Freedom to Invest

The Cost of Restrictions:
How State Bills Are Creating Inefficiency in the U.S. Banking Sector

Since 2021, lawmakers in 39 states have introduced 477 bills aimed at restricting pension boards, state and municipal governments, and the private sector from considering certain categories of financial risks in their decision-making, including economic, geopolitical, or climate-related financial risks and opportunities. The overwhelming majority of these proposals have failed—largely due to private and public sector concern. Only six bills (4%) passed in 2024. But state legislators have continued to propose similar measures in 2025.

Some of the legislation targets financial institutions, banks, and investors based on investment strategies and risk assessments, including factoring risks such as energy volatility or severe weather trends into their business decisions. States such as Texas, West Virginia, Kentucky, and Oklahoma have adopted laws that ban specific major financial institutions and asset managers. Two such restrictive bills passed in Texas resulted in significant financial costs, including $668.7 million in lost economic activity and $180.7 million in annual earnings, according to a study by the Texas State Chamber.

Economic Costs

While cities, school districts, state pension funds, and taxpayers bear much of the financial burden, these laws also directly affect the banking sector through impacts including:

- Undermining the free market by restricting market participation
- Increasing regulatory burdens and costs—both for banks and taxpayers
- Disrupting established relationships between banks and clients, slowing lending and limiting access to financial products
- Increasing risks to and potential loss of small local banks

Undermining The Free Market by Restricting Market Participation

State banking associations and chambers of commerce have stated that these legislative restrictions undermine free market principles and are an overreach of state power.

- When Kentucky's attorney general sent civil investigative demands to six major banks requesting documents about their responsible lending practices, the Kentucky Bankers Association pushed back, calling the request "broad overreach" that creates "unreasonable burdens."
- In Indiana, Dax Denton, chief policy officer of the Indiana Bankers Association argued that state legislation targeting financial institutions "could prohibit an institution from being a custodian of the state's finances." IBA and the Indiana Chamber jointly blasted the proposal as "anti-free market" and warned that it "picks winners and losers" by politicizing investment decisions.
- Rick Clayburgh, president and CEO of the North Dakota Bankers Association warned that putting banks on blacklists could leads to "the potential for a bank run" and "shake the underpinning of our entire financial system."
- The American Bankers Association argued such bills undermine "commitment to free markets and limited government," because "government should not be dictating business decisions to the private sector."

Increasing Regulatory Burdens and Costs

Financial institutions that have been banned from doing business with different states
(🚫 - banned, ⚠️- potentially restricted)

No.	Financial Institutions	TX (SB 13)	WV (SB 262)	KY (SB 205)	OK (HB 2034)	FL (HB3)	TN (SB 2649)
1	AMP	🚫				⚠️	⚠️
2	Barclays				🚫	⚠️	⚠️
3	Bank of America				🚫	⚠️	⚠️
4	Blackrock		🚫	🚫	🚫	⚠️	⚠️
5	BNP Paribas	🚫		🚫		⚠️	⚠️
6	Citigroup		🚫	🚫		⚠️	⚠️
7	Climate First Bank			🚫	🚫	⚠️	⚠️
8	Credit Agricole	🚫				⚠️	⚠️
9	Credit Suisse	🚫				⚠️	⚠️
10	Danske Bank	🚫		🚫		⚠️	⚠️
11	Goldman Sachs		🚫			⚠️	⚠️
12	HSBC	🚫	🚫	🚫		⚠️	⚠️
13	Impax Asset Management	🚫				⚠️	⚠️
14	JPMorgan Chase		🚫	🚫	🚫	⚠️	⚠️
15	Jupiter Fund Management	🚫				⚠️	⚠️
16	Morgan Stanely		🚫			⚠️	⚠️
17	NatWest	🚫				⚠️	⚠️
18	Nordea Bank	🚫		🚫		⚠️	⚠️
19	Northern Trust Company					⚠️	⚠️
20	Rathbones	🚫				⚠️	⚠️
21	Schroders	🚫		🚫		⚠️	⚠️
22	Societe Generale	🚫				⚠️	⚠️
23	State Street				🚫	⚠️	⚠️
24	Svenska Handelsbanken	🚫		🚫		⚠️	⚠️
25	Swedbank	🚫		🚫		⚠️	⚠️
26	TD Bank		🚫			⚠️	⚠️
27	UBS	🚫				⚠️	⚠️
28	Wells Fargo		🚫		🚫	⚠️	⚠️

The patchwork of state legislation threatens to fragment U.S. financial markets, increasing regulatory burdens and costs. For example, a bank like JPMorgan Chase may be banned from state contracts in West Virginia, Kentucky and Oklahoma, which require the bank to certify that it won't consider certain energy and environmental risks in Texas, while being "potentially restricted" in Tennessee and Florida. Tennessee and Florida's laws ban contracts with certain institutions, but don't publish a list of banned firms, creating red tape and compliance hurdles.

Disrupting the Established Relationship Between Bank and Clients

In some cases, this government interference is disrupting established relationships between bank underwriters and municipal bond issuers, forcing deals to be rebid or cancelled. In Texas, one school district's low-interest bond deal with UBS collapsed in 2022 when Texas' market restrictions were implemented, precipitating a new bond sale at higher cost. Uncertainty about which banks are approved under state laws is driving up compliance burdens and operating costs. In Oklahoma, the city of Stillwater lost out on a low-interest $13.5 million loan from Bank of America for energy-efficiency upgrades after the bank was prohibited from doing business with the state, pushing the cost of the loan up 8%.

Increasing Risks to Local Banks and Potential Loss of Small Banks

The North Dakota Bankers Association cautioned that local institutions with responsible investing policies risk being barred from managing state funds. Rick Clayburgh, CEO of NDBA, warned: "All of a sudden, a local bank could be added to the list... leading to instability and a bank run." A proposed bill in North Dakota was overwhelmingly defeated (90 to 3) due to concerns it could destabilize state-chartered institutions like the Bank of North Dakota and hurt local banks serving the state's agricultural and energy sectors.

Restrictive Legislation Persists Amid Industry Concerns

Despite growing concern from the business community, legislative efforts continue in 2025. So far this year, similar bills have been introduced in Arizona (SB 1094), Georgia (SB 57), North Carolina (HB 62), South Carolina (HB 3433), Florida (SB 700 – a larger state farm bill), Arkansas (SB 409), and Idaho (S1027).

Freedom to Invest brings together investors, companies, and other stakeholders to champion the freedom to consider all material financial risks in their decision-making. Visit freedomtoinvest.org/get-involved.