
Financial Institutions & Insurance Committee

HB 2456

Brief Description: Modifying provisions relating to the linked deposit program.

Sponsors: Representatives Kessler, Hankins, Cooper, Chase, Conway, Jackley, Veloria, Ogden, Kenney, McDermott and McIntire; by request of Department of Community, Trade, and Economic Development.

Brief Summary of Bill

- Requires that the interest rate on loans made under the linked deposit program not exceed the prime interest rate of the lender.
- Requires designated state agencies to develop analytic tools to measure the performance of the linked deposit program.
- Adds the Office of Minority and Women's Business Enterprises to the list of state agencies charged with monitoring the performance of businesses receiving loans under the linked deposit program.
- Repeals the sunset provisions pertaining to the linked deposit program.

Hearing Date: 2/5/02

Staff: Thamas Osborn (786-7129).

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.

Recipients of loans under the linked deposit program must be certified as a minority or women's business enterprise by the Office of Minority and Women's Business Enterprises (OMWBE). Also, such loan recipients must meet the definition of "small business" as determined by the Department of Community, Trade, and Economic Development (the department).

The department is required to consult with the State Treasurer for the purpose of monitoring the performance of the program.

The treasurer may currently use up to \$50 million per year of surplus funds for deposit in the Linked Deposit Program.

The statutes authorizing the Linked Deposit Program are subject to repeal as of June 30, 2003, pursuant to current sunset provisions.

Summary of Bill:

In order to be a qualifying loan under the linked deposit program the interest rate cannot exceed the prime interest rate of the lender.

The recipient business is no longer required to meet the statutory definition of "small business", but the requirement of certification by the OMWBE is retained. The loss of this certification requires that the lender reduce the loan amount by the amount of the outstanding balance (i.e., the lender may not provide any additional loan money to the recipient).

The OMWBE is required to compile data on the businesses that have receive loans under the program, must notify the treasurer of any businesses that lose certification, and provide an analysis of the failure. This is to be done in consultation with the treasurer and the department.

The department, in consultation with the OMWBE, is required to monitor the performance of loans made under the linked deposit program, and to develop indicators to measure job creation, job retention and access to capital.

The bill repeals the sunset provisions that would have terminated the program as of June 30, 2003.

Appropriation: None.

Fiscal Note: Requested on February 1, 2002.

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