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Statement of Karen L. Jannetty
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The New York State Banking Department
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New York City

Banking Development Districts

Superintendent Neiman and members of the panel, my name is Karen L. Jannetty and I am Vice President of Communications and Community Affairs at the New York Bankers Association (NYBA). Our Association is comprised of community, regional, and money center banks which operate in the State of New York and which have 300,000 New York employees and assets in excess of \$9 trillion. Thank you for the opportunity to testify today on the highly successful and worthwhile program known as the Banking Development District Program (BDD).

It has been approximately four years since NYBA last testified before the State Assembly on the efficacy of the BDD program. At that time, there were fifteen BDDs approved by the State. Today, there are thirty-eight, and they are located in communities from Buffalo to Cayuga County to Oneida County. And the increase in the number of Districts in New York City is due in no small part to the prudent and forward-thinking enhancements that were made in 2004. We believe that this program is more important than ever, now that a combination of regulatory authorities, the State and law enforcement -- in addition to economic circumstances -- have chased many financial predators out of low-income neighborhoods. This is an opportune moment to encourage even more banks and thrifts to apply for BDDs.

One fundamental improvement that could be made to the program would be in the area of streamlining the process. We believe that any changes made to the program should be instituted with the goal of enhancing the simplicity and flexibility of the program as the best way to encourage more bank participation. In addition, the New York Bankers Association offers its assistance to the Banking Department to enhance outreach to bankers and generate interest in the Program.

The BDD Program has provided a valuable mechanism through which banks have created innovative services specifically designed for their local area. One bank created a pilot program to facilitate the collection of rent payments for the local residents. Financial education has been enhanced through bank partnerships with community groups. In addition, banks and thrifts in BDDs routinely commit charitable funds to local initiatives in the arts, health care, youth programs, and more. And in furtherance of the Program's economic development goals, these financial institutions focus on helping small businesses to thrive by providing technical assistance and even micro loans.

The continuing support for the banking development district program by the State of New York has been shown most recently by passage of legislation just last week that would authorize banking institutions to establish more than one branch in a banking development district. This bill may expand the range of services available to customers in some districts and can increase the number of jobs flowing into the district.

NYBA believes that a bank purchasing a BDD branch should be entitled to assume the BDD program benefits enjoyed by the previous owner. This will ensure the continuity of the program in the community. Given that the program is designed specifically to engage unbanked individuals, continuity is extremely important to the long-term success of the BDD and the community it serves.

The Association would also favor extending the length of the subsidy beyond two years. Given current circumstances, the branch may take longer to become profitable and therefore extending the subsidy will also help to ensure continuity by ensuring the State's and local government's long-term commitment to the health and vitality of the branch. As to the number of times a bank may seek to renew BDD deposits, we believe that these should be expanded for the same reason.

NYBA and its members are deeply dedicated to the important work of educating consumers about properly managing their finances and understanding the consequences of not fully appreciating how credit works. There is a wide variety of educational programs with highly developed curricula that are available for financial institutions to offer consumers. A BDD's mission to bring unbanked individuals into the mainstream banking system represents an opportune moment to reinforce sound financial habits. While NYBA supports the concept of requiring a financial literacy component in BDDs, banks need to maintain the flexibility to choose the specific program that best fits the needs of the consumers in their market area.

The Association is strongly opposed to extending the BDD program to credit unions, however, since the program runs on taxpayer money. NYBA and its member banks have a long-standing policy of opposing the extension of taxpayer-funds to credit unions which are exempt from most taxes. **Every dollar of deposits removed from a bank or thrift and provided to a credit union is a dollar on which**

the State of New York loses the revenue than can be earned from the loans and investments it supports. At this time of severe budget deficits in the State of New York and the nation, it seems particularly inappropriate to deposit taxpayer dollars in tax exempt organizations. Such action would exacerbate the competitive advantage of credit unions over banks.

In conclusion, the New York Bankers Association believes that the Banking Development District program provides a necessary incentive for the expansion of banking services into neighborhoods where they are most needed, and where the good financial habits that follow can have a long-term positive impact on the economy of the community.