

HOUSE BILL REPORT

EHB 1167

As Passed Legislature

Title: An act relating to the linked deposit program.

Brief Description: Studying the linked deposit program.

Sponsors: Representatives Hasegawa, Kenney, Simpson, Chase and Santos.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 1/27/09, 1/29/09 [DP].

Floor Activity:

Passed House: 2/23/09, 95-0.

Senate Amended.

Passed Senate: 4/15/09, 46-0.

House Concurred.

Passed House: 4/18/09, 97-0.

Passed Legislature.

Brief Summary of Engrossed Bill

- Directs the Office of Minority and Women's Business Enterprises, to report and make recommendations on barriers faced by certified small businesses that are not able to participate in the Linked Deposit.
- Allows the State Treasurer to reduce to zero the effective interest rate the state receives on certificate of deposits.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 11 members: Representatives Kirby, Chair; Kelley, Vice Chair; Bailey, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Hurst, McCoy, Nelson, Roach, Rodne, Santos and Simpson.

Staff: Alison Hellberg (786-7152)

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Linked Deposit Program.

The stated purpose of the Linked Deposit Program (Program) is to increase access to business capital for the state's certified minority-owned and women-owned businesses. Under the Program, certified businesses can obtain reduced interest rate loans from participating financial institutions.

The State Treasurer is authorized to use up to \$190 million of short-term state treasury surplus funds for the Program. These funds are deposited in public depositories as certificate of deposits (CDs) on the condition that the public depository make "qualifying loans" under the Program. The state forgoes up to 2 percent in interest on the CDs and passes along the savings to the public depository with the condition that the depository reduces the interest rate for the loan recipients. The State Treasurer must reduce the amount of the preference to ensure that the effective interest rate on the certificate of deposit is not less than 2 percent. If the preference given to a qualified public depository is less than 200 basis points, the qualified public depository may reduce the interest rate on the loans by an amount that corresponds to the reduction in the preference below 200 basis points.

Qualifying loans are loans:

- made to certain minority or women's business enterprises or veteran-owned businesses;
- for a period not to exceed 10 years;
- for up to a maximum amount of \$1 million for each individual loan;
- at an interest rate that is at least 2 percentage points below the market rate that normally would be charged for a loan of that type; and
- with points or origination fees limited to 1 percent of the loan principal.

Several agencies are involved in the Program. The State Treasurer is authorized to fund the Program. The Office of Minority and Women's Business Enterprises (OMWBE) certifies the eligibility of the minority or women's businesses, monitors the performance of loans, and compiles information on borrowers in the Program. The Department of Veterans Affairs certifies the eligibility veteran-owned businesses. The Department of Community, Trade, and Economic Development provides technical assistance, loan packaging services and, in consultation with the OMWBE, must develop performance indicators for the Program.

Community Development Financial Institutions.

A Community Development Financial Institution (CDFI) is a specialized financial institution certified by the U.S. Department of the Treasury to provide loans for community development purposes. A CDFI works in economically distressed markets that are underserved by traditional financial institutions. The CDFIs provide financial products such as mortgage financing for low-income homebuyers and not-for-profit developers, flexible underwriting and risk capital for community facilities, and technical assistance, commercial loans, and investments to small businesses in low-income areas. The CDFIs might be regulated institutions such as credit unions or non-regulated institutions such as venture capital funds.

To apply for certification as a CDFI an organization must meet certain requirements, including:

- have a primary mission of promoting community development;

- be a financing entity;
- primarily serve targeted markets;
- provide development services in conjunction with its financing activities; and
- be a non-government entity and not be under control of any government entity (tribal governments excluded).

There are currently 811 certified CDFIs in the United States and 19 of those are in Washington.

Summary of Engrossed Bill:

By December 1, 2009, the OMWBE shall, in consultation with the State Treasurer and within existing resources, submit recommendations to the Legislature that address the following issues:

- the availability of sources of capital for certified borrowers, including the amounts and interest rates for that capital;
- the loans that are not being funded for certified borrowers under the current Program and why those loans are not being funded;
- the availability of other sources of capital in the marketplace for those non-funded loans of certified borrowers, including the amounts and interest rates for that capital;
- whether there are other institutions that may be willing to make those loans that are currently not being made to certified borrowers under the Program;
- whether the Program could be modified to encourage lenders to make those loans that are not currently being made to certified borrowers and whether the cost of those loans would be a barrier;
- a review of how other states seek to increase access to capital for borrowers that traditionally lack access to capital; and
- the role CDFIs could play in mitigating the cost of lending to certified borrowers who are not currently being served by the Program.

The State Treasurer may reduce the effective interest rate the state receives on CDs to zero percent.

These provisions expire on July 1, 2010.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill is a result of work within the minority and women owned business community. The community would like to promote the development of small businesses, but the main obstacle to this is the lack of access to capital. Many certified businesses are unable

to get loans or the cost of those loans is prohibitive. It is important to identify the barriers for these small businesses and how the Program can be modified to better serve them.

The Program is an important public-private program and very beneficial to the community. The banking community has always supported expansion of the Program. If there are problems with the Program, it is a good idea for all of the interested parties to work together to improve it.

(Opposed) None.

Persons Testifying: Representative Hasegawa, prime sponsor; and Denny Eliason, Washington Bankers Association.

Persons Signed In To Testify But Not Testifying: None.