
Senate Bill 14

Date: March 16, 2020
Committee: House Economic Matters
Bill Title: Financial Institutions – State Banks, Trust Companies, and Savings Banks – Incorporators
Re: **Letter of Support**

Senate Bill 14 (SB 14) promotes the chartering of new Maryland banks, simplifies incorporator requirements, and removes restrictions on altering directorships.

Current Maryland law requires all incorporators of Maryland banks to be adult citizens of the United States and of Maryland – no less than five (5) incorporators for banks, and no less than fifteen (15) incorporators for savings banks. These requirements are a deterrent to the chartering of new Maryland banks and are more restrictive than those of many states, including our neighboring states. Examples of requirements in other states include: CA 1; CT 1; DC 1; VA 1; NC 1; PA 3; DE 3; WV 5 (3 instate).

Maryland has seen a 43% reduction in state-chartered banks in just over a decade, from 56 in 2007 to 32 in 2019. SB 14 simplifies the incorporation process by decreasing the total number of incorporators needed to charter a new Maryland bank. For banks and savings banks alike, the required number of incorporators would be no less than three (3) adults, all who must be residents of the United States, and one (1) who must be a citizen of Maryland. This proposal encourages competition by aligning the incorporation process for Maryland banks with those of neighboring states.

SB 14 also clarifies the authority of a Maryland bank's board of directors – specifically the authority to alter and/or change the board's total number of directorships. Current law provides that the number of bank directors must be between five (5) and thirty (30), as set forth in the bank's charter or bylaws, and only permits stockholders to authorize the appointment of an additional two (2) directorships (within the 5 to 30 limitation) at any given annual meeting.

Maryland General Corporation Law expressly permits a Maryland corporation to adjust or alter its board whenever authorized by its charter and/or bylaws (a common practice). The bank provisions in the Financial Institutions Article do not address a bank board's authority to reset, increase, or decrease its number of directorships. This discrepancy creates uncertainty for local banks and their advisors.

SB 14 aligns the bank provisions with Maryland General Corporation Law, thereby clarifying that a bank may, too, alter its number of directors **subject to the charter and/or bylaws**. Thus, this bill will increase corporate flexibility and further promote efficient and effective governance structures. **For these reasons, the Department respectfully requests a favorable report from the Committee on SB14.**

For questions, please contact Andrew Fulginiti at andrew.fulginiti@maryland.gov or (443) 401-5129.