

HOUSE BILL ANALYSIS

HB 2843

Title: An act relating to the linked deposit program.

Brief Description: Participating in the linked deposit program.

Sponsors: Representatives L. Thomas, Wolfe and Wood.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Meeting Date: February 2, 1998.

Bill Analysis Prepared by: Charlie Gavigan, Counsel (786-7340)

Background: The State Treasurer regularly has surplus funds available. The treasurer limits the amount of funds that must be kept in demand deposits to the amount necessary for current operating expenses and to efficiently manage the treasury. Surplus funds not in demand deposits generally are held in certificates of deposit.

The Linked Deposit Program was established in 1993 by the Legislature using surplus funds not required to be in demand deposits. Under that program, the treasurer deposits surplus state funds in public depositories as a certificate of deposit on the condition that the public depository make qualifying loans under the program.

Qualifying loans— are loans that are made to minority or women's business enterprises that are defined as small businesses, for a period not to exceed ten years, and at an interest rate that is at least two percentage points below the market rate that normally would be charged for a loan of that type. Points or origination fees are limited to 1 percent of the loan principal. In turn, the bank or other public depository pays an interest rate on the certificate of deposit equal to 2 percent below the market rate for such certificates.

Up to \$50 million dollars in surplus state funds can be used in the Link Deposit Program.

Community development financial institutions (CDFIs) are nonprofit organizations organized pursuant to federal law that provide business loans and technical assistance to entrepreneurs that are unable to obtain capital from traditional lenders. CDFIs' loan money raised from private contributions and federal grants.

Summary of Bill: A second program is created in the Link Deposit Program using up to half of funds available for the Link Deposit Program. *Instead of the state*

forgoing part of the interest income on deposits of state surplus funds as an incentive for banks to lend to minority and women-owned businesses under the current Link Deposit Program, this program has the bank pay this interest to a community development financial institution (CDFI). The remainder of the interest earned on the deposits is paid to the State Treasurer.

The CDFI receiving the two percentage point remittance may use money received under this program for making qualifying loans or for technical assistance. Qualifying loans have terms that do not exceed five years, are made to business enterprises owned by persons with incomes of less than 80 percent of the median income for the county where they live, and incur loan charges and fees not exceeding 2 percent of the loan amount. The remittance of 2 percentage points on each deposit must be approved by the Department of Community, Trade and Economic Development.

Participating qualified public depositories receive community reinvestment act credit for their participation in the program.

Appropriation: None.

Fiscal Note: Requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.