



**TESTIMONY OF ANDY MORRISON, ASSOCIATE DIRECTOR
ON BEHALF OF NEW ECONOMY PROJECT
BEFORE THE NYS SENATE STANDING COMMITTEE ON BANKS
“WHY DID SIGNATURE BANK FAIL? WHAT CAN BE DONE TO PREVENT FUTURE
BANK FAILURES IN NEW YORK?”
MAY 30, 2023**

Good morning, Chair Sanders and members of the committee. Thank you for the opportunity to testify at today’s hearing on behalf of New Economy Project, a New York City-based economic justice organization. For 28 years, New Economy Project has worked with community groups and low-income New Yorkers to combat persistent redlining, predatory lending, and other inequities in our financial system and economy that perpetuate poverty, inequality, and segregation. We also work with community groups to democratize finance, land, housing, jobs, renewable energy, and other sectors of our economy – through public banking, community development financial institutions (CDFIs), community land trusts, worker cooperatives, and other community-controlled economic development strategies.

New Economy Project’s accomplishments over nearly three decades include organizing broad-based coalitions and campaigns that have successfully kept payday lending and other debt traps out of New York State, ended employment discrimination based on credit history, in New York City, and won passage of state legislation combating predatory lending and abusive debt collection, most recently by protecting COVID-19 stimulus payments from debt collection. We have secured funding for the country’s first state-based fund for CDFIs and supported the creation of New York City’s municipal ID program, among other strategies to expand fair banking access for low-income, undocumented, and other underserved New Yorkers. We have provided direct legal assistance to thousands of low-income New Yorkers through our NYC Financial Justice Hotline, and brought impact litigation against big banks, debt buyers, and other actors, obtaining hundreds of millions of dollars in monetary awards and other relief for low-income New Yorkers.

Today’s hearing poses two urgent questions for New York State policymakers: “Why did Signature Bank fail?” and “What can be done to prevent future bank failures in New York?” My testimony primarily will focus on how public banking can strengthen New York’s financial sector in ways that promote responsible lending, equitable reinvestment, and racial and economic justice.

But first, why did Signature Bank fail? The simple answer is the bank operated according to Wall Street’s golden rule, which is to put short-term profits above all else. According to the Federal Deposit Insurance Corporation (FDIC), Signature’s “board of directors and management pursued rapid, unrestrained growth without developing and maintaining adequate risk management practices and controls appropriate for the size, complexity and risk profile of the institution.”¹

Signature’s growth was fueled by uninsured deposits – “an unstable source of funding because customers with uninsured deposits may be more likely to withdraw their funds during times of stress,” warns the Government Accountability Office.² In fact, approximately 60 of the bank’s clients “held deposit account balances in excess of \$250 million, representing about 40%” of the bank’s total deposits.³ Speculative and environmentally destructive crypto assets reportedly were at the heart of Signature’s recent surge in uninsured deposits.⁴

Predictably, Signature Bank’s executives “had incentive compensation plans that were tied to return on assets, to, quote: ‘reflect additional focus on profitability,’” as Senator Sherrod Brown, Chairman of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, underscored at a congressional hearing this month.⁵

New York tenants know all too well the ill-effects of Signature’s pursuit of ever greater profits. For years, advocates have sounded the alarm over the bank’s deliberate and widespread multifamily lending to predatory landlords based on a business model of deregulating rent-stabilized units. Signature’s lending has contributed to unlawful evictions and harassment of tenants and fueled speculation and displacement in low-income communities and communities of color.⁶

Signature Bank is not alone. Many of the banks operating in New York invest heavily in an array of harmful industries, from speculative real estate to fossil fuels. And, as this Committee knows, banks routinely push low-income New Yorkers out of mainstream banking by closing branches and imposing prohibitively high minimum balance requirements and predatory overdraft fees. In just the first year of the pandemic, for example, we estimate that banks siphoned nearly \$1.7 billion in fees from struggling New Yorkers.

Public banking offers an urgently needed alternative to our unfair, unstable, and extractive financial status quo. Public banks are created by governments and chartered to serve the public interest – not

¹ *FDIC’s Supervision of Signature Bank*, at <https://www.fdic.gov/news/press-releases/2023/pr23033a.pdf>

² *Preliminary Review of Agency Actions Related to March 2023 Bank Failures*, at <https://www.gao.gov/assets/gao-23-106736.pdf>

³ *Supra*, note 1.

⁴ *Risky Bet on Crypto and a Run on Deposits Tank Signature Bank*, at <https://www.nytimes.com/2023/03/12/business/signature-bank-collapse.html>

⁵ *Examining the Failures of Silicon Valley Bank and Signature Bank*, at <https://www.banking.senate.gov/hearings/examining-the-failures-of-silicon-valley-bank-and-signature-bank>

⁶ *Collapsed Signature Bank Made Risky Loans to Predatory Landlords*, at <https://www.vice.com/en/article/m7bqzp/signature-bank-collapse-nyc-housing-predatory-landlords>

to maximize profits for the benefit of shareholders and executives. They hold public deposits and reinvest in community needs. Through public banking, New York can increase transparency and accountability in our financial sector; stabilize and sustain small, community development lenders; and ensure that public funds are not implicated in private banks' destructive lending practices but instead are leveraged to support local economic development and job creation.

The New York Public Banking Act [S1754 (Sanders) / A3352 (Hunter)] would create a statewide regulatory framework for local public banking – making it easier for New York cities and counties to establish public banks. The bill authorizes the NYS Department of Financial Services (DFS) to issue special purpose public bank charters to entities that demonstrate, for example, adequate reserves and liquidity, independent and accountable governance, robust internal audits and controls, and sufficient capital.

Under the New York Public Banking Act, local public banks would engage in equitable and responsible lending, following strict financial principles that ensure safety and soundness. By leveraging public money to fund affordable housing, small businesses, renewable energy, and other community needs, public banks would build diverse loan portfolios that generate reliable returns, minimize risk, and maximize local economic impact. Successful public banks exist around the world, and studies show they frequently outperform private banks in terms of safety, accountability, and profitability.⁷

Significantly, it would be virtually impossible for a public bank established by a local government to experience a run on deposits as occurred with Signature Bank. That's because the local government would be the sole depositor of, and would be statutorily obligated to place its funds with, the public bank.⁸

Public banks would operate similarly to, and in partnership with, mission-driven CDFIs. CDFIs deploy flexible and patient capital to underserved communities, creating “a virtuous cycle of community improvement and social return, even in the toughest economic conditions.”⁹ In fact, CDFIs' sound underwriting and social commitment “enabled them to dramatically outperform regulated commercial banks during the [Great] [R]ecession.”¹⁰

Public banks would strengthen New York's financial sector by partnering with CDFIs and other community-based financial institutions to promote responsible lending and expand safe and

⁷ *Public Development Banks: towards a better model*, at

https://www.eurodad.org/public_development_banks_towards_a_better_model

⁸ *ND financial institutions assert good health in wake of bank failures elsewhere*, at

<https://www.inforum.com/news/north-dakota/nd-financial-institutions-assert-good-health-in-wake-of-bank-failures-elsewhere>

⁹ *CDFIs as Economic Shock Absorbers*, at <https://www.frbsf.org/community-development/blog/financial-institution-loan-funds-as-economic-shock-absorbers/>

¹⁰ *Ibid.*

affordable banking services in historically-redlined Black, brown, and low-income neighborhoods. Public banks would provide local lenders with key support – such as liquidity, secondary capital, and credit enhancements – to help them expand and diversify their lending.

The century-old public Bank of North Dakota (BND) offers proof of concept. The bank is credited with bolstering local financial institutions through its longstanding partnership model. The BND has a loan portfolio of more than \$5 billion,¹¹ approximately half of which is lent out in partnership with community banks and credit unions.¹² As a result, North Dakota has more local banks and credit unions per capita than any other state and nearly six times the number of financial institutions per capita than the U.S. overall.¹³

As in 2008, the federal government has once again taken extraordinary measures to effectively bail out reckless banks, in the process incentivizing further risky and speculative behavior. New York must lead with forward-thinking policies, like public banking, that promote safety and soundness, racial equity, and public accountability.

The New York Public Banking Act has the support of a majority of the State Senate and a near majority of the State Assembly. Additionally, more than 100 local elected officials representing 33 local governments from Western New York to Long Island have endorsed the bill, as have 163 community and labor groups from across the state. We urge you to heed their calls and pass the New York Public Banking Act this session.

Thank you again for the opportunity to testify today.

¹¹ *Bank of North Dakota: 2022 Annual Report*, at <https://bnd.nd.gov/bank-of-north-dakota-releases-2022-annual-report/>

¹² *Public Banks: Bank of North Dakota*, at <https://ilsr.org/rule/bank-of-north-dakota-2/>

¹³ *Ibid.*