NYBA
New York Bankers Association

99 Park Avenue, 4th Floor
New York, New York 10016

TESTIMONY
OF
CLARE M. CUSACK
PRESIDENT & CHIEF EXECUTIVE OFFICER
NEW YORK BANKERS ASSOCIATION

For

NEW YORK CITY COUNCIL COMMITTEE ON FINANCE

APRIL 28, 2021
NEW YORK, NEW YORK

The New York Bankers Association ("NYBA")[1] appreciates the opportunity to comment through this written testimony submitted for the record on Introductions 2099-2020 and 2100A-2020 and Resolution 1600-2021, under consideration at the New York City Council Committee on Finance hearing scheduled on April 28, 2021. The proposed Introductions under consideration by the Committee relate to the potential for public banking in New York City and include an analysis and reporting of City monies on deposit with financial institutions. The Resolution proposed for consideration relates to measures introduced in the New York State Legislature which would allow for the creation of a New York State owned public bank or for the creation of public banks by municipalities and cities in New York State such as New York City.

As the New York City Council considers these proposals relating to the creation of a public bank whether at the State or City level, NYBA respectfully encourages lawmakers to weigh whether any prospective benefits of a public bank will outweigh the many risks, including the prospect of precarious loan making with little capitalization, a lack of proper FDIC insurance and regulatory oversight, a scattered business focus, and the potential for external influence on lending and other decisions. A public bank would also devastate our community banks across New York City and New York State, whose operations are dependent on the municipal funds on deposit that would necessarily be extracted to create a public bank, thus leading to a loss of business growth, jobs and tax revenue from these vitally important institutions.

A public bank has been promoted as a quick fix for solving issues resulting from New York's devastated economy post pandemic. However, this unrealistic time frame and expectation does not take into account the complexities of starting, capitalizing and overseeing a bank of any kind. As the *Los Angeles Times* recently pointed out, "San Francisco recently studied three models for a public bank. The version that would have provided the most services would have required $119 million in start-up funding and $2.2 billion in public subsidies until the bank could break even — in 56 years. Few public agencies have the budget for such huge upfront costs or the ability to wait decades for a bank to become self-sustaining."[2]

While the New York Bankers Association recognizes that low-income communities and communities of color were hit the hardest by the pandemic, a public bank is not the answer and would in fact create false hope for a quick solution that could actually be long, drawn out, untested and unpredictable. NYBA is committed to working with legislators and interested stakeholders in finding workable and practical solutions to help all of our communities recover and rebuild equitably and to expanding access to the financial system. We believe strongly that there are alternative programs we can advance and improve that can achieve the same goals that are sought through various public banking proposals.

[1] NYBA is comprised of the smaller community, mid-size regional, and large banks across every region of New York State. Together NYBA members employ nearly 200,000 New Yorkers, safeguard $2 trillion in deposits, and extend nearly $70 billion in home and small business loans. NYBA members also support their communities through an estimated $200 million in community donations and 500,000 employee volunteer hours.

[2] See: https://www.latimes.com/opinion/editorials/la-ed-public-bank-bill-20190527-story.html; see also: https://sftreasurer.org/sites/default/files/2019-08/1.%20Municipal%20Bank%20Report%20Executive%20Summary-03-01-19.pdf

Currently, the only public bank operating in the U.S. is the Bank of North Dakota, which was formed a century ago and serves a very limited purpose.[3] It is the last one remaining of the nearly two dozen other failed public banks that have been attempted over the last one hundred years. Furthermore, several states and municipalities have spent millions in taxpayer dollars to study various public bank proposals and all have reached the same conclusion: banking is a complex, expensive and extremely risky endeavor for a government entity to take on and realistically operate.

In the alternative, NYBA respectfully suggests that current programs meant to empower individuals and communities through access to banking be enhanced and modernized to better serve the needs of communities.

NYBA has always had as one of its missions making banking accessible to New Yorkers. In this regard, with NYBA's support, New York was among the first states to pass basic banking legislation and is still unique in the breadth of coverage of its basic banking account. Further, in recent years, we supported a basic banking incentive program regarding the earned income tax credit, which was spearheaded by the New York City Department of Consumer Affairs and the then State Banking Department. Through our combined efforts, hundreds of consumers were able to open new bank accounts with their federal income tax credit checks - introducing a whole new generation of consumers to the advantages of banking with a reliable community partner - their neighborhood banks. Today, NYBA members are working with the FDIC and the Cities for Financial Empowerment Fund to promote BankOn certification for accounts, to ensure that all New Yorkers have access to a safe, affordable transactional banking account.[4]

Another NYBA supported program is the Banking Development District (BDD) Program, overseen by the NYS Department of Financial Services. Its original purpose was to promote and encourage banks to build and maintain branches in communities that are not served by a physical branch within a set geographic area by offering municipal and State deposits as an incentive. In New York City, the New York City Banking Commission assists in the administration of the BDD program at locations across the City with the authorization of additional City deposits to these BDD branches. While its underlying purpose and intent is a good one, the BDD program has been mired in bureaucracy and regulation, and an outdated view on the necessity for brick and mortar branches in this digital world. It would be much more efficient for New York to improve this tried and tested program and to make participation more attractive to financial institutions seeking to provide more services and build community relationships in these underserved communities. Improvements to this program at the State and City level would utilize an existing reliable framework to achieve the goals of expanded access to the banking system.

Additional opportunities to serve communities across New York City exist through expanded funding for Community Development Financial Institutions, ("CDFIs"), which share a common goal of expanding economic opportunity in low-income communities

[3] See: https://bnd.nd.gov/history-of-bnd/
[4] For more information about the BankOn Certification program, please see: https://joinbankon.org/

by providing access to financial products and services or local residents and businesses. CDFIs are capitalized through the federal CDFI Fund, which has long been underfunded.[5] NYBA is proud to count among its members several CDFIs, and to see several other New York City members increase investment in CDFIs in recent months, bringing a much needed infusion of capital into the communities they serve. The CDFI program is one example of a successful public-private partnership that fosters economic growth in distressed communities by offering affordable lending options to individuals and businesses within those communities.

Along the same lines, another option for improving and expanding access to financial services is increased funding for Minority Depository Institutions (MDIs), as well as other measures to promote their growth. The Federal government defines an MDI as any depository institution where 51% or more of the stock is owned by one or more socially and economically disadvantaged individuals, recognized as Black American, Asian American, Hispanic American, or Native American. A second way an institution can qualify as an MDI is if the community it serves is predominantly minority and minorities occupy a majority of the seats on its Board of Directors. Increased funding to these institutions would serve communities in reliable, insured financial institutions. As with the CDFI program, NYBA is proud to count among its members several MDIs, and to see several other New York City members increase investment in MDIs in recent months as well. In fact, pandemic recovery efforts at the federal level have shone a spotlight on the work of these vital institutions. They currently possess the resources, community expertise and capitalization to help underserved New Yorkers build businesses and financial stability.

NYBA values this opportunity to provide comments and insights on Introductions 2099-2020 and 2100A-2020 and Resolution 1600-2021. NYBA will continue to advocate for expanded access to financial services across New York City and appreciates the contributions of its members serving communities through participation in these existing programs.

---

[5] For more information about CDFIs and the CDFI Fund, please see: https://www.cdfifund.gov/