

Chair Holvey, Vice Chair Bonham, Vice Chair Grayber and Members of the Committee: my name is Scott Shurtleff and I am a volunteer with the Oregon Public Bank Alliance. I retired from a multinational Wall Street bank in 2016 after twenty years in the financial industry.

We've spent many hours speaking to city leaders, credit unions, and state legislators about the benefits of municipal banks. We're often asked about the risks of municipal banks, so I will address the issue of risk in this testimony.

Managing risk is fundamental to a bank's operation. Good governance is a major part of the solution. Good governance means evaluating each loan for credit worthiness, while keeping in mind the risk of the overall loan portfolio to achieve a diversified loan portfolio across a variety of business and public sectors. Good governance means having sufficient loan loss reserves and investing them conservatively. Good governance means having experienced bankers run the bank with an independent board of directors.

HB 2743 promotes good governance by formally defining a municipal bank as a bank, which brings municipal banks under state banking statute, as well as state and federal regulation. Municipal banks will be subject to the same oversight and inspections as all banks. They'll follow the same accounting principles, risk assessment and risk mitigation processes.

What about protection of consumer deposits? A key feature of this bill, as amended, is that Oregon's municipal banks will not be taking deposits from retail customers. Our banks will serve as a city's bank and a banker's bank. This focuses the bank on commercial and governmental banking, while credit unions and community banks continue serving individual retail customers. Oregon's municipal banks won't put any consumer deposits at risk.

Looking at risk from a broader perspective, it's very important to recognize the high risk present in the multinational money center banks. We need only think back to the Great Recession of 2008 to see its extreme. I can still feel the shock when my Wall Street employer announced a \$60 billion loss in the fourth quarter of 2008. Reforms since then have done little to improve the situation, with the "too big to fail" banks now even bigger while they continue to have complex, risky derivatives in the bank's capital and reserves. Another disruption in the global economy could vaporize the value of those derivatives, posing serious risk to hundreds of millions of Oregon's public funds at money center banks. (See a July 2020 article in The Atlantic "The Looming Bank Collapse": <https://www.theatlantic.com/magazine/archive/2020/07/coronavirus-banks-collapse/612247/>)

I assert that Oregon's municipal banks will be lower risk than the current national money center banks that serve our larger cities. Municipal banks will be accountable to work for the public benefit of their cities, as spelled out in the bank's charter. Like any bank, a board of directors will have oversight of the bank, except this board of directors will be making sure that the bank is fulfilling its obligation to the municipality, its residents and its local businesses. That's a far different mission than maximizing shareholder value and creates a focus that lowers the risk of a municipal bank.

I urge you to support HB 2743 to bring municipal banks to Oregon's cities at this crucial moment. Now more than ever, we need to keep our public funds local and put them to work locally.

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