STATE OF MARYLAND

OFFICE OF THE
COMMISSIONER OF FINANCIAL REGULATION

MARYLAND DEPARTMENT OF LABOR
500 N. CALVERT STREET, SUITE 402
BALTIMORE, MARYLAND 21202

REPORT ANALYZING THE BANKING ENVIRONMENT IN MARYLAND

December 31, 2021

Presented to:

The Honorable William C. "Bill" Ferguson IV
President
Senate of Maryland
State House, H-107
Annapolis, MD 21401

The Honorable Adrienne A. Jones
Speaker
Maryland House of Delegates
State House, H-101
Annapolis, MD 21401

Antonio P. Salazar
Commissioner of Financial Regulation

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OFFICE MISSION

The Office of the Commissioner of Financial Regulation (OCFR or "the Office") works to protect Marylanders through the operation of a modern financial regulatory system that promotes respect for consumers, safety and compliance, fair competition, responsible business innovation, and a strong state economy.

The Office carries out its mission by, among other actions:

a) Chartering and supervising, through periodic examinations and monitoring programs, Maryland state-chartered depository institutions;

b) Licensing and supervising, through periodic examinations and monitoring programs, many types of financial services providers such as mortgage lenders, mortgage brokers, mortgage servicers, mortgage loan originators, affiliated insurance producer-originators, check cashers, money transmitters, consumer debt collection agencies, consumer lenders, installment lenders, sales finance businesses, credit services businesses, and debt management companies;

c) Registering and supervising credit reporting agencies and debt settlement companies; and

d) Investigations and enforcement actions under Maryland's laws regulating mortgage foreclosure consultants, mortgage assistance relief providers, perpetrators of mortgage fraud, private repossession sales, consumer motor vehicle leases, student loan servicers, and credit card merchant accounts.

OCFR provides direct assistance to consumers by investigating complaints of questionable business practices through its Enforcement and Consumer Services Units and by helping to connect Maryland consumers to effective financial education through State and national resources. The Office conducts outreach focused on foreclosure and mortgage delinquencies in the State, and it manages the State's foreclosed property registry system.

Finally, OCFR provides staffing and resources to and for the Student Loan Ombudsman and the State Collection Agency Licensing Board.

OCFR's website is www.labor.maryland.gov/finance.

Additional information about OCFR and the banking environment in the State during FY 21 and earlier years are found in OCFR's Annual Reports, which can be accessed on the "About Us" page of OCFR's website (www.labor.maryland.gov/finance/frmission.shtml).

As part of its supervisory efforts and as permitted by law, OCFR collects and reviews top-level financial data, including lending data, on the entities that it regulates. OCFR, however, does not collect economic data or transactional level information regarding the use or availability of credit or deposit services. In order to produce this report, OCFR staff researched public records and other relevant sources. OCFR also relied on economic research and data from the Maryland Department of Labor, the Conference of State Bank Supervisors (CSBS), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the U.S. Federal Reserve System ("Federal Reserve"), the Consumer Financial Protection Bureau (CFPB), and other pertinent third-party public and private sources as noted.

REPORT PARAMETERS

Senate Bill 933 ("SB 933") directs the Commissioner of Financial Regulation to submit to the General Assembly a report analyzing the banking environment in Maryland. The report is to "(1) include the number and types of State and federal banks and other financial institutions by jurisdiction, (2) identify banking deserts in Maryland where citizens have limited access to financial services or are living in areas without a credit union or bank branch, and (3) recommend strategies to ensure residents of underserved jurisdictions have access to financial services."

SB 933 calls for the report to be submitted to the General Assembly in accordance with § 2–1257 of the State Government Article on or before December 31, 2021.

BANKING ENVIRONMENT IN THE STATE OF MARYLAND

I. General Discussion

According to the Annotated Code of Maryland, a "financial institution" is defined as any financial institution of the type supervised under the Financial Institutions Article regardless of whether the institution is State-chartered. At a high level, there are three types of financial institutions supervised by OCFR under the Financial Institutions Article. They are, state-chartered banks (including trust companies), state-chartered credit unions, and other non-depository institutions identified in Titles 11 and 12 of the Financial Institutions Article (e.g., mortgage lenders, mortgage brokers, mortgage servicers, mortgage loan originators, affiliated insurance producer-originators, check cashers, money transmitters consumer lenders, installment lenders, sales finance businesses, debt management companies, and debt settlement companies). For the purposes of this Report, the Office focused its research and analysis on the activities of depository institutions (i.e., banks and credit unions) reflecting the statement of SB 933's purpose being to commission a report that analyzes the "banking" environment in the State of Maryland.

Because of the way in which financial services are delivered today, it is not possible to make a true assessment of the State's banking environment without considering the impact of non-depository institutions on depository institutions and on the State's financial services marketplace. Non-depository institutions, in some cases, enable depository institutions to deliver financial services to Maryland consumers. In such a symbiotic relationship, depending upon the business model a depository institution chooses to pursue, it may own the non-depository institution, or it may partner with or contract with the non-depository institution to provide services either under the depository's name or under the non-depository's name. Common examples of such situations occur in the provision of consumer mortgages or the provision of tax services or securities or insurance products to consumers. In some cases, and depending on the product offered, depository institutions may prefer to offer the service themselves (e.g., originate mortgage loans themselves) while others may use subsidiary or affiliated companies (e.g., mortgage company subsidiaries) or may hire independent entities (e.g., mortgage companies or financial technology companies). It is not uncommon, for example, for depository institutions to offer insurance and securities services through wholly-owned subsidiaries or affiliates and to offer tax preparation and other services through disclosed third-party providers.

The use of third-party service providers has been a pervasive and accelerating trend not only in the Maryland banking environment but also in the national and international banking environments. Assuming proper management and oversight of the third-party service providers, such activity is generally seen as increasing the efficiency and effectiveness of depository institutions' operations and by extension, benefitting the banking environment and the depository institutions' consumer and business customers.

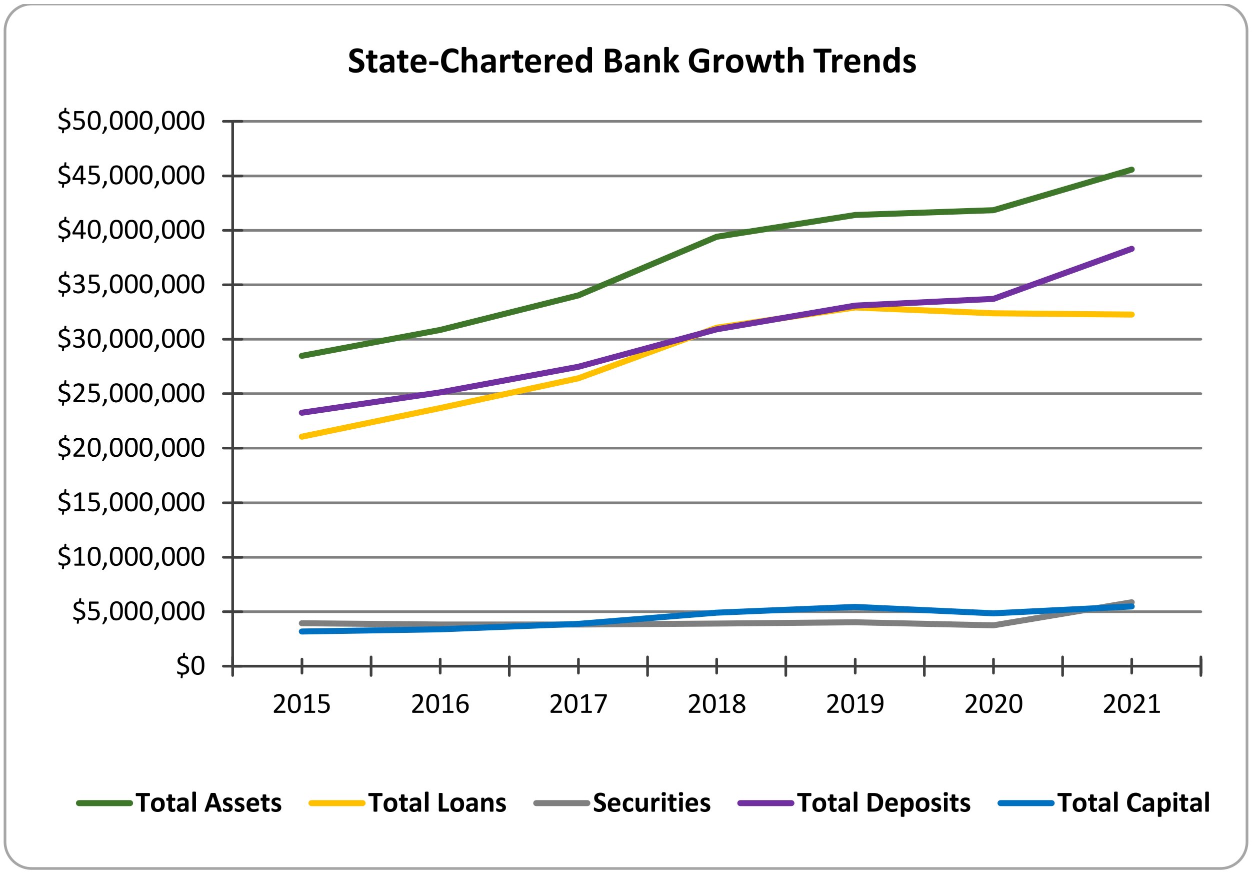
While depository institutions utilize non-depository institutions to aid in the delivery of services, today, non-depository financial institutions also are bank competitors, directly providing financial services to Marylanders. For example, many of these direct bank competitors provide financial services to Maryland residents that include consumer loans, mortgage loans, money transmission services, ATMs, check cashing, and others. The competition posed by the non-depository institutions cannot be discounted if only due to their growing numbers and reach. Non-depository institutions licensed to offer products in Maryland are identified by class in a later section.

In addition to consideration of the foregoing structural realities, this assessment of the current banking environment will discuss several important trends that are playing out in the Maryland market. Those trends are both consumer and industry-driven and their unfolding has, in large part, lead to the current banking environment in the State.

Overall, financial institutions in the State are flourishing and consumers have a plethora of options as to financial products and financial service providers. Both conditions support the conclusion that the present banking environment in Maryland, while containing challenges for both institutions and consumers, can be considered healthy and supportive of the State, its economy, businesses, and citizens.

A. Financial Trends

The below chart, which focuses on the activities of Maryland-chartered banks, supports the conclusion that the banking environment in the State of Maryland is healthy and a positive contributor to the State's economic activity.



The chart demonstrates that Maryland-chartered banks have been able to consistently increase the total amount of loans and assets that they have outstanding and are holding. Increases in loan balances were seen across the banking size spectrum. In that regard, the recent participation of Maryland financial institutions in the U.S. Small Business Administration's Paycheck Protection Program (PPP) resulted in their making over 176,000 loans in both rounds of PPP totaling over $14 billion in outstanding principal balances funded through the Program. Today, Maryland has two state-chartered banks each with over $10 billion in total assets.[1]

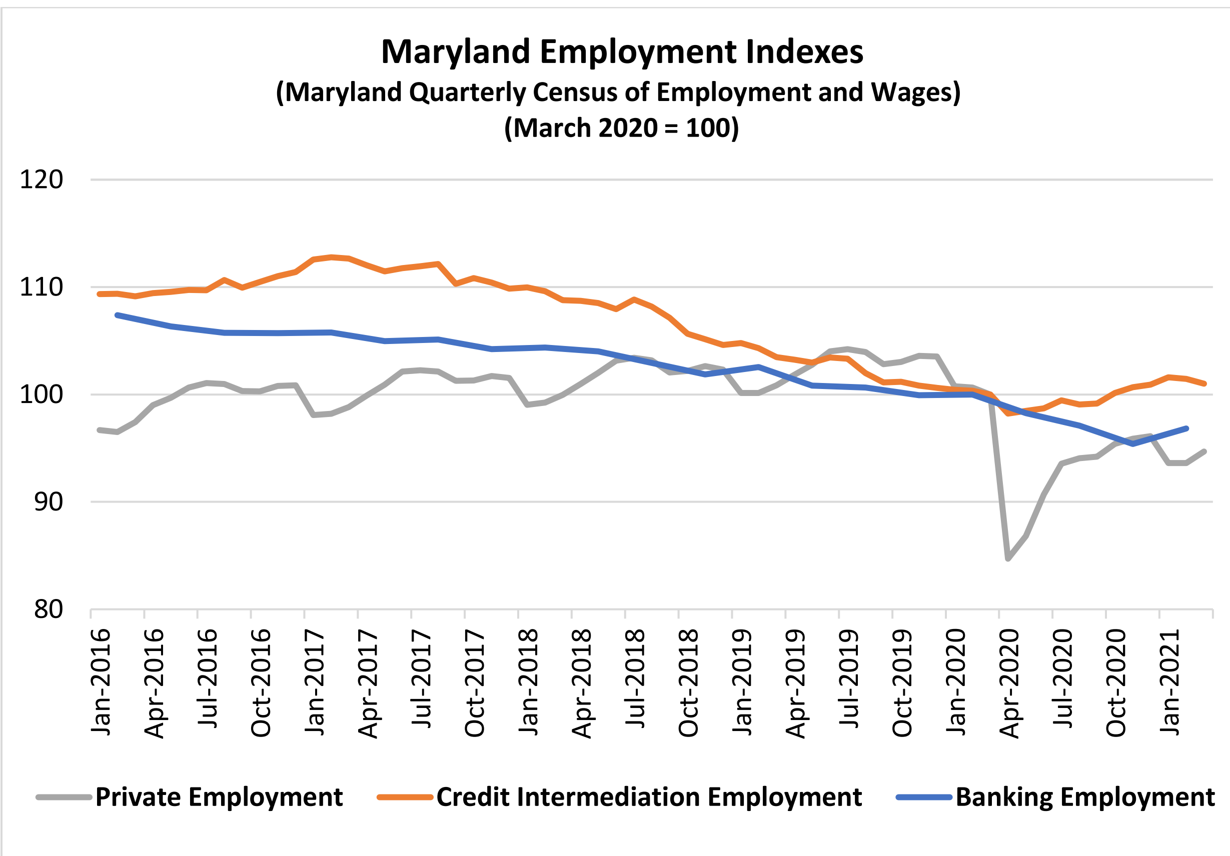
Similarly, reflecting the health of Maryland's banking environment is the trend line showing that Maryland-chartered banks have been able to maintain and increase their capital levels consistent with their asset growth. All Maryland state-chartered banks ended FY 2021 well-capitalized. The increase in capital levels over the period reflected in the graph was widespread and stemmed from both their profitable operations and the capital markets' confidence in their on-going viability; an outlook that was demonstrated by the ability of our State-chartered institutions to obtain capital through public, market-based capital raising offerings. Having healthy capital levels means that

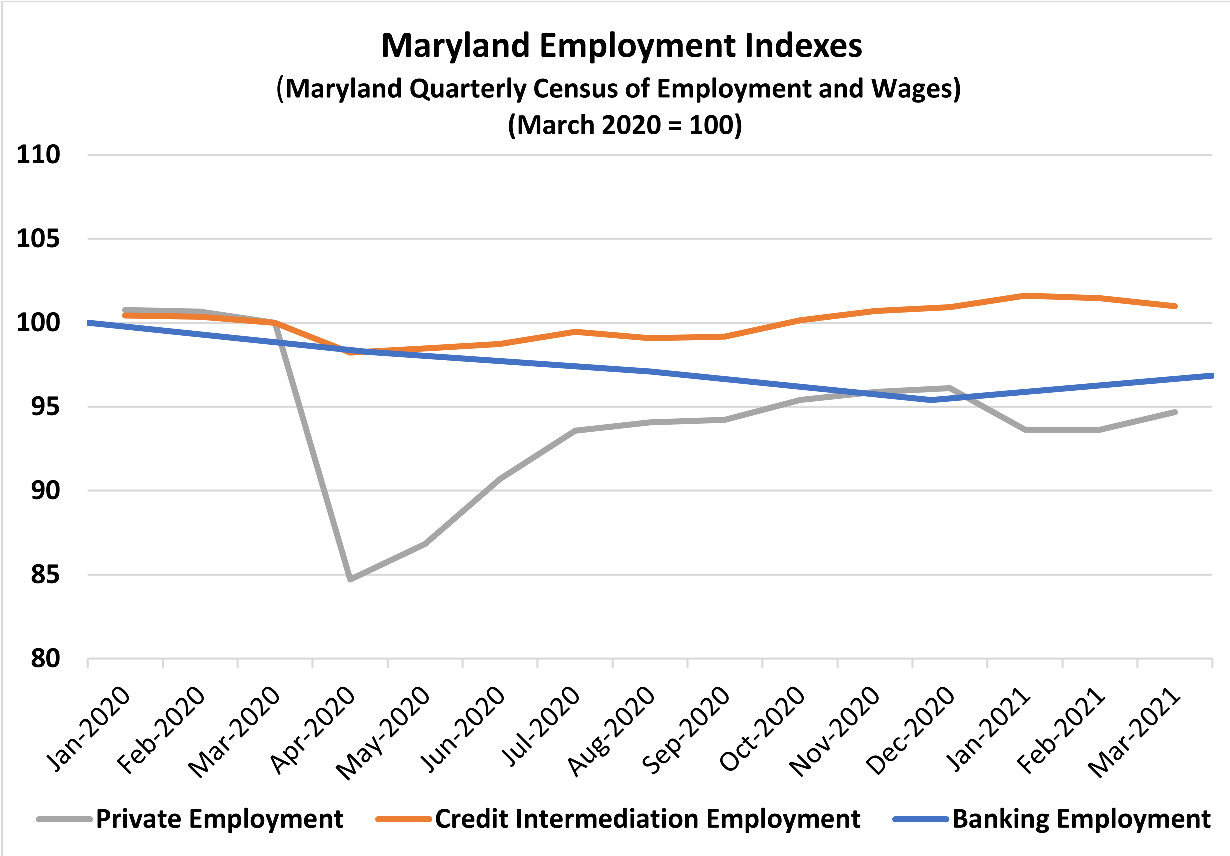
[1] Upon reaching $10 billion in total assets, banks are required to comply with a variety of additional federal regulations and they become subject to the examination and supervisory authority of the Consumer Financial Protection Bureau.

Maryland-chartered banks can make more loans to consumers and businesses which positively contributes to the State's economy.

Deposit-taking is an essential banking function that is representative not only of an institution's competitiveness, but also of the broader general availability of funds in the community. While most deposits in the State are held by banks that are based outside of Maryland, the deposit trend lines reflect the fact that Maryland-chartered banks were successful in attracting and increasing their levels of deposits throughout the referenced period.

Mirroring the reduction in the size of the State's banking industry, discussed below, and of the financial industry broadly, employment in the banking industry has seen a gradual slide since 2016. This contraction presents a challenge to the industry and the State as they look to retain a competitive workforce. Today the State's banking workforce is approximately 10% smaller than it was five years ago while Maryland's overall employment is only about 3% lower than it was in 2016. On a positive note, during the pandemic, the financial sector overall (including banking) was not hit as hard as the economy as a whole – employment fell less than 2% during the pandemic and has been near or above pre-pandemic levels since the start of 2021.





Finally, a high-level review of national statistics suggests that the trends shown in the "State Chartered Bank Growth Trends" chart are also applicable to the other banks operating in the State. While OCFR's analysis did not reach the institution-specific level for national or other state banks operating in the State, the fact that national trends are mirrored in Maryland, and Maryland-chartered banks were able to achieve the results reported above, supports the conclusion that the banking environment in the State is healthy, that Maryland-chartered banks have been able to serve the lending needs of their communities, and that Maryland consumers' funds are safe with those banks.[2]

B. Continued Consolidation in the National and Maryland Banking Marketplace

Consolidation of depository institutions in the marketplace has been an ongoing trend in Maryland and the United States for decades. Nationally, the FDIC recently noted, in a report entitled "Statistics at a Glance – Historical Trends – June 30, 2021" (www.fdic.gov/analysis/quarterly-banking-profile/statistics-at-a-glance/2021jun/fdic.pdf), that from 2016 to 2021 the number of FDIC-insured banks decreased by 962 (16%) from 5,913 to 4,951. Only 2.2% of those closures were Maryland chartered banks. For recent perspective it should be noted that at the end of FY

[2] OCFR regularly examines banks and other depository institutions for safety and soundness and has not taken a formal enforcement action against a depository institution in the last two years.

2016, Maryland was home to 41 state-chartered banks with 379 branches. There were eight state-charted credit unions featuring 45 branches and there were 15 national banks and savings banks headquartered in the State. Five years later, at the end of FY 2021, the number of Maryland-chartered banks had dropped to 26 with 239 branches in Maryland and 54 branches in other states for a total of 293 branches. There were seven state-chartered credit unions featuring 44 branches and there were 10 national banks and savings banks headquartered in the State. As of the end of the first quarter of 2021, Maryland's banks had the following asset size distribution:

Bank Asset Categories	Institutions (#'s)
Up to $50 Million	1
$100 Million to $300 Million	3
$300 Million to $1 Billion	14
$1 Billion to $2 Billion	1
$2 Billion to $10 Billion	5
Greater than $10 Billion	2
TOTAL	**26**

Some of the key reasons generally recognized as driving the consolidation trend are: (a) the difficulties small banks have in keeping up with technology and regulatory burdens; (b) Maryland's attractiveness as a marketplace; (c) the attractiveness of Maryland-chartered institutions based upon their performance; (d) competition; (e) the value of scale in banking; and (f) a favorable (for mergers) economic environment. The existence of many of these factors as drivers of the consolidation trend in Maryland support the conclusion that the condition of the banking environment in Maryland, certainly from an industry perspective, is healthy.

C. Non-Bank Competition and the Rise of Technology

The past few decades have seen the unbundling and disintermediation of financial service products away from banks and the banking industry. Those trends have impacted all aspects of banking including retail, commercial, wholesale, and payment services. As noted at the outset of this report, in some cases, the unbundling was undertaken at the direction of, or at least with the acquiescence of, the banking industry, (e.g., the third-party provision of wealth management, outsourcing of loan underwriting, and electronic deposit and payment services) and in other instances, external companies and innovators took the lead (e.g., private, internet-based payment platforms for either Business-to-Business or Person-to-Person transactions, or private, internet-based lending services to both consumers and businesses). The expansion of internet usage, access, and sophistication has been a significant factor in accelerating these trends.[3]

[3] A December 2020 analysis published by CB Insights, a private company with a business and analytics platform, titled "Unbundling Bank of America; How the Traditional Bank is Being Disrupted" focuses on Bank of America (https://www.cbinsights.com/research/fintech-companies-unbundling-bank/). The analysis illustrates the

The following chart shows the number of the non-depository financial service providers that are licensed by OCFR and that directly compete with depository financial institutions in at least one business category.

New Business Licensees and Total Business Licensees, by Category Fiscal Years 2020 and 2021

LICENSE CATEGORY	NEW LICENSEES FY 2021	TOTAL LICENSEES FY 2021	TOTAL LICENSEES FY 2020
Check Casher	22	258	242
Consumer Loan	17	217	205
Credit Service Business	17	50	36
Debt Management	0	25	25
Installment Loan	12	181	178
Money Transmitter	43	248	208
Mortgage Lender	862	3,223	2,646
Registered Exempt Mortgage Lender	2	12	13
Sales Finance	186	985	847
TOTAL	**1,161**	**5,199**	**4,400**

A significant subset of these non-depository financial institutions are on-line financial institutions that are accessible electronically and provide consumers many traditional banking services including core banking activities such as deposit products along with the previously mentioned ATMs, loans, lines of credit, money transmission, and other services.

The growth in these non-depository competitors in Maryland mirrors national and international trends and means that Maryland consumers have multiple options available to them to obtain banking and banking-type financial services. From both the industry and consumer perspectives, the plethora of competitors and opportunities also supports the conclusion that the banking environment in the State is healthy.

II. Number and Types of Banks and Other Financial Institutions in Maryland

June 30, 2021 data from the FDIC lists 1,347 insured bank branches in Maryland from 26 Maryland state-chartered banks, 26 federally chartered Maryland-based institutions, and 28 out-of-state banks. Assuming pending merger transactions and other noticed branch transactions are completed

foregoing trends using Bank of America as a subject; however, the analysis is pertinent to the business of any banking institutions.

as forecast in 2022, the number of insured branches in the State will decrease nominally in the first quarter of 2022. The 28 out-of-state banks are chartered in the following states:

CHARTERING STATE	NUMBER OF BRANCHES IN MD
Virginia	8
West Virginia	7
Pennsylvania	6
New York	2
North Carolina	2
Delaware	1
District of Columbia	1
California	1

The number of bank branches in Maryland has declined from 1,591 insured branches at year-end 2016 while deposits have grown from $136.2 million to $182.2 million. For credit unions, NCUA data lists 296 insured branches of 74 either state or federally chartered institutions in Maryland. As with the banks, this branch level also represents a decrease in the number of open branches, from 318, at year end 2016.

As of the end of fiscal year 2021, OCFR continued to regulate four large non-depository trust companies and licensed over 3,400 non-depository entities providing financial services in the State.

Finally, in addition to the foregoing, Maryland is home to eleven community development financial institutions (CDFIs). CDFIs are specialized financial institutions that have a primary mission to promote the economic development of people and communities underserved by traditional financial institutions, particularly in low-income communities. CDFIs in Maryland are community-based and they serve their communities by providing financial products and services. CDFI's are located in Baltimore City, Howard County, Montgomery County, Prince George's County, and Wicomico County.

III. Banking Deserts

There is no uniform definition of what constitutes a "banking desert" and the term is not defined in SB 933. For purposes of this Report, OCFR consulted several governmental and non-governmental sources to identify a commonly accepted definition of the term. OCFR has determined that a commonly accepted definition of the term "banking desert" is that of a geographic area where no branch is located within two miles of the center of a census tract in an urban area or no branch is located within 10 miles of the center of a census tract in a rural area. That definition is consistent with the approach taken in several studies on the topic over the last decade. In particular, the Federal Reserve Bank of New York conducted a study through Liberty Street Economics in 2014 and defined a banking desert as a location with no branch within a 10-mile radius.[4] The Bank Policy Institute refined that definition to include a more realistic 2-mile radius for urban areas.[5] The National Community Reinvestment Coalition (NCRC) has also used the 10-mile radius for rural areas in its own study of banking deserts.[6] The American Bankers Association adopted both the 2-mile and 10-mile radius for purposes of its own study.[7]

The maps attached to this Report (Exhibit 1) show the location of each state-chartered bank, national bank, and credit union branch by county in Maryland. The maps also are color coded to delineate low-, moderate-, middle-, and upper-income census tract areas within each county to easily identify the location of each branch within each county and the income tract within which the branch is located. Also attached are two maps of Maryland. The first delineates areas in Maryland that would constitute a banking desert under the 2-mile and 10-mile definition based on the location of state-chartered bank, national bank, and credit union branches (Exhibit 2). The second delineates areas in Maryland that would constitute a banking desert under that same definition but based only on the location of state-chartered bank and national bank branches (Exhibit 3).

Based on the banking desert definition used by OCFR to create Exhibit 2, there are 12 census tracts in Maryland that would be deemed a banking desert. Seven of the census tracts are middle income tracts[8] and five of them are upper income tracts.[9] Assuming a strictly "banking" view of the data (i.e., if credit union branches are not included in the analysis), 12 additional census tracts would be deemed a banking desert, three of which are moderate income tracts,[10] five of which are middle income tracts,[11] and four of which are upper income tracts.[12]

Depository institutions consider a number of financial and business factors and conduct an extensive analysis when deciding where to site, and whether to keep, their branches as well as analyzing their networks to optimize them for efficiency and to support their chosen strategy. One factor that cannot be overlooked and is important in branching decisions is the quality of the existing or proposed branch location and banks' universal desire to avoid the functional obsolescence of their branches. Obsolete branch locations are costly to operate and update, especially if necessary to meet regulatory requirements, and they reflect poorly on an institution's brand if they are not updated. The importance of maintaining the functionality of a branch cannot

[4] https://libertystreeteconomics.newyorkfed.org/2016/03/banking-deserts-branch-closings-and-soft-information/
[5] https://bpi.com/some-facts-about-bank-branches-and-lmi-customers/
[6] https://ncrc.org/wp-content/uploads/2017/05/NCRC_Branch_Deserts_Research_Memo_050517_2.pdf
[7] https://bankingjournal.aba.com/2021/04/the-real-story-on-bank-branch-closures/
[8] One each in Allegany, Baltimore, Dorchester, Prince George's, and St. Mary's Counties, and two in Charles County.
[9] One each in Prince George's, Washington, and Wicomico Counties, and two in Baltimore County.
[10] All are in Baltimore County.
[11] Four in Baltimore County and one in Cecil County.
[12] All are in Prince George's County.

be overlooked as a recent industry assertion posited that 80% of existing branches are over 30 years old.

There are also other contextual factors that affect decisions to site branches. Those factors should be considered in drawing conclusions about the existence of banking deserts from the maps' presentation. Examples of non-business factors that should be considered are geographical considerations (e.g., locations of rivers, lakes, mountains, etc.), population density of specific locations, and applicable zoning laws. Those factors and others are tracked by the Maryland Department of Planning. Using the Maryland Department of Planning's [Interactive Maps Tool](https://planning.maryland.gov/Pages/OurProducts/iMaps.aspx) (https://planning.maryland.gov/Pages/OurProducts/iMaps.aspx), readers can examine maps of the State or particular locations to judge the impact of such factors on the location, or ability/desirability, of establishing a branch in any particular location.

While SB 933 tasked OCFR with identifying "banking deserts" in Maryland, we note that in a recent paper prepared by Morgan State University for the A. Philip Randolph Institute, the authors sought to enhance the definition of a "banking desert" by changing the focus of the analysis to instead concentrate on analyzing data to identify "financial deserts." Such a focus involves changing the analysis from a strictly geographical analysis to a geographical and community-based results analysis.[13] That approach is consistent with broader concerns of the access that consumers may have to financial services. Following their review of literature on financial deserts and their findings from sessions with community members, the authors proposed defining a "financial desert" as:

> a community (geographically defined) where structural barriers to accessing financial resources exist (e.g., lack of institutions, discriminatory practices, financial policies); where norms and attitudes of the community (cultural context) limit and/or leave absent the presence of financial discourse among social networks; where community economic investment is either absent or is present, but does not benefit the community itself; where there is limited access to affordable credit; and where there are few or minimal relationships between community members and the financial institutions that drive economic development.

Using a definition comparable to the "financial desert" definition proposed by the Morgan State University study would require a community-by-community assessment throughout the State. Communities that have a bank or credit union branch could be deemed a "financial desert" to the extent, for instance, that the community has few or minimal relationships with these branches. Studying the existence or absence of the relationships comparable to those identified by the Morgan State University study throughout Maryland would require expertise and resources beyond those that are currently available to OCFR.

[13] https://www.masteryourcardusa.org/wp-content/uploads/2017/02/MSU-Understandling-Life-in-Financial-Deserts_digital.pdf

Recent press reports reviewing branch closures can, without further analysis, be interpreted as showing that banking institutions are abandoning low-to-moderate income (LMI) communities.[14] Such reports raise questions about the impact of the closures on the availability of banking services to those communities including a loss of credit availability to those neighborhoods. As noted earlier, depending upon the parameters used, arguments can be made for describing LMI Communities as "banking deserts" or not. However, there have been two recent studies that suggest that branch closures nationally have not been concentrated in LMI neighborhoods. First, the Federal Reserve Bank of New York found that from 2009-2014 the fraction of low-income tract populations that were exposed to a branch closing increased by 2 percentage points while the fraction of high-income tract populations exposed to a branch closing increased by 3.1 percentage points.[15] Thus, the study found that while the total number of bank branches has been trending down for the past several years, the impact of those closings is greater in high-income tract populations.[16]

Data from Maryland over the past few fiscal years are consistent with that national trend. From fiscal year 2019 to 2021 Maryland-chartered banks closed 33 branches but they did not close any branches in low-income census tracts, and on net, only closed ten branches in moderate income census tracts. Details on branch closures by Maryland-chartered banks from FY 2019-21 are shown in the following chart.

Maryland Chartered Bank Branch Closures FY 2019 – 21

FISCAL YEAR	# of MD Branches closed by MD State Chartered Banks	# of MD Branches opened by MD State Chartered Banks	Net Loss/Gain of MD Branches	# of MD Branches closed by MD State Chartered Banks in Low-Income Census Tracts	# of MD Branches closed by MD State Chartered Banks in Moderate-Income Census Tracts	% of MD Branch Closures (net) that were in Moderate-Income Census Tracts
2021	14	3	-11	0	3	0%
2020	7	2	-5	0	2	0%
2019	12	4	-8	0	5	42%
TOTAL	**33**	**9**	**-24**	**0**	**10**	**27%**

[14] https://www.bizjournals.com/baltimore/news/2021/09/27/greater-baltimore-sees-big-decline-in-branches.html

[15] https://libertystreeteconomics.newyorkfed.org/2016/03/banking-deserts-branch-closings-and-soft-information/

[16] This may be in part an issue of the lack of overlapping branches in LMI communities when a merger occurs. The American Banker published an article on September 27, 2021 titled "Bank Think - Closing too any branches ignores what customers want" describing the "network effect", which theorizes that larger branch networks capture a disproportionate share of balances. The author noted that there are more branches in operation in 2021 than there were in 2001 even though the current number is down from the 2010 peak.

An NCRC study covered the period of 2008-2017 and reached the conclusion that the 9,666 branch closures during that time period were not concentrated in lower income census tracts. NCRC speculated that branches in lower income areas remain vital to sustainable lending and deposit taking activities.[17] Their conclusion is consistent with the studies showing that the federal Community Reinvestment Act remains effective in encouraging investment in LMI communities and ensuring that banks retain a presence in those communities. While such consistency may appear contradictory with the fact that there are communities not served by bank branches, some of that disconnect is explained by other studies described below.

The CFPB recently examined the geographic patterns of "credit invisibility" to determine if residence correlated with remaining "credit invisible". The study focused on Washington, D.C. residents who were 25 years of age or older and who remained credit invisible. The five tracts with the highest incidence of credit invisibility for this population were in lower income locations but had an average of 3.4 bank branches located within 1 mile of the center of the tract as compared to 11.6 branches for tracts with the highest incidence of credit invisibility for all adults. Using the data gathered, the CFPB concluded that there was not a correlation between the distance to the nearest branch and the incidence of credit invisibility. Thus, that study supports the proposition that bank branch location does not appear to be an important factor in credit invisibility.[18]

The CFPB research also found that over 90% of consumers transition out of credit invisibility by their mid-to-late 20s. This observation may indicate that focusing on the population of consumers who are 25 years old and older is most useful in identifying geographic areas where traditional sources of credit are scarce, sometimes referred to as "credit deserts."

The FDIC biennial survey of How America Banks provides some interesting insights consistent with the studies on branch closures and credit invisibility. From 2009 through 2019, the percent of unbanked households has ranged from 8.2% to a low of 5.4% in 2019. The most recent survey in 2019 attributed the drop in unbanked households to the strength of the economy which was also reflected in the drop in the percentage of unbanked households citing "not enough money" as a reason for not having a bank account. **In terms of totals of unbanked citizens, the FDIC's survey found that Maryland's average of unbanked citizens was 3.8%; a level that is 30% below the**

[17] https://ncrc.org/the-importance-of-cra-assessment-areas-and-bank-branches/#_ftnref10. A recent Baltimore Business Journal Article noted that the Greater Baltimore area lost 46 bank branches from June 30, 2020 to June 30, 2021. On closer analysis, the number of bank branches in Baltimore City declined by only 3 while the number of branches in Anne Arundel, Baltimore and Howard Counties declined by 32. As noted in the maps, Baltimore City does not have any banking deserts as of June 30, 2021.

[18] https://files.consumerfinance.gov/f/documents/bcfp_data-point_the-geography-of-credit-invisibility.pdf. With respect to the location of people who are credit invisible, the CFPB found that while credit invisibility is more common in rural areas, two-thirds of adults 25 and older who are credit invisible reside in metropolitan areas. The CFPB also observed an elevated likelihood of credit invisibility in rural areas regardless of the tract's income level, in contrast to a strong relationship between neighborhood income and the likelihood of credit invisibility in highly urban areas.

national average. Such a finding supports the conclusion that Maryland's banking environment is functioning well.

Meanwhile, the FDIC survey data also seems to support the argument that the lack of bank facilities in proximity to work or home is not a significant problem in getting the unbanked into the banking system. While the numbers have ticked up slightly over the past three surveys, there still are only 2.2% of unbanked households who cite inconvenient locations as the main reason for not having a bank account. "Not enough money" has been, by far, the primary reason why unbanked persons do not move into the banking system. The next closest category cited as the main reason for not having an account was a lack of trust in banks.[19]

The FDIC data are consistent with a 2006 study finding that unbanked and underbanked households use check cashing in part due to a lack of a savings account and lack of comfort in mainstream financial institutions.[20]

The Urban Institute and Fannie Mae also conducted a study of "alternative financial service providers" (AFSPs) and found that while AFSPs are disproportionately located in low-income and minority neighborhoods, those neighborhoods often contain both banks and AFSPs. So, despite the presence of banks in proximity to AFSPs, members of those communities continue to use the AFSPs rather than banks. This research is consistent with a study from 2008 finding that access to traditional banks was not a factor for people who chose to use the services of check cashers.[21]

The FDIC produced AFSP addenda to its biennial survey in 2009 and 2011. It broke out results by state. In Maryland in 2011, there were 2,170,000 total households. Of those households, 40.8%, or 885,000 households, had ever used an AFSP. There were 123,000 unbanked households constituting 5.6% of all households and of those households, 79.4% of them, or 97,000 households, had ever used an AFSP. The takeaway from these figures appears to be that unbanked households were almost twice as likely to have ever used an AFSP regardless of their proximity to a bank branch.

Gross, et. al. took the FDIC data from 2009 and attempted to draw conclusions on why people use AFSPs over banks. With respect to payday loans and pawn shop loans, the authors found that lower income consumers used these alternate lenders because qualifying for an AFSP loan was

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[19] From the community sessions conducted by Morgan State University in conjunction with its study of financial deserts, the authors noted that community residents were mistrustful of banks because of costs, lack of transparency on costs, and unsupportive or disrespectful customer service experiences. One exception appeared to be online banks which were viewed by the communities as more convenient, easily accessible, and less intimidating. Alternative financial service providers were considered predatory but highly useful for segments of the population and preferable to banks.

[20] Rhine, et al (2006, February). The Importance of Check-Cashing Businesses to the Unbanked: Racial/Ethnic Differences. Review of Economics & Statistics 88, 11.

[21] Fellowes and Mabanta (2008). Banking on Wealth: America's New Retail Banking Infrastructure and its Wealth-Building Potential. Washington, DC: Brookings Institution Research Brief. MapCensus5.qxd (Page 1) (brookings.edu)

easier than qualifying for a bank loan. Interestingly, the authors noted that consumers living in non-metropolitan areas were less likely to say that they didn't have a bank account but were more likely to say that non-bank check cashing services were more convenient. The authors speculated that this may be an indication of financial access issues in non-metropolitan areas. In terms of the reasons for using an AFSP, the authors noted that low-income consumers and the unemployed were more likely to cite the easier qualification requirements of AFSPs. Convenience issues were more of a concern for consumers in non-metropolitan or rural areas.[22,23]

A 2014 Federal Reserve study reached a similar conclusion with respect to the use of AFSPs finding that the number of AFSP outlets per capita is significantly related to demographic characteristics of a county's population, measures of the population's creditworthiness, and the stringency of state laws and regulations that govern AFSPs.[24]

As both the FDIC banking surveys and the studies of the use of AFSPs suggest that people will access bank services when they have sufficient income or assets, and that geographic access to a bank is not a driving factor in whether to utilize a bank's services, the question becomes whether the definition of "banking desert" should move away from the geographic centric focus to a combination of both community characteristics and geography. The community characteristics should be based on the underlying reasons for people not utilizing banks. If, as the studies suggest, lending in CRA communities is both profitable and regulatorily desirable,[25] logic would suggest

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[22] https://www.consumerinterests.org/assets/docs/CIA/CIA2012/2012-57%20who%20uses%20alternative%20financial%20services%20and%20why.pdf

[23] While not within the scope of SB 933, the Morgan State University study looked at the use contemporary financial tools provided by AFSPs as part of community engagement. Pre-paid cards were viewed as useful money management tools to help avoid the use of debt and incurring overdraft fees. Fintech advancements may have also helped make financial services more readily available to the unbanked and underbanked in the context of PPP loans during the pandemic, where fintech companies were the provider of choice for many unbanked and underbanked as the entry point into the system. See *Does Fintech Substitute for Banks? Evidence from the Paycheck Protection Program*, Isil Eral and Jack Liebersohn (August 2020, Revised December 2020). While this study showed that fintech companies were important in expanding access to banking services in PPP loans, several articles recently have commented on an August 2021 study showing that suspicious PPP loans were much more likely to have originated through fintech lenders rather than traditional banks, so the true impact of fintechs on expanding the reach of financial services may require further study.

[24] *Determinants of the Locations of Alternative Financial Service Providers (Abstract)*, Robin Prager (Apr. 11, 2014). https://www.jstor.org/stable/43550472

[25] Several studies in the past 20 years support this conclusion. Joint Center for Housing Studies, Harvard University, *The 25th Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System* (March 2002) https://www.jchs.harvard.edu/sites/default/files/media/imp/cra02-1.pdf (branches in low-to-moderate income neighborhoods had a positive economic impact on those areas and CR- regulated entities gained market share in lending in those assessment areas); Elizabeth Laderman and Carolina Reid, Federal Reserve Bank of San Francisco, "CRA Lending during the Subprime Meltdown" in *Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act*, a Joint Publication of the Federal Reserve Banks of Boston and San Francisco, February 2009 (loans made by banks within their assessment area were approximately 50% less likely to result in foreclosure than loans from non-CRA assessed entities); 'Don't Know What You Got Till It's Gone' — The Effects of the Community Reinvestment Act (CRA) on Mortgage Lending in the Philadelphia Market, Lei Ding, Leonard I. Nakamura: SSRN (June

that to the extent a bank closes a location in a CRA eligible neighborhood, there must be a significant reason to overcome these benefits of maintaining the branch. Are these communities not trusting of banks? Do the communities lack sufficient income or assets to become part of the banking system? Are banks inaccessible or overpriced in the view of the community? Are there other issues driving the decision of the bank to exit from this community? These issues implicate much broader policy concerns than that contemplated by SB 933 and are beyond the research capabilities of OCFR.

IV. Recommendations

As noted above, there are a number of issues that relate to the location of branches and the impact of branch locations on the use of banking services, credit availability and pricing, credit invisibility, and alternate financial service providers. The complexity of the factors affecting the decisions and actions of both financial institutions and consumers regarding branch locations and usage makes it difficult to make recommendations that will "ensure" that residents of underserved jurisdictions have access to financial services. However, OCFR can make the following recommendations that it believes would help the General Assembly better understand the issue of access to financial services and enhance the likelihood that financial service providers would increase physical locations in underserved areas as well as the ability of consumers in underserved jurisdictions to access financial services:

A. Commission/conduct an in-depth study. Conduct and/or commission a comprehensive study to determine the access preferences and needs of Maryland's unbanked residents as a first step in developing targeted strategies that will ensure that residents of underserved jurisdictions have access to financial services. Most studies of bank branch closures focus on the location of the closed branch and the demographics of the community within which the branch was located and try to draw a correlation between the two. However, as noted in the FDIC, Urban Institute, Fannie Mae, and CFPB studies, access to a branch is not the driving factor in whether a consumer or small business is unbanked. To understand why unbanked residents of Maryland remain so, the General Assembly or a Committee/Commission may want to partner with, or commission a study from, a research university to identify the communities in Maryland that have high rates of unbanked

26, 2017) (home purchase loan originations in neighborhoods that became CRA eligible were slightly larger than the increase in home purchase originations in neighborhoods that lost CRA eligibility and lending by CRA regulated lenders was expected to be 10% less when a lower income neighborhood lost its CRA eligibility than when it was CRA eligible); *Effects of the Community Reinvestment Act on Small Business Lending,* Lei Ding, Hyojung Lee and Ralph Bostic (March 2019) https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_Lee_Effects_of_CRA_on_Lending_0.pdf (lower income neighborhoods that lose the low-income classification suffer a loss in small business lending and there is a positive effect on small business lending in a neighborhood when it becomes subject to the CRA).

residents and businesses and then seek to determine their specific access preferences and needs so that subsequent steps would be targeted and responsive to them.

B. Promote Public Awareness and Support financial education programs. Allocate funding to increase efforts to inform consumers about available banking services, including the safety, reliability, and benefits using the established banking system, and the risks, safety, reliability, and benefits of using financial technology companies and AFSPs. Related to the public awareness, support and/or create programs that are designed to provide financial education programs for post-secondary students and residents of LMI communities.

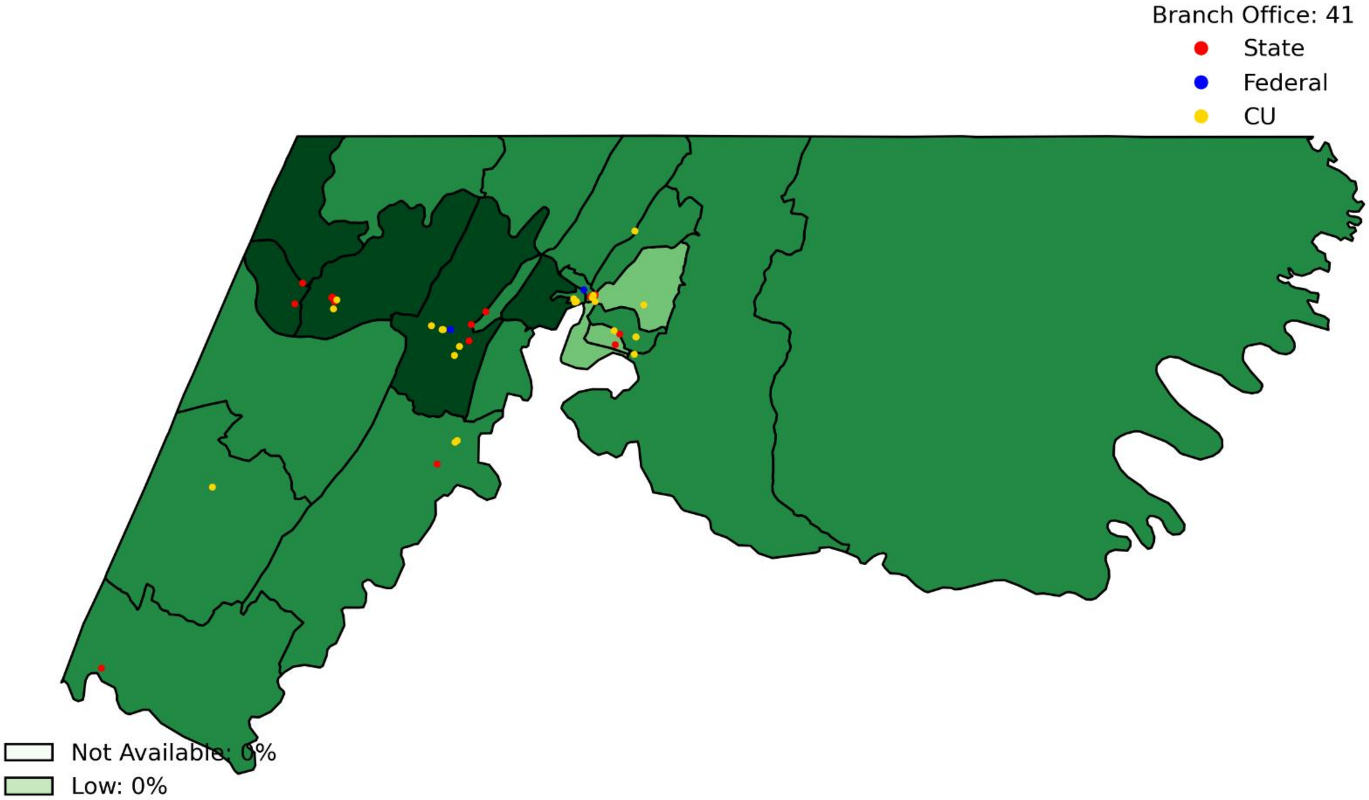
C. Increase access through broadband and Incentivize depository institutions to offer traveling or mobile branches. Increasing the ability of Maryland residents, including through the Connect Maryland initiative, to access adequate broadband, Wi-Fi, and 5G services to allow all residents to utilize internet and mobile banking or financial service products regardless of a bank's or a resident's location. Additionally, incentives in the form of revised branch and/or restrictions could be applied to incentivize increased use of mobile branches. Traveling or mobile branches are secure vehicles that can offer banking services to underserved banking areas. Services such as in-person banker meetings or ATM services could be offered to communities on set schedules.

Exhibit 1

MD bank and CU branches by County

This Exhibit includes Multiple Pages

Allegany County



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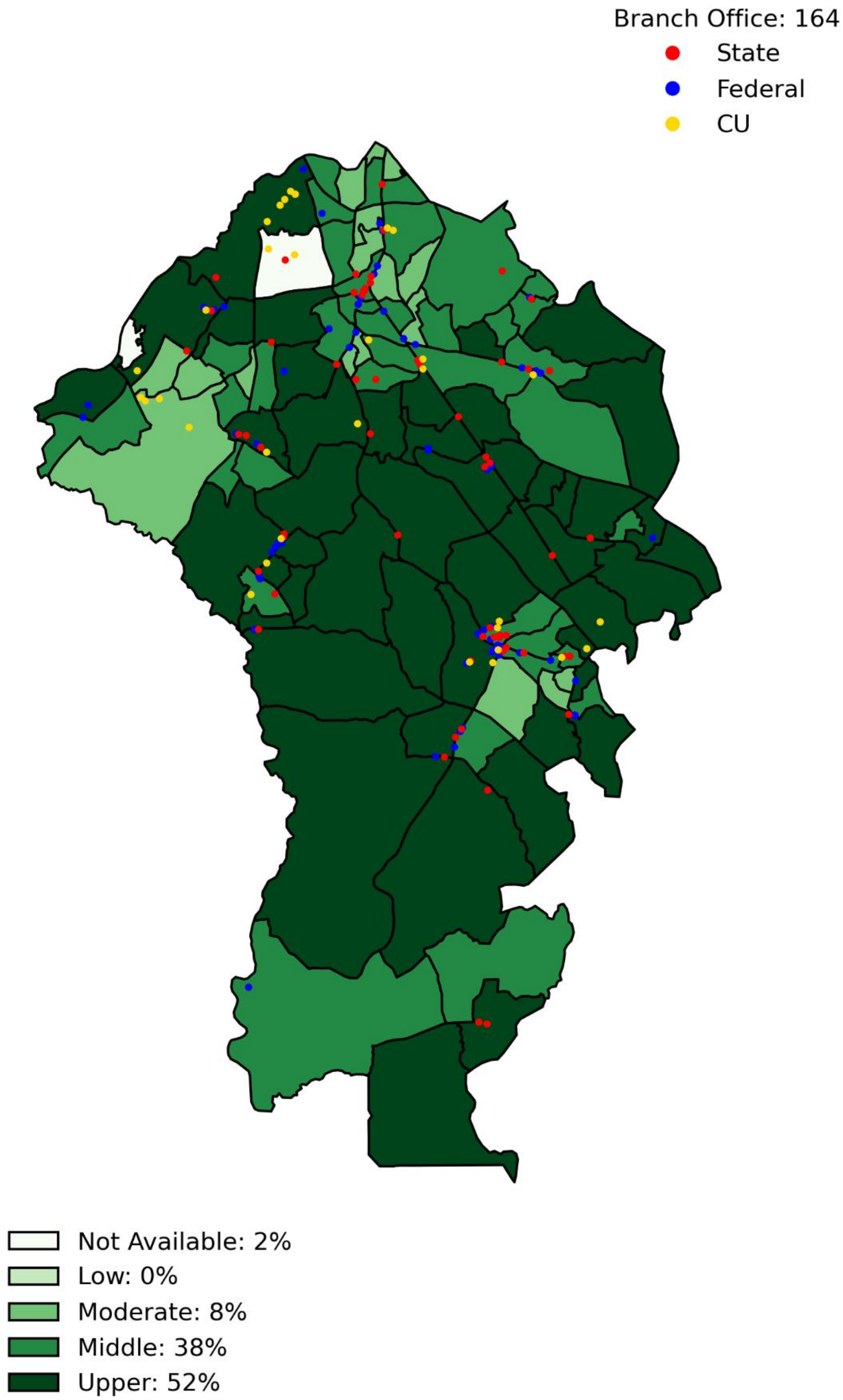
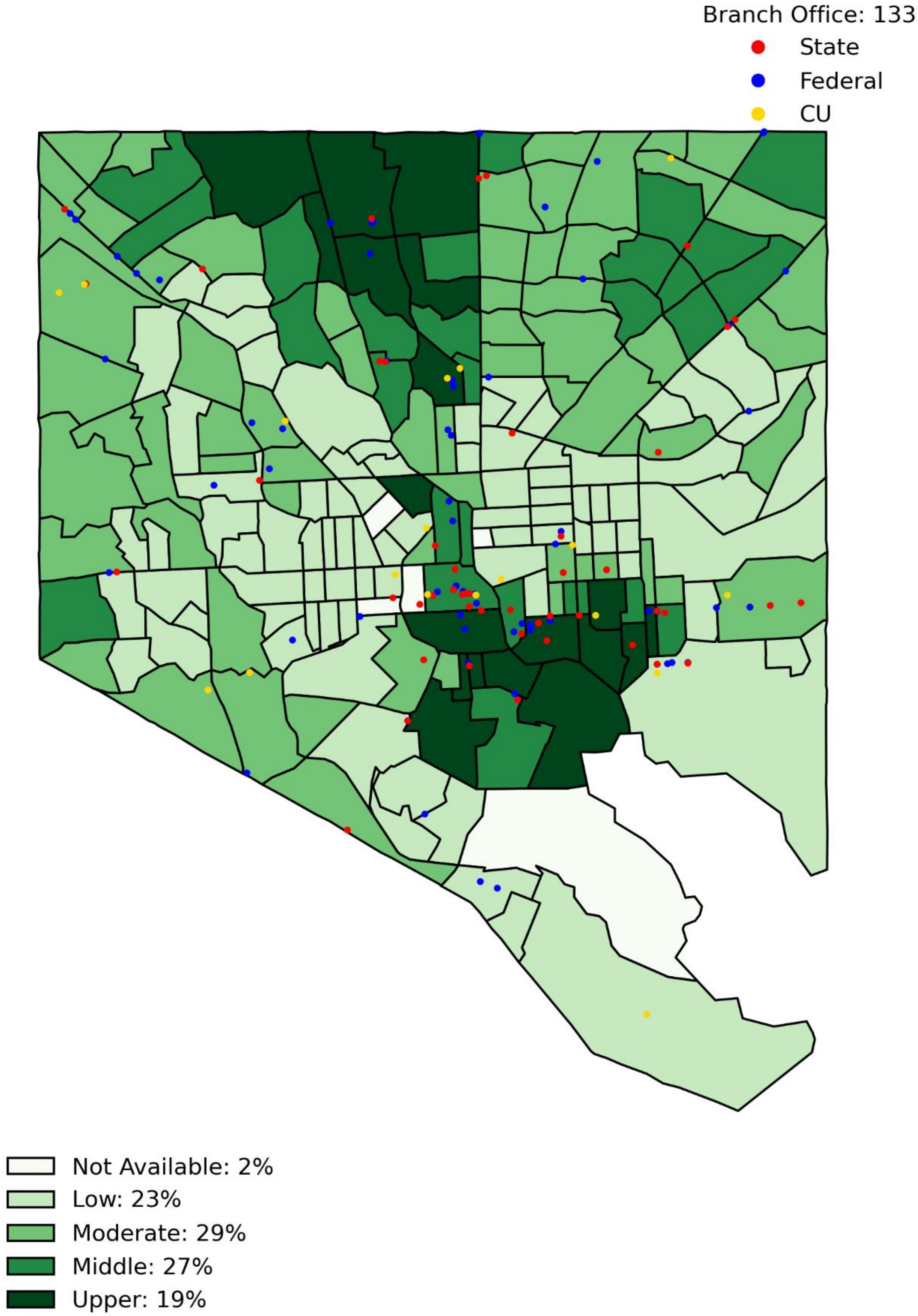
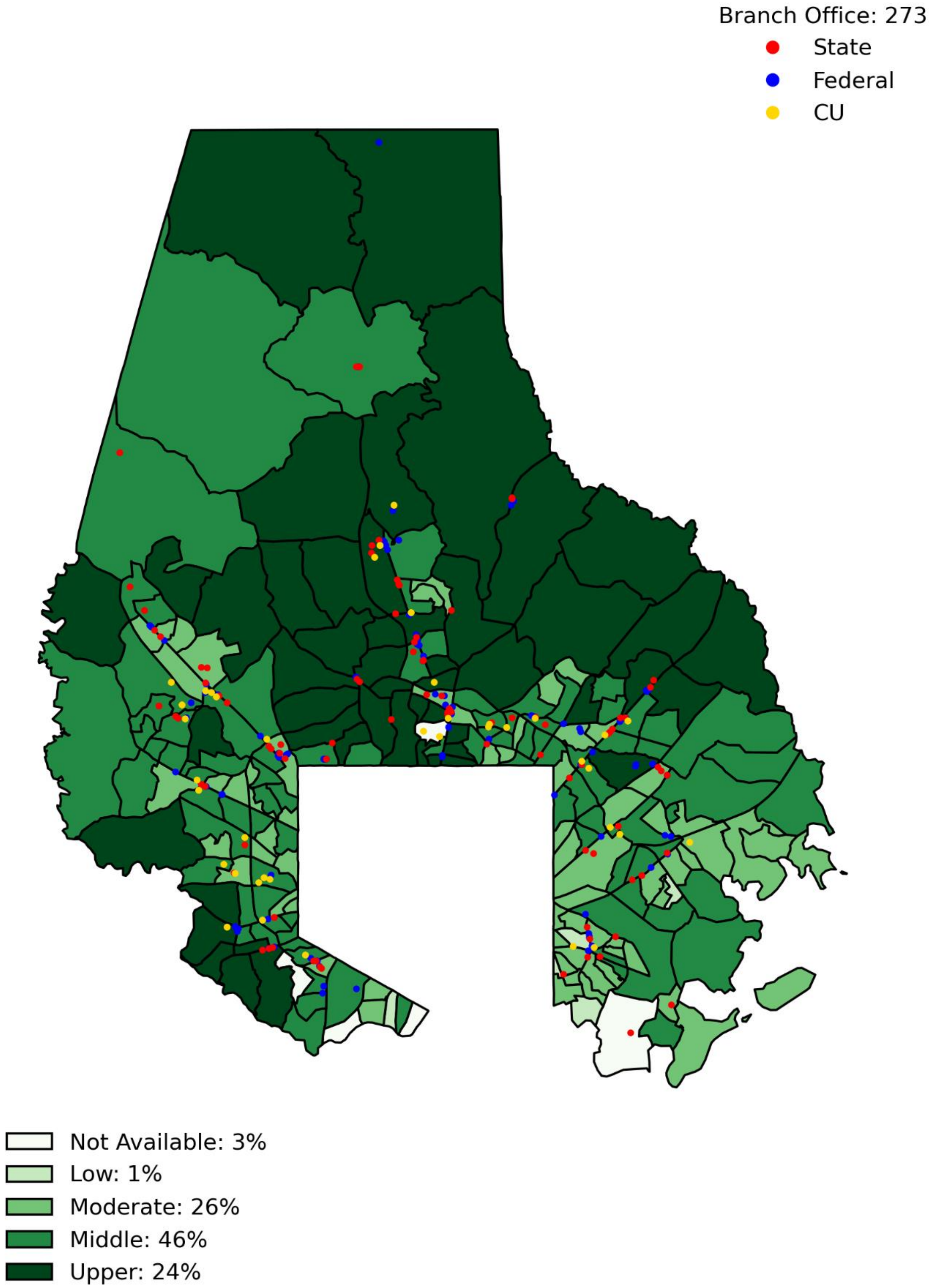


Baltimore City



Baltimore County



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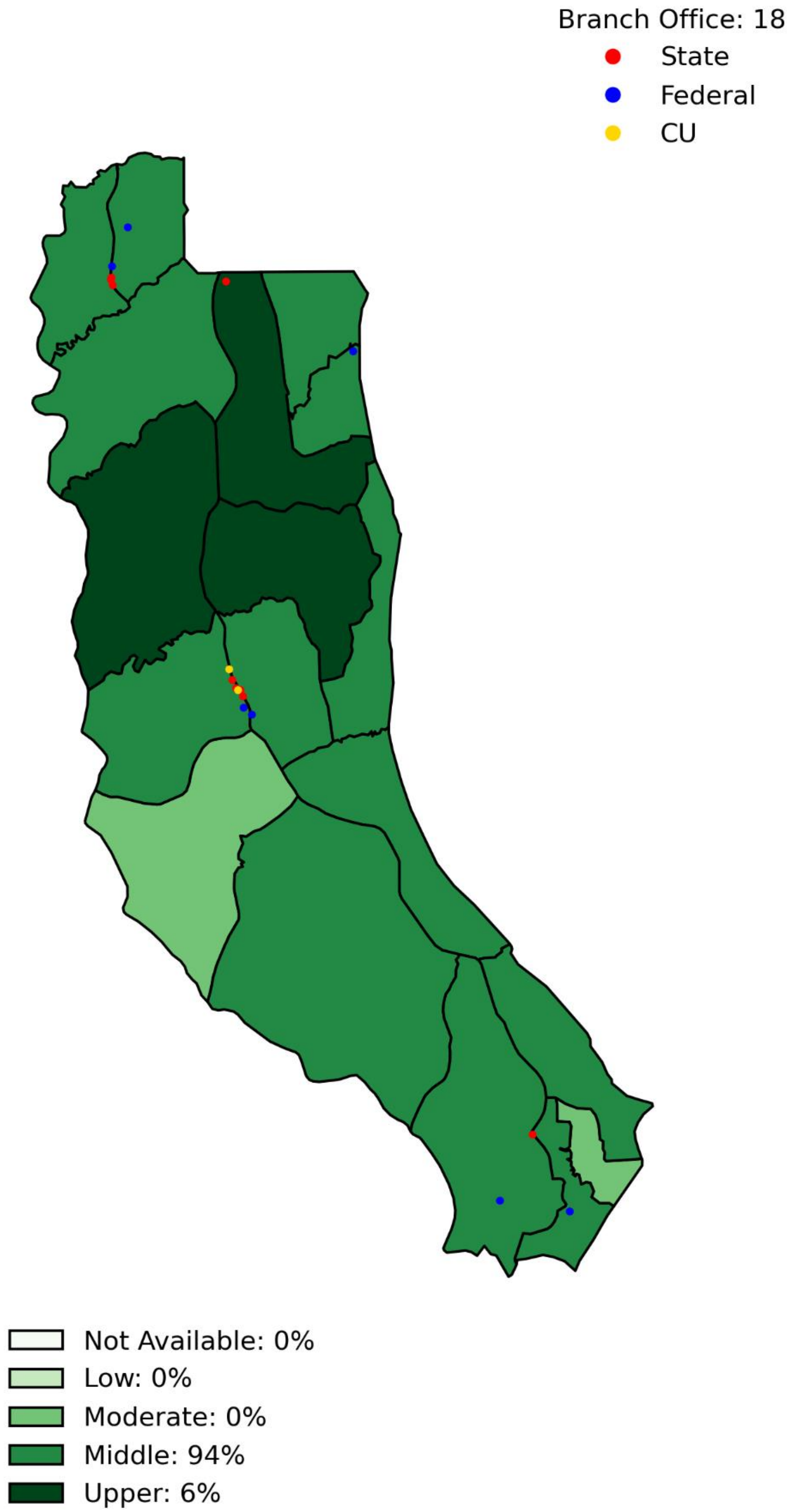

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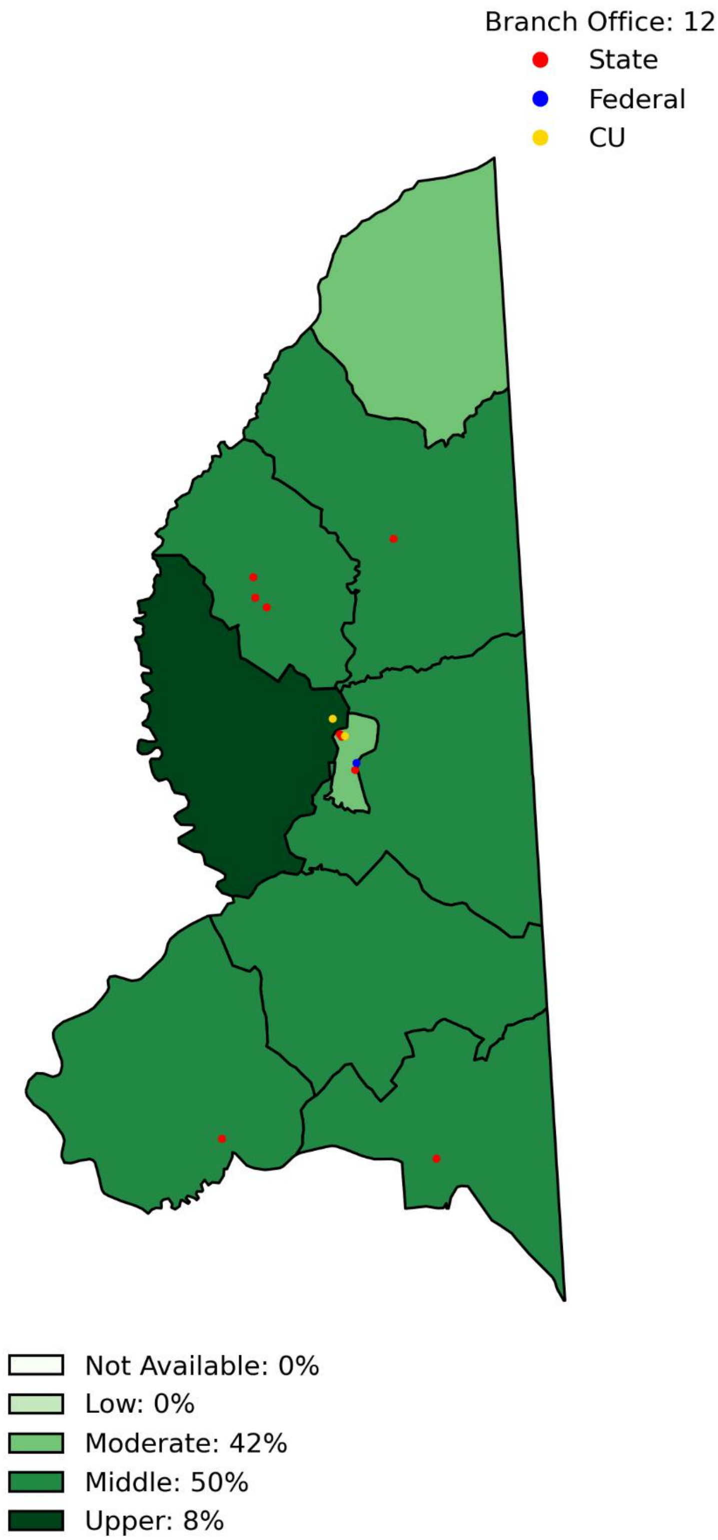

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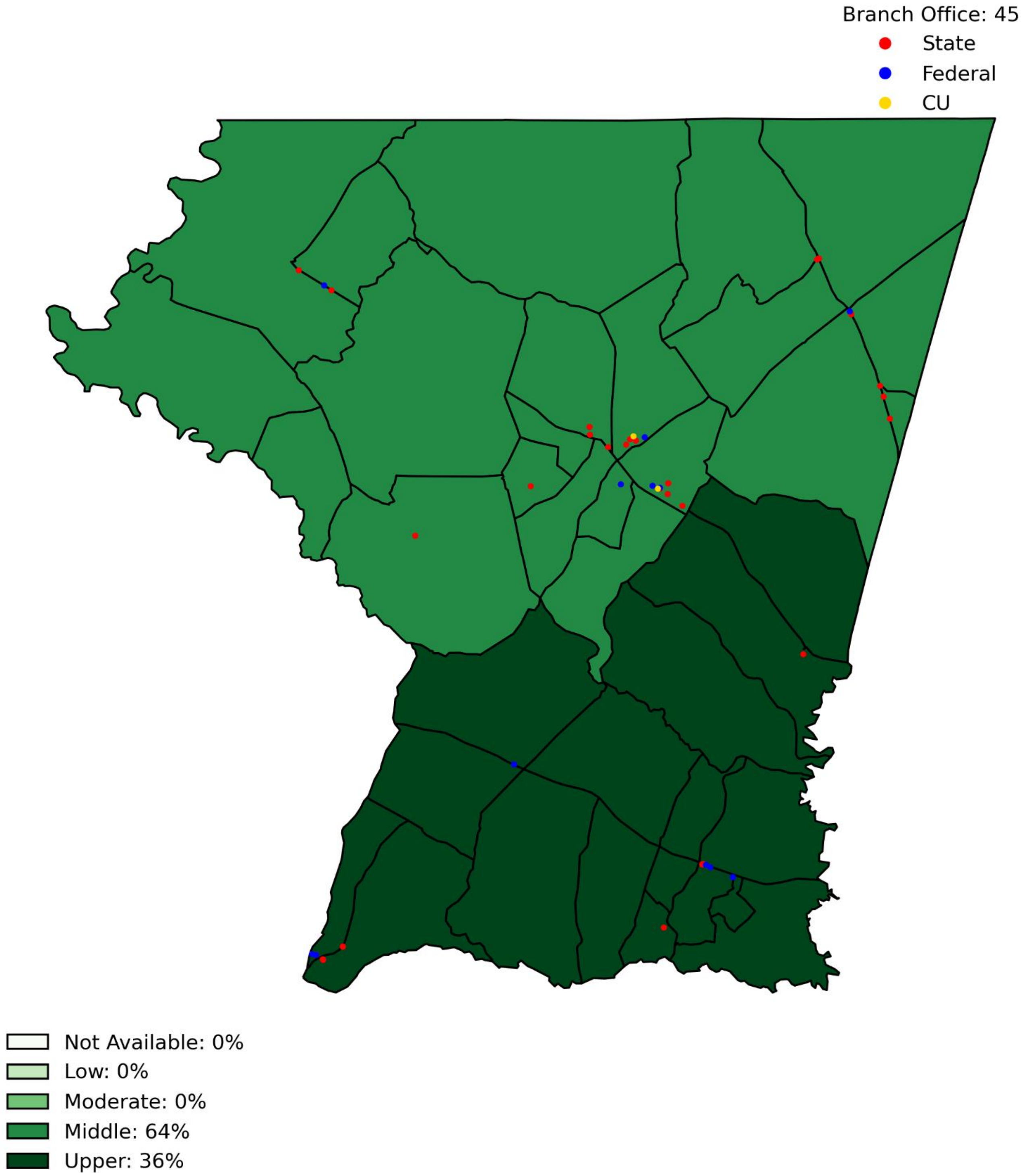

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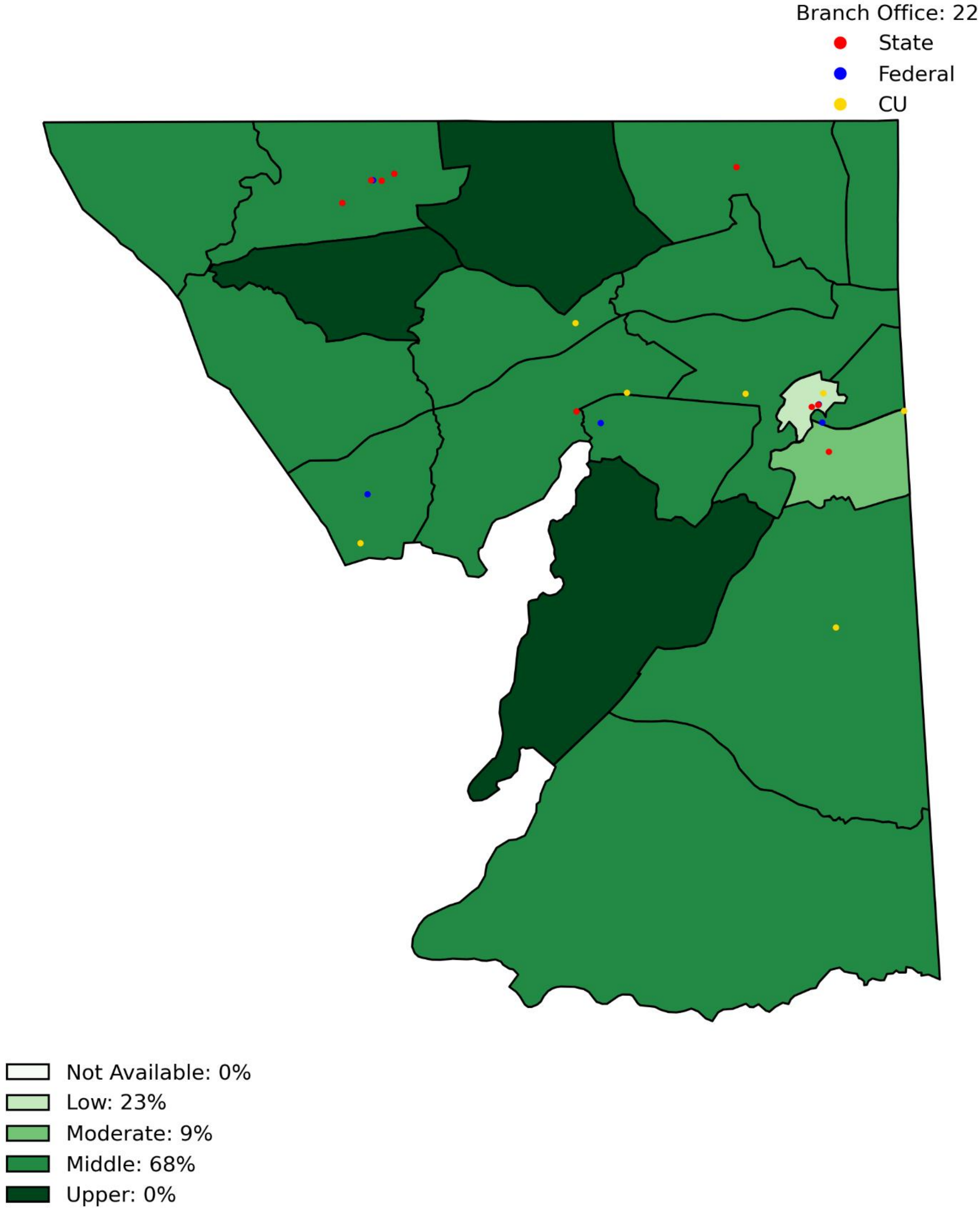

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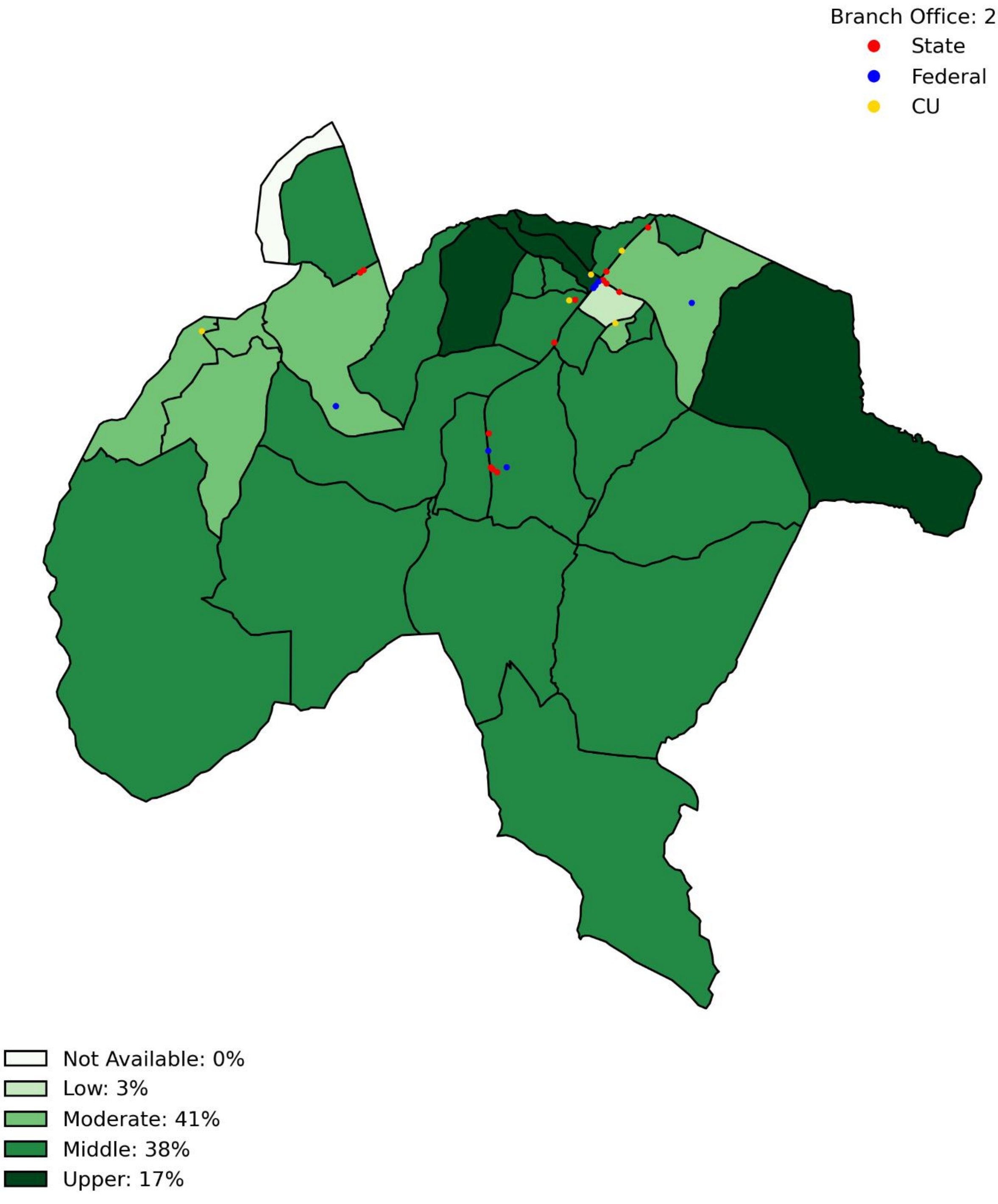

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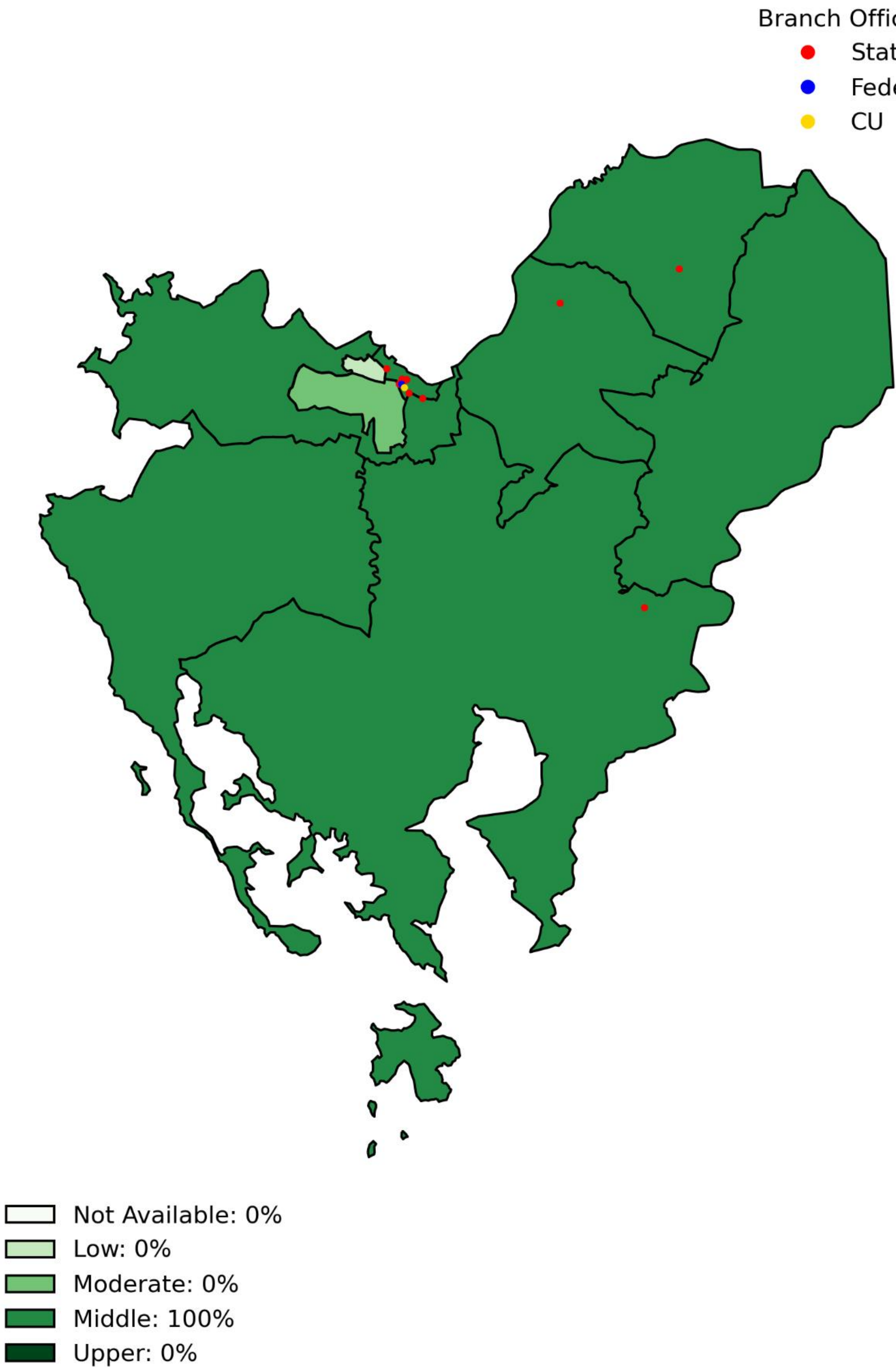

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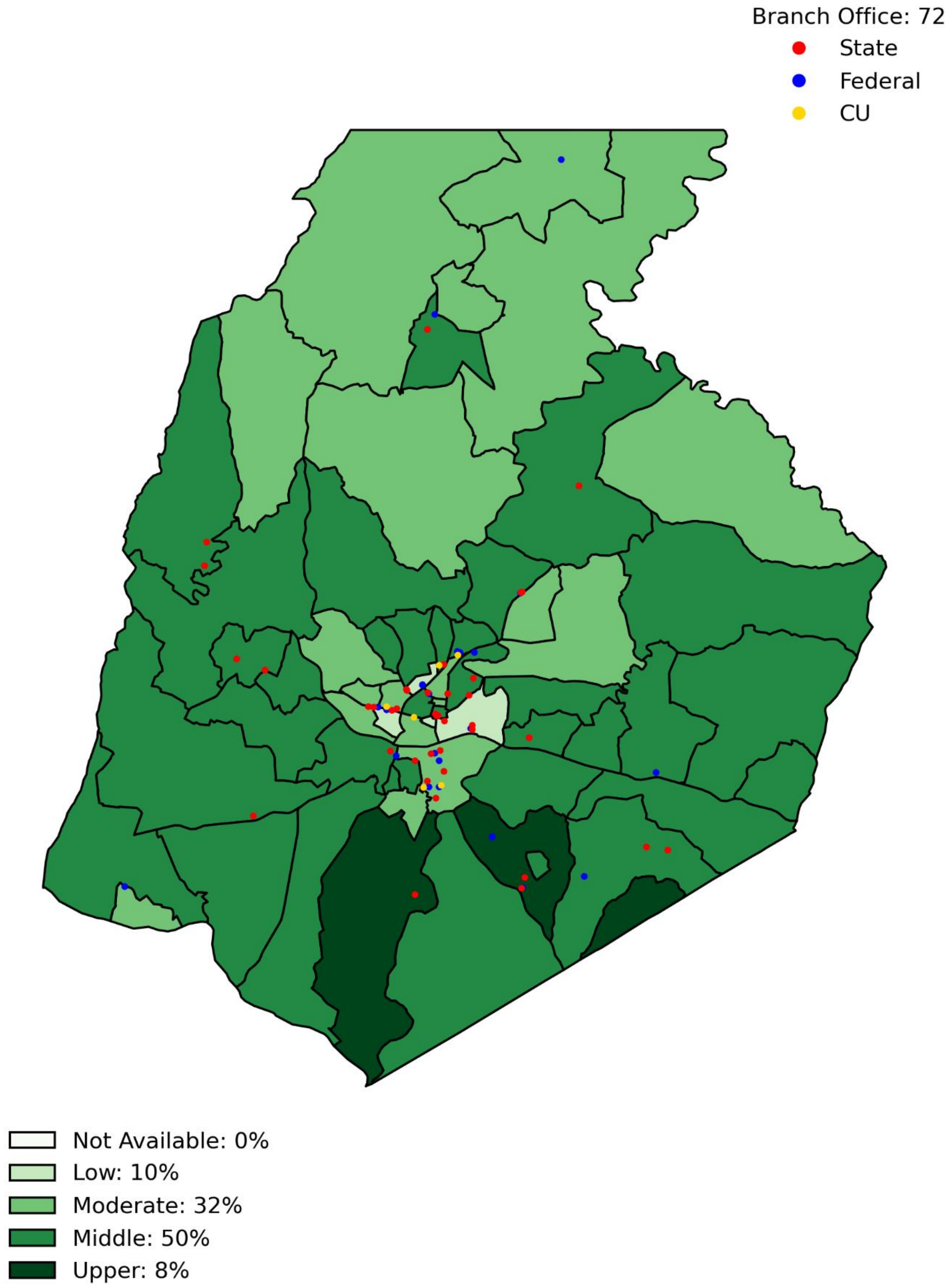

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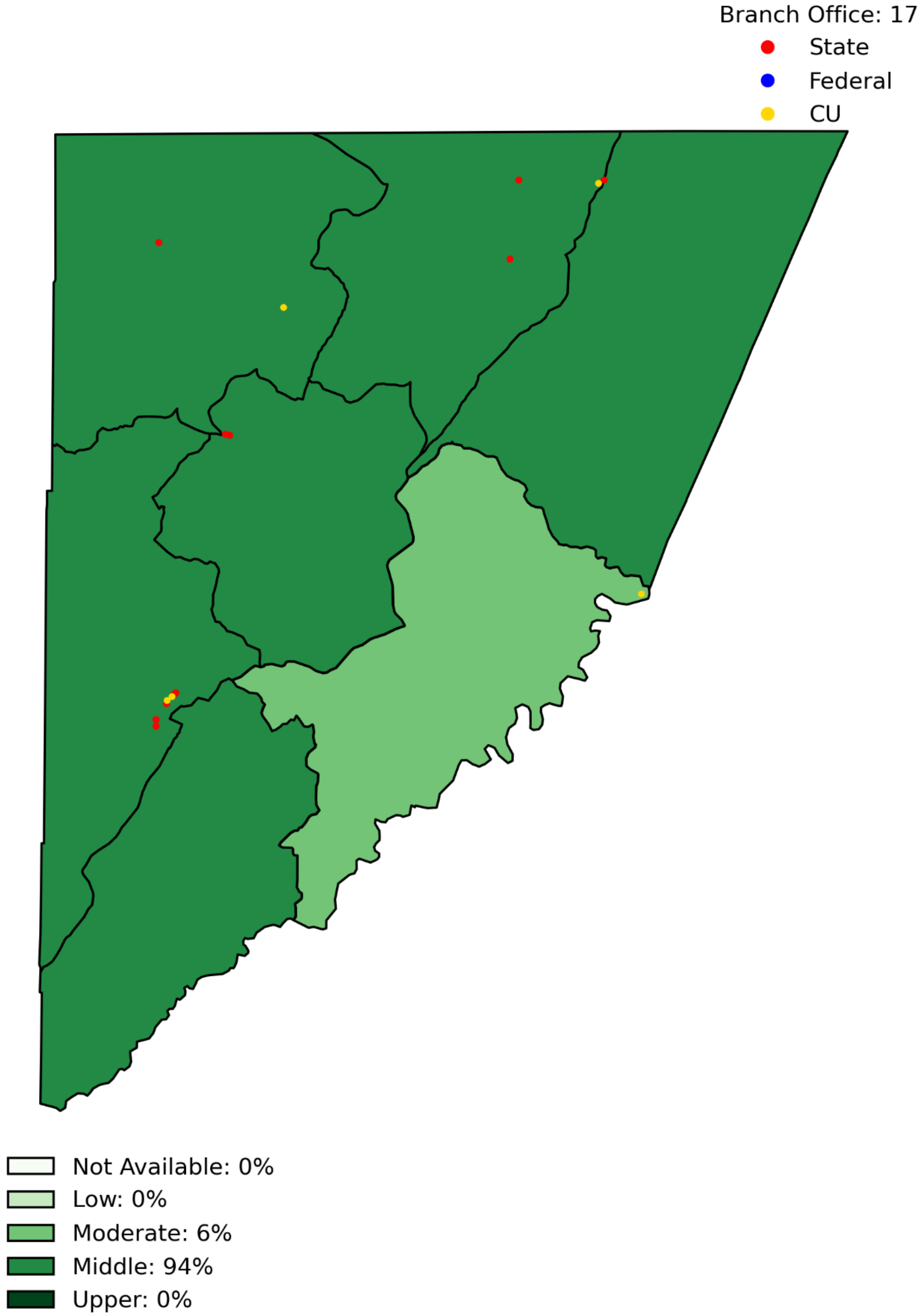

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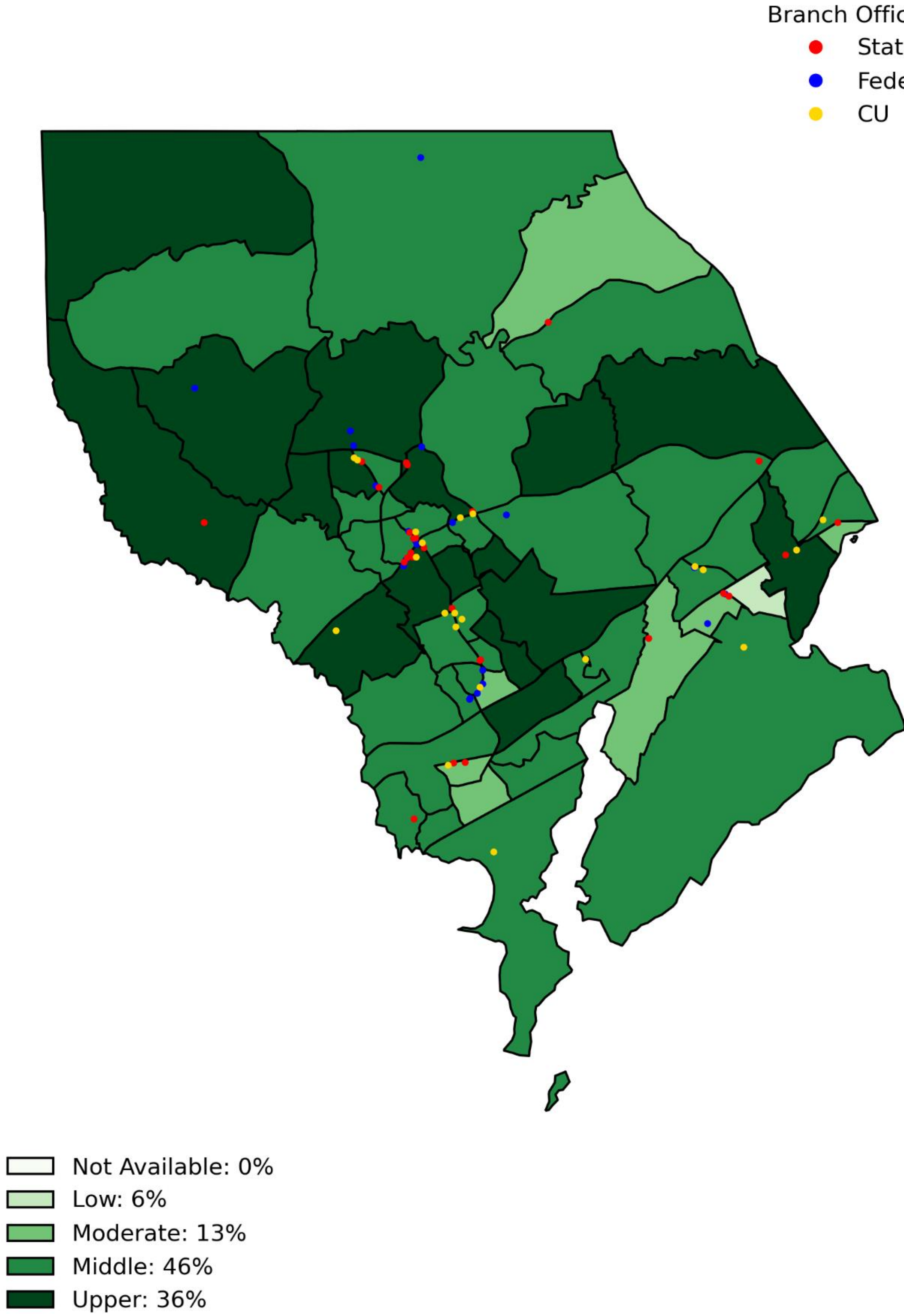

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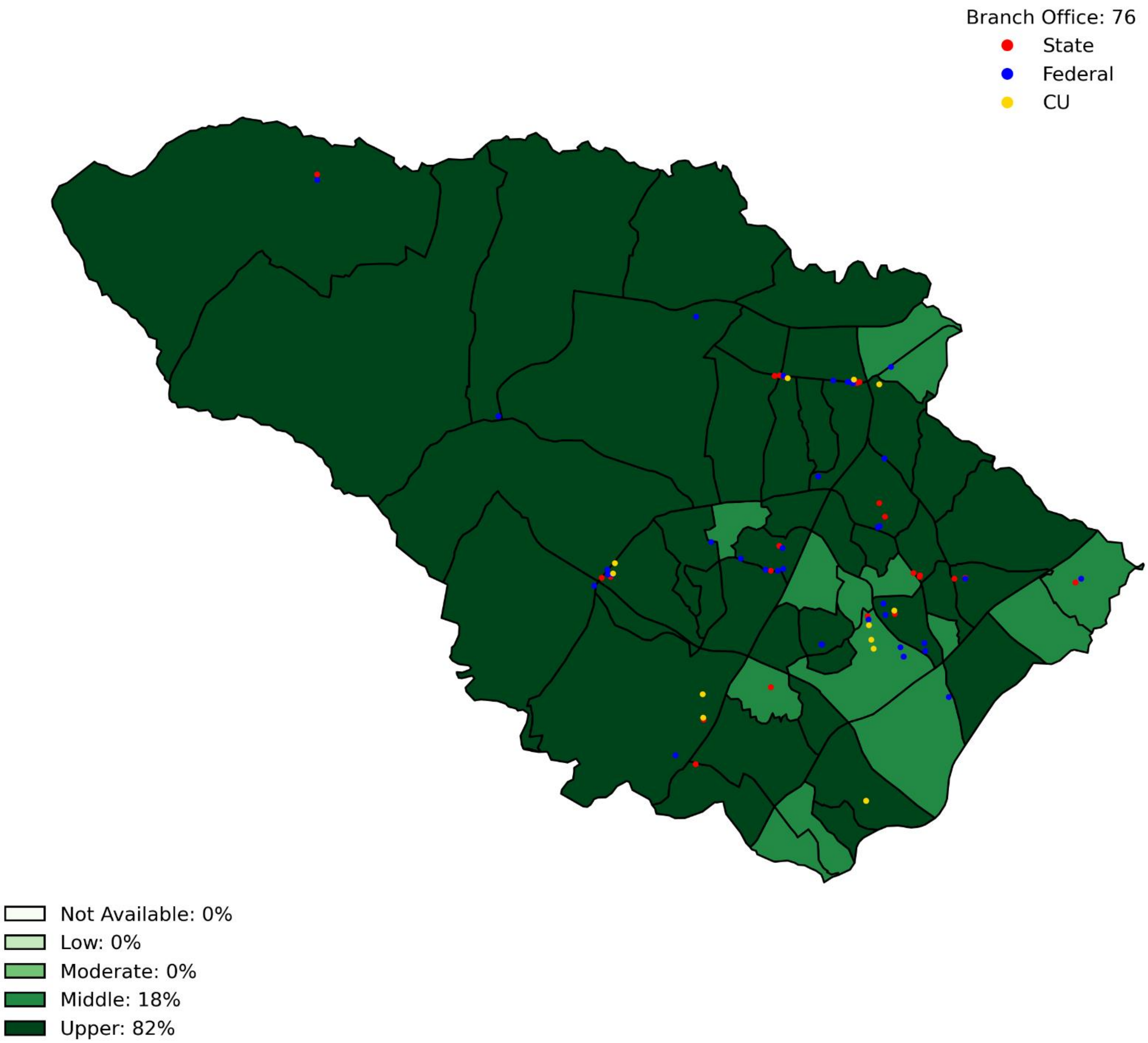

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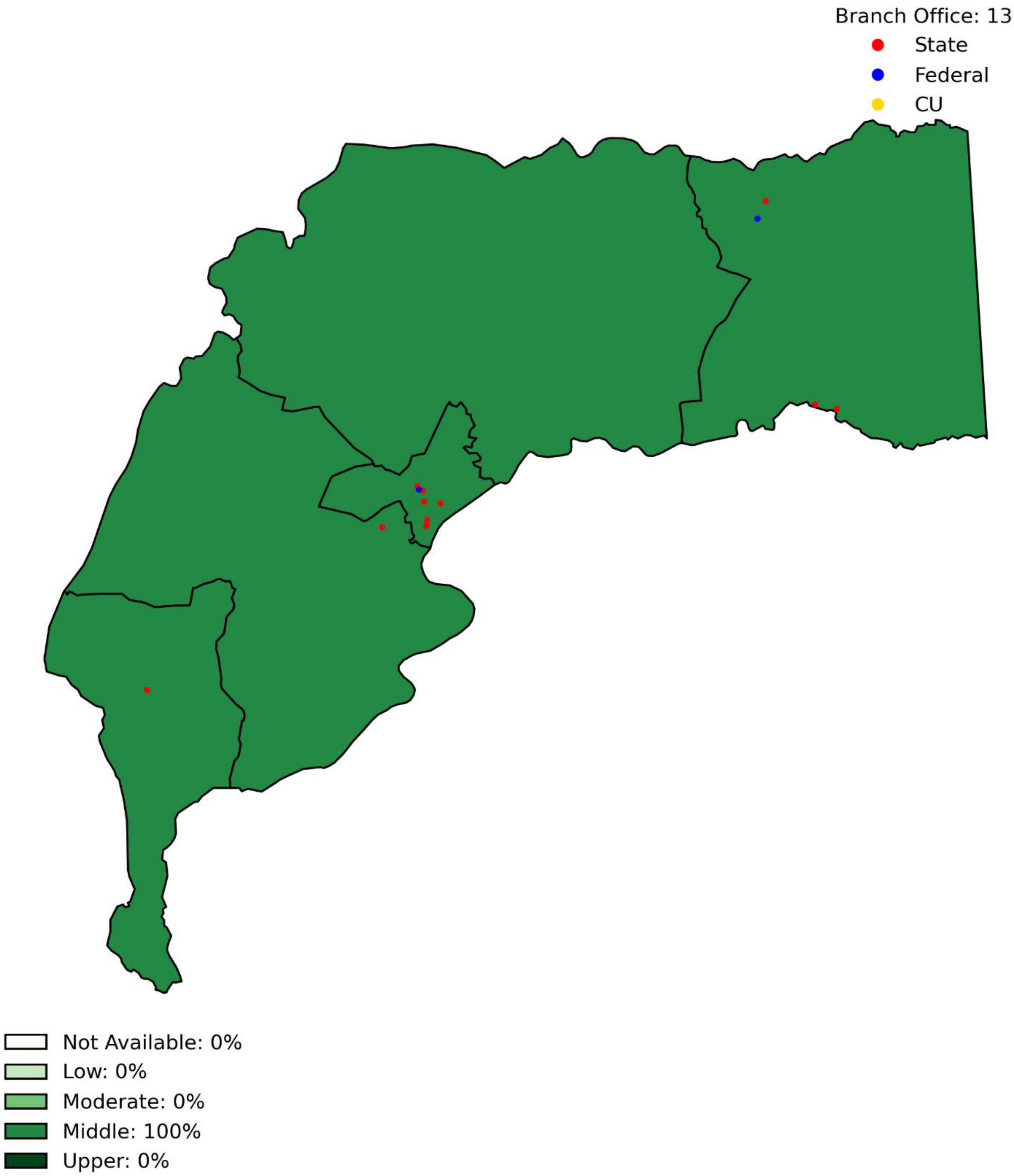
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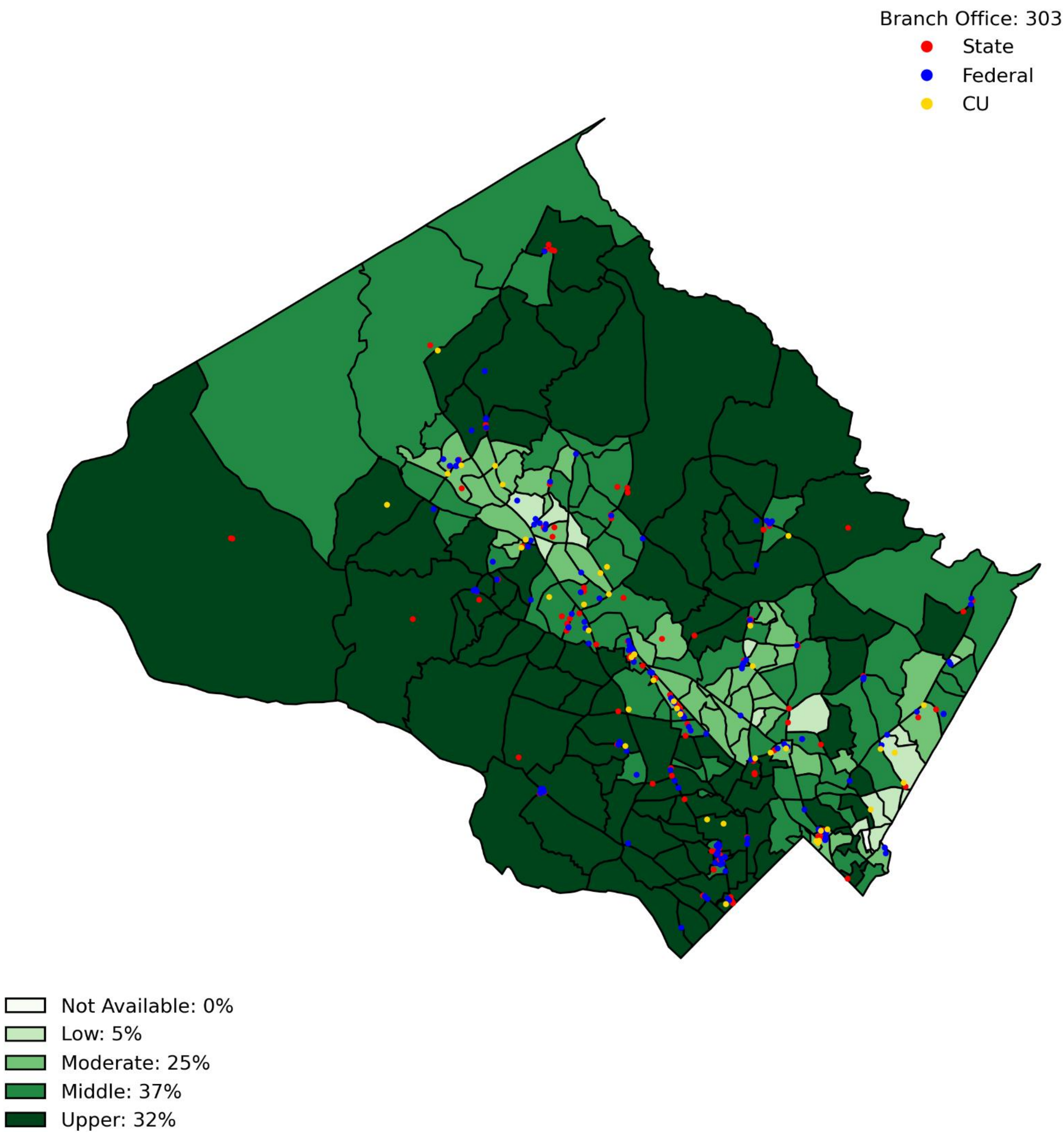
State
Federal
CU
Not Available: 0%
Low: 0%
Moderate: 0%
Middle: 100%
Upper: 0%

Montgomery County



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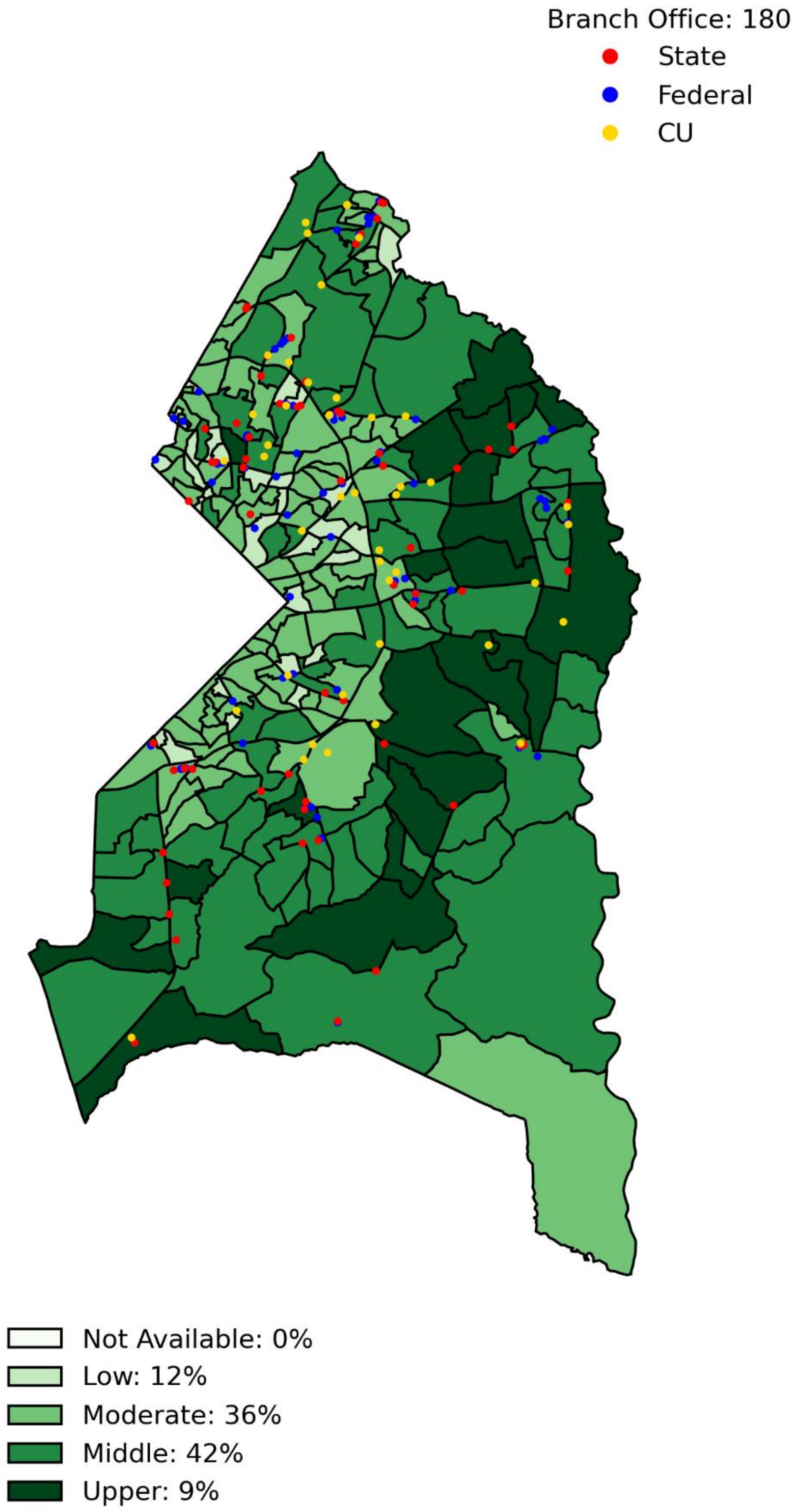

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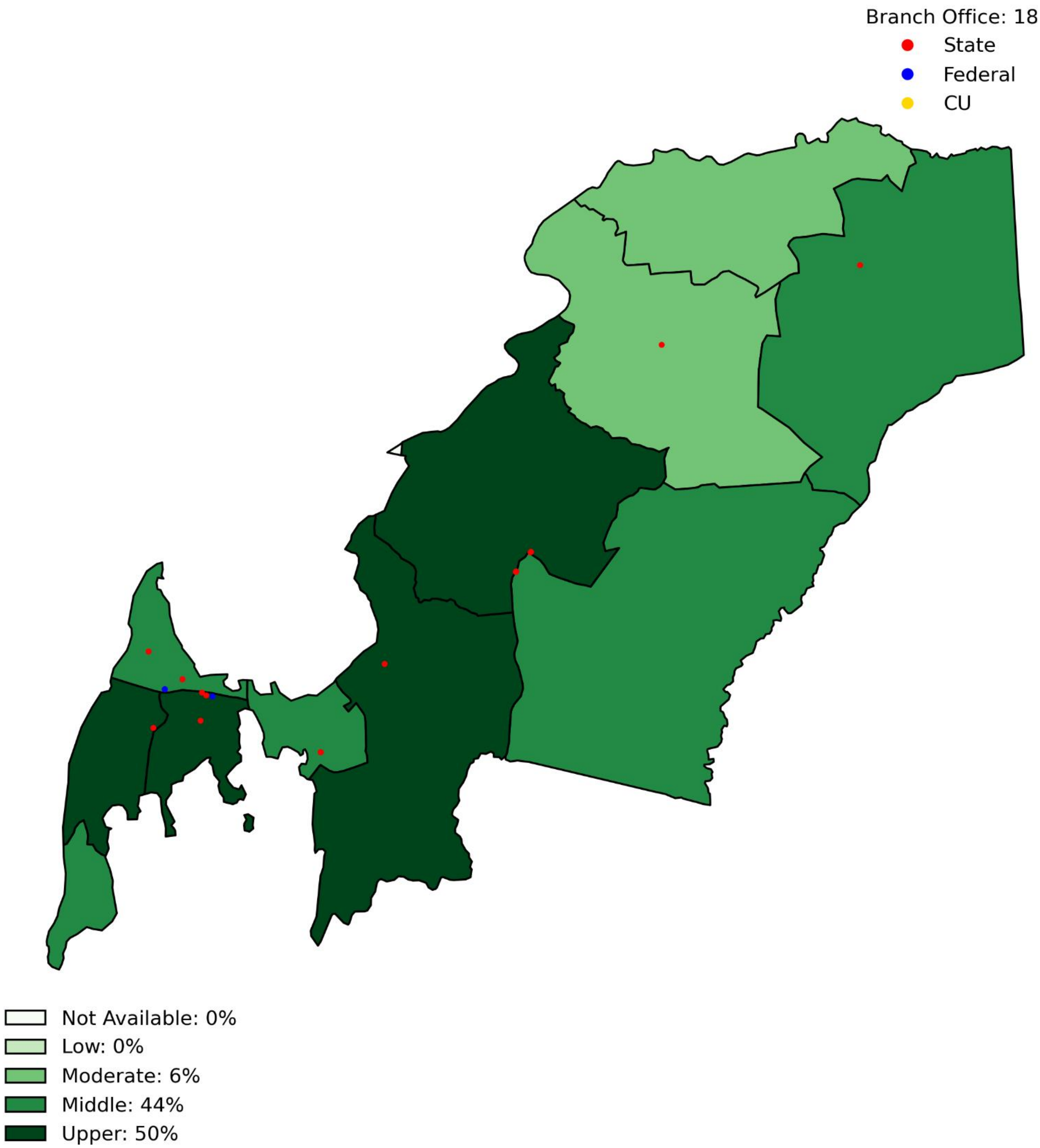

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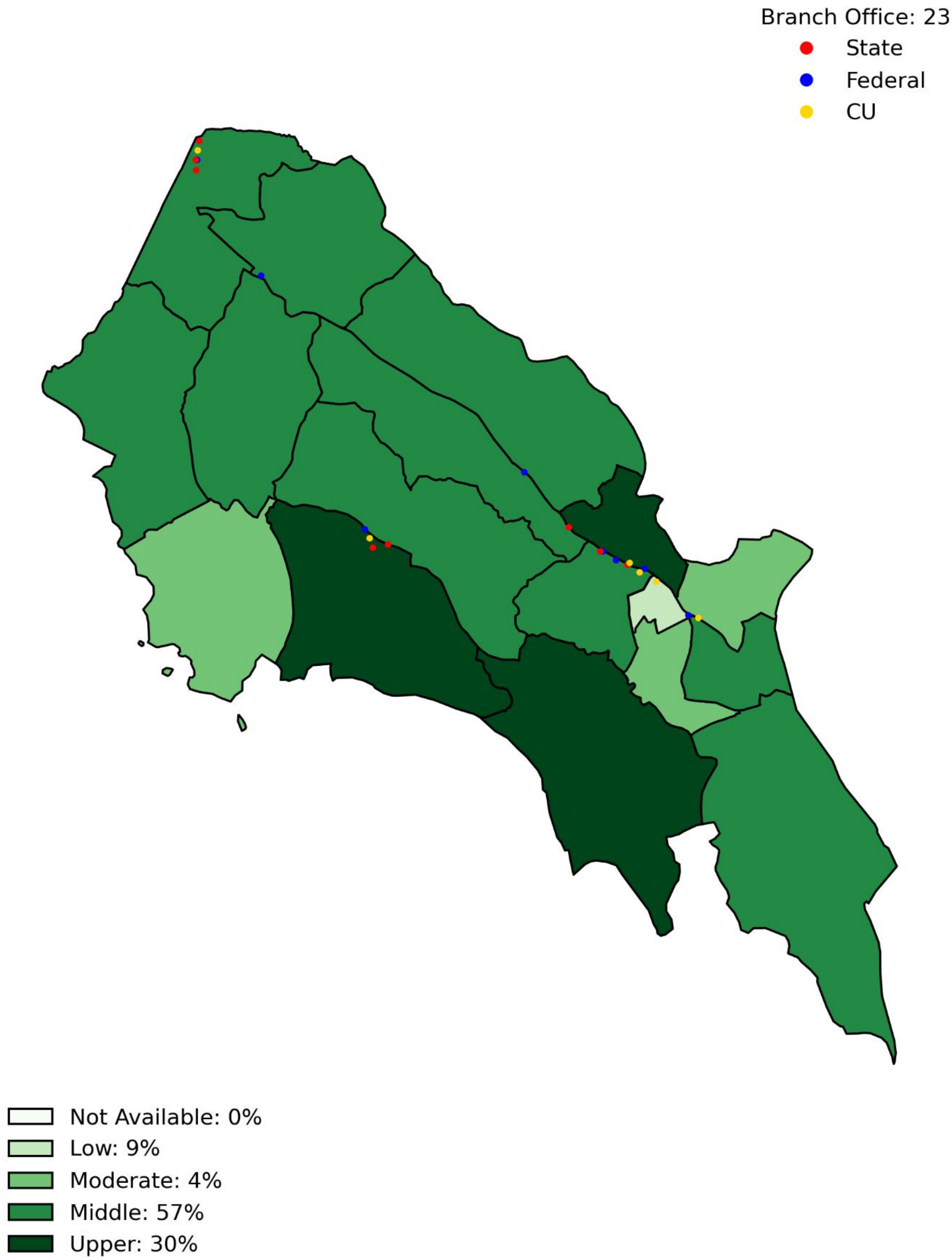

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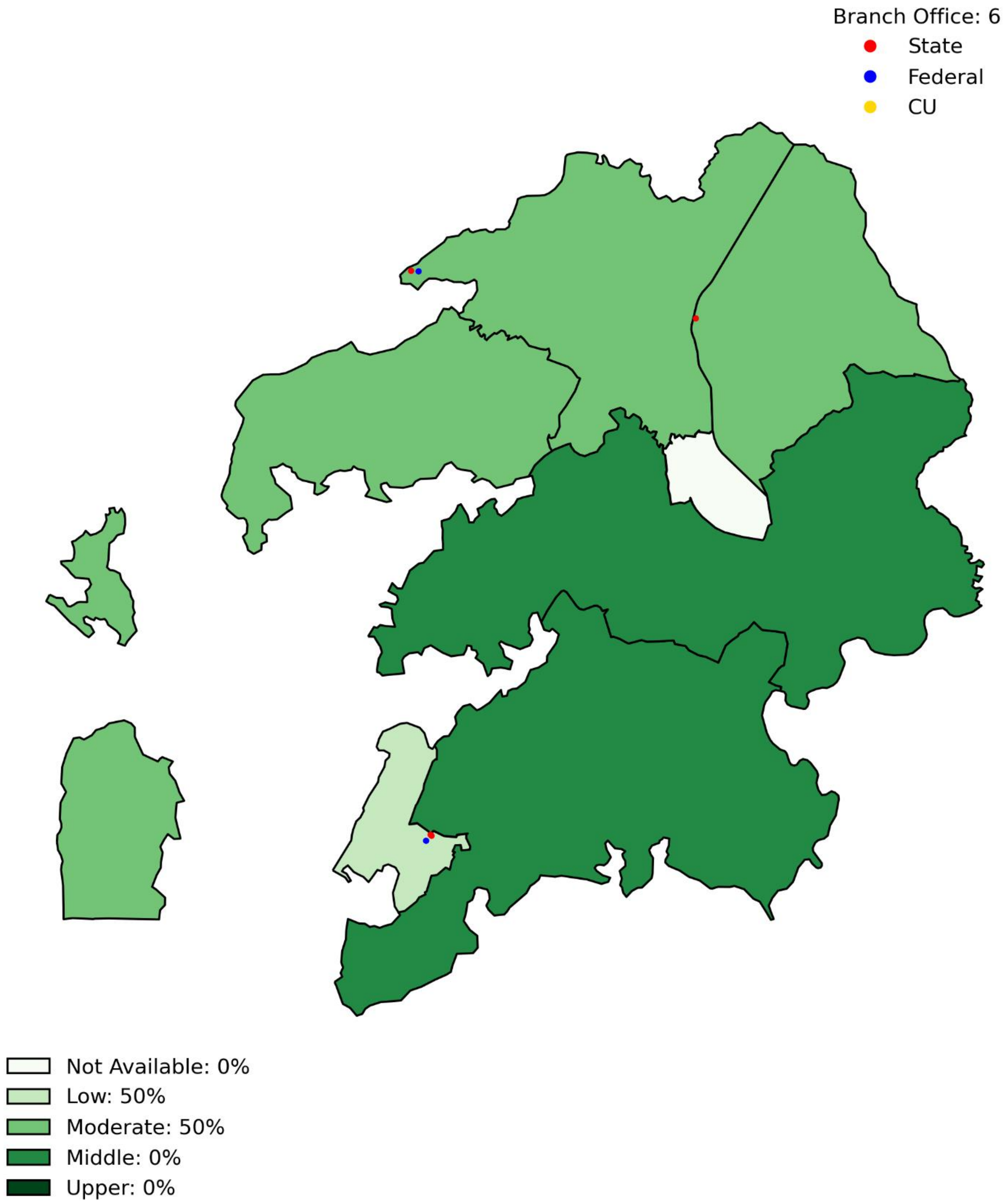

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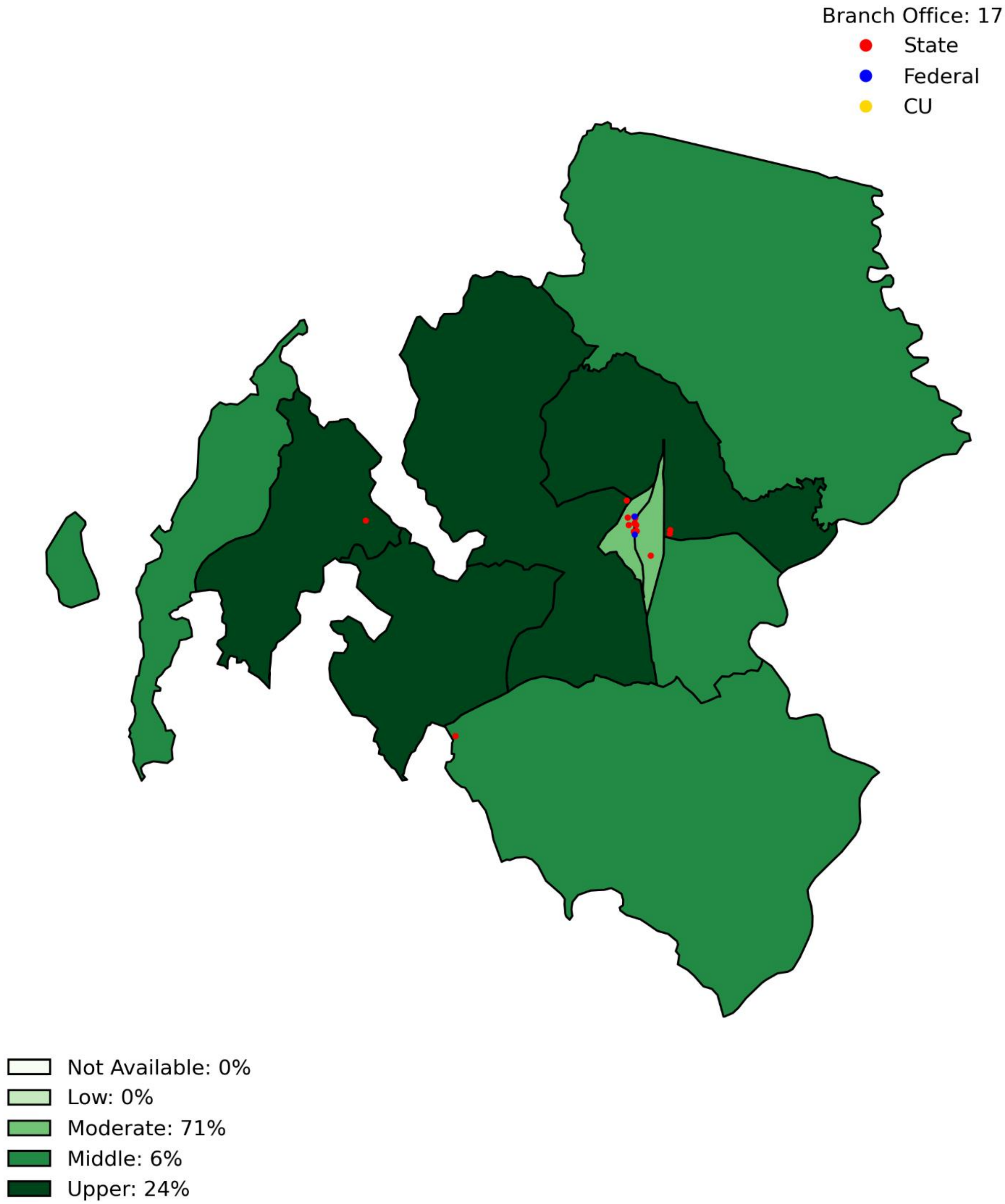

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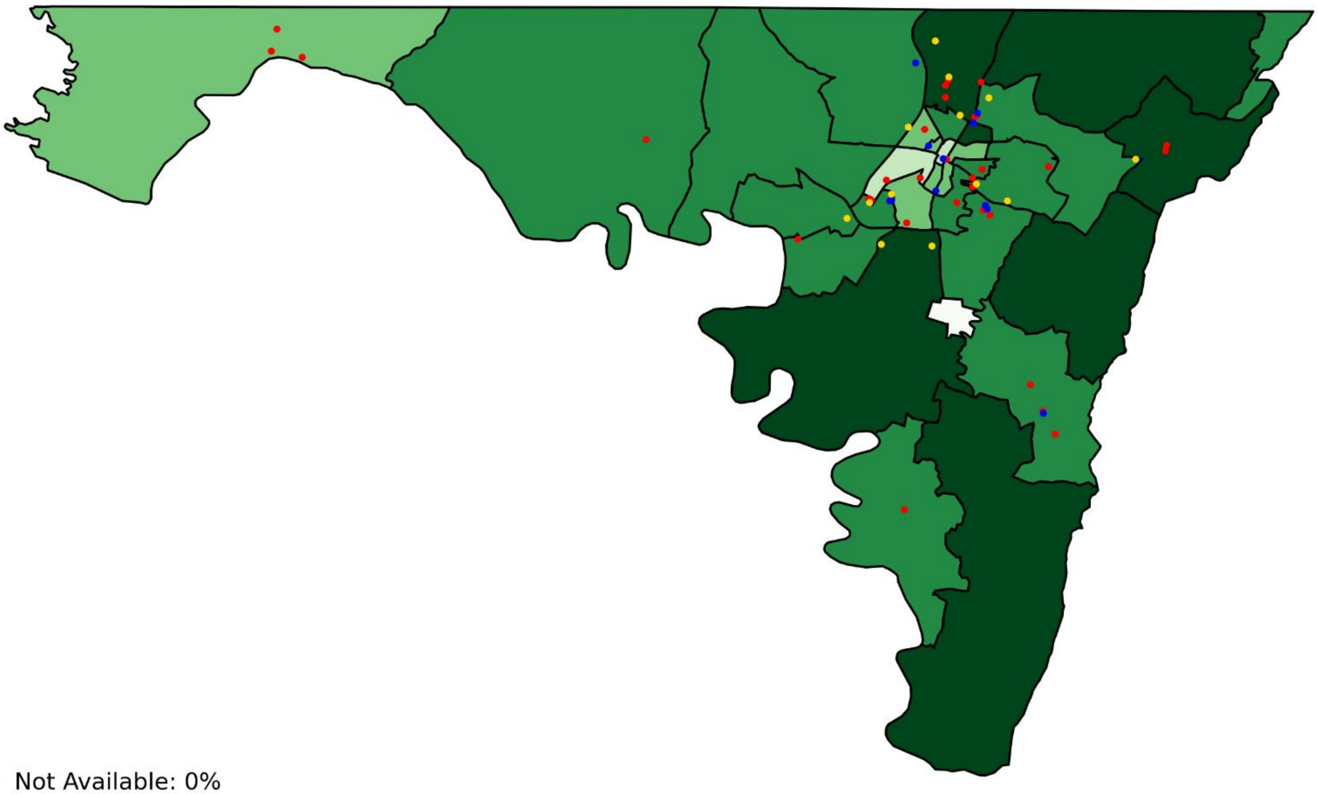

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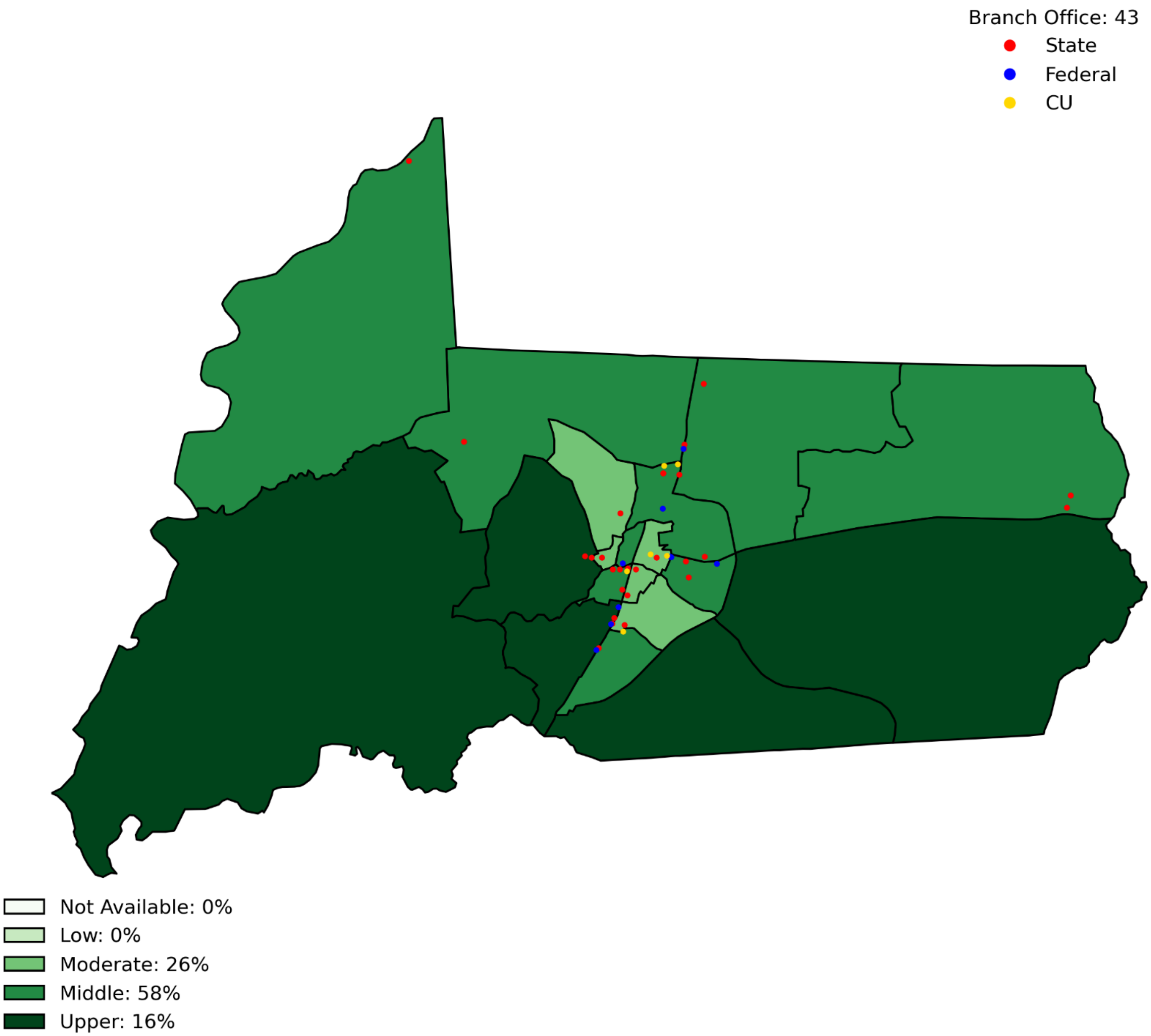

Worcester County

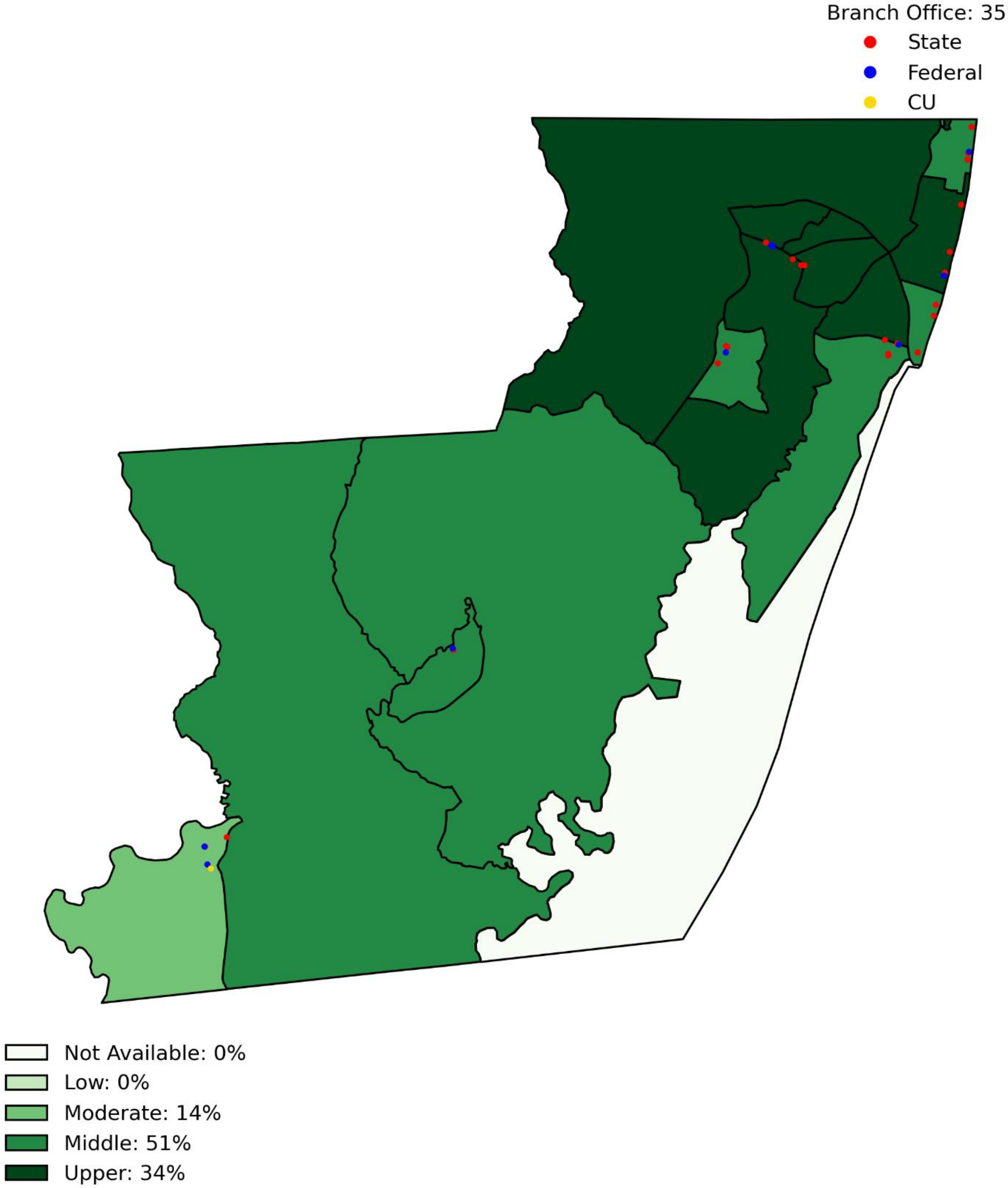

Exhibit 2

MD bank and CU desert map 2 and 10 mile radius

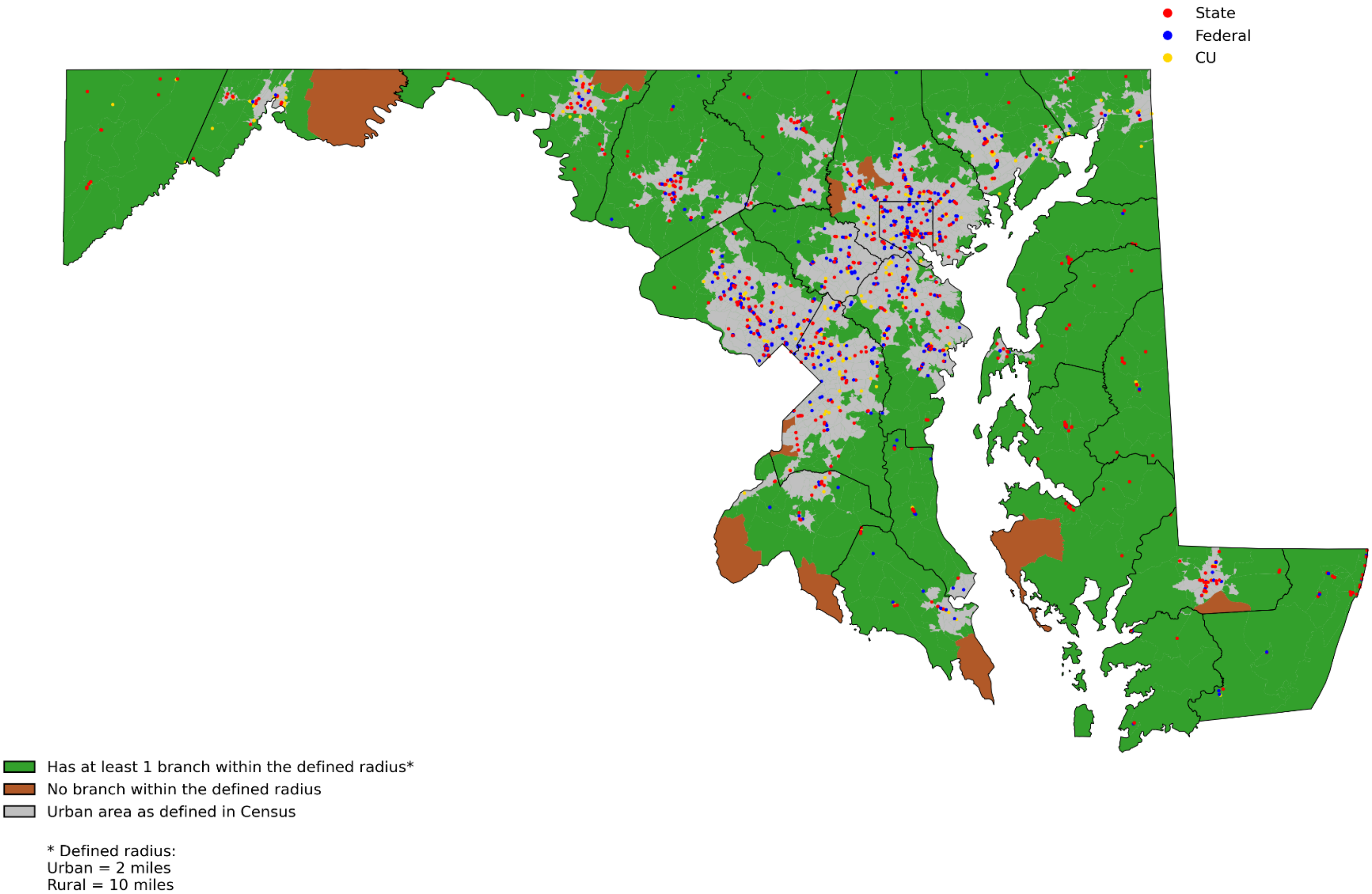

Exhibit 3

MD bank desert map 2 and 10 mile radius