of residents and welcomes any charter changes to better meet the goals of the pending bills.

B. The Need for Deposit Insurance and Clear Cost Estimates

Credit unions in Massachusetts are federally-insured by the National Credit Union Share Insurance Fund ("NCUSIF") up to \$250,000. The NCUSIF is administered by the National Credit Union Administration, credit unions' federal regulator, and is backed by the full faith and credit union of the United States government. Additionally, state credit unions are required to maintain excess share and deposit insurance as an extra layer of insurance coverage above the federal limit. State banks are structured and insured similarly. Therefore, it is unclear how the proposed state bank would be insured and where oversight would exist, particularly as Section 3(d) of the bill clearly establishes that the proposed bank is not authorized to become a member of the Federal Deposit Insurance Corporation. This is concerning as there does not appear to be a limit in the proposed legislation to the amount of deposits the institution could accept. While references are made in the bill that all deposits would be guaranteed by the Commonwealth, the Association has serious reservations about the impact to Massachusetts taxpayers and their exposure to considerable risk should there be a financial downturn. In all instances in banking, public confidence is paramount and has no borders when challenged.

The Association also questions the cost to Massachusetts taxpayers and the state's budget that the creation of a state bank would have, particularly as the Commonwealth continues to realize the impact of the COVID-19 pandemic on our local economy and budget. Start-up and operations costs must be clearly understood even as a first step. The proposed bank would require an initial capital investment of \$50 million in 2022, and subsequent infusions of \$50 million in each of the following years through 2025, to be funded by direct legislative appropriation or, at the discretion of the Legislature, by use of the Commonwealth's Stabilization Fund. It is the experience of the marketplace that it will take a number of years for the proposed bank to become profitable. The mechanisms for the sourcing of this capital remains unclear.

C. The Banking Landscape in Massachusetts is Distinguished from North Dakota

It has been previously suggested that the model pursued in North Dakota, a state which presently operates the only government-owned bank in the country established over a century ago, should be followed.⁴ Its success is due to a number of differentiating factors. The Bank of North Dakota

² Report of the Commission to Study the Feasibility of Establishing A Bank Owned by the Commonwealth, August 8, 2011, available at: <https://www.bostonfed.org/-/media/Documents/Workingpapers/PDF/rr1102commission.pdf>.

³ Most recently in the 2019-2020 session, House 935 and Senate 579, which sought to establish a state infrastructure bank, and House 989, seeking a state-run bank, received study orders by this Committee, House 5160 and Senate 2543, respectively.

⁴ Around 1836, Alabama, Kentucky, Illinois, Vermont, Georgia, Tennessee, and South Carolina all created banks that were completely owned by the state government. Missouri, Indiana, and Virginia had banks with the State holding a majority interest and a number of other states created

operates as a type of federal reserve or bankers' bank and partners collaboratively with North Dakota's fewer than 150 banks and credit unions. Massachusetts has over 260 banks and credit unions, a population nearly ten times the size of North Dakota, and significantly more diverse financial services landscape than the largely rural, sparsely populated agriculture state. Importantly, local credit unions already have access to many credit unions' credit union, including one formed and operating in the Commonwealth, providing check clearing, liquidity, investment, and other services.⁵

One concern cited by advocates for the creation of a state bank is the need for small businesses to have greater access to credit. Many credit unions in Massachusetts currently offer exactly the types of products and services these banks are intended to address. In the first half of 2021 alone, 151 Massachusetts credit unions have provided nearly 7,000 commercial or member business loans totaling over \$3.3 billion, with an average loan size of approximately \$640,000. Many credit unions continue to increase their small business lending, offering small dollar, reasonably priced products to the farmers and small businesses targeted by the proposed legislation. In fact, at the height of and during the COVID-19 pandemic, Massachusetts credit unions proudly offered just under 9,000 Paycheck Protection Program loans, totaling over \$440 million, with an average loan size of \$50,000. Massachusetts credit unions remain committed to serving this market and have demonstrated such commitment to the Commonwealth's small businesses when most in need.

Finally, in the general dialogue over the creation of state-owned banks, disagreement has existed over their mission and purpose. The pending bills also are confusing in this area. There are competing views as to the populations to be primarily served by such banks and the products and services to be offered. The filing of three distinct pieces of legislation with varying structure, purpose, and features, coupled with the absence of capital and insurance plans, speaks to the continued existence of this lack of vision. Before any such bank is authorized, there should be a clear consensus across the Commonwealth on the goals, purposes to be served, and the exact mission of a government-owned bank.

D. Existing Solutions Should Be Further Enhanced

The Association notes that this Committee has existing alternative solutions which can also be further enhanced. Many local credit unions directly provide a variety of low, or no-cost banking account options specifically designed to assist the unbanked. Additionally, there is a network of both low-income designated credit unions and certified community development credit unions, supported by the U.S. Treasury Department and credit union regulators, structured specifically to serve low-income communities. If this Committee truly seeks to address the issue of non-traditional bank products, then it is suggested that policymakers focus on more narrowly tailored solutions, rather than mandating an expensive and risky new banking program that will not resolve the concerns presented by proponents of the bills.

It is understood that bringing consumers who do not have bank accounts into the financial mainstream is of utmost importance to ensure access to a safe, affordable transaction account and the building of creditworthiness. To achieve this goal, credit unions use a variety of measures and a sampling follows:

banks with the State owning a minority interest. By 1900, only Virginia and Kentucky survived. Today, these two banks are no longer functioning.

⁵ Eastern Corporate Federal Credit Union, Woburn, Massachusetts.

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- Participating in BankOn initiatives;
- Participating in the Massachusetts Community & Banking Council;
- Partnering with the Massachusetts Capital Growth Corporation;
- Offering regulator approved, short-term, small dollar lending programs such as PALS or payday alternative loans;
- Offering savings and credit builder accounts;
- Creating innovative solutions such as the recent partnership of Digital Federal Credit Union, Marlborough, MA, Service Federal Credit Union, Portsmouth, NH, USAlliance Federal Credit Union, Rye, NY and Affinity Plus Federal Credit Union, St. Paul, Minnesota, to launch Bank Dora Financial, a digital checking account and bilingual Spanish-English mobile app for the unbanked and underbanked launched using a credit union service organization structure;
- Launching a Community Mortgage Alliance, a partnership between Digital Federal Credit Union, Marlborough and Jeanne D’Arc Credit Union, Lowell, whose purpose is to make mortgage loans available to consumers in Worcester and Lowell who do not meet secondary market underwriting guidelines; and
- Forming Credit Union Student Choice, a credit union industry created and owned organization offering fair value student loans and straight forward advice.

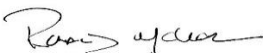
Building strong, collaborative local coalitions are enormously consequential, and this Committee could play a supporting role in helping to further promote both financial institution and consumer engagement.

E. Conclusion

Banking is complicated, technical, and subject to economic cycles and global impact. The current banking system, established, developed, and grown over many years by Massachusetts’ many financial institutions, is tenured and well-positioned to continue to meet the needs of residents and businesses in the Commonwealth safely and soundly. The Association is most proud of the origins of the state credit union movement in 1909, first in the nation created by this Legislature, and its strength. This ability, combined with the many robust infrastructure programs maintained in the Commonwealth and the strong Massachusetts local bond market, demonstrates the lack of a need for a government-owned bank for Massachusetts taxpayers.

Thank you for your consideration of these views in opposition to House 1223, Senate 665, and Senate 682. The Association remains available to respond to any questions or concerns of the Committee and its staff at your convenience.

Sincerely,



Ronald McLean
President/CEO
Cooperative Credit Union Association, Inc.

RM/KB/MAC