

# HOUSE BILL REPORT

## HB 3221

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**As Reported by House Committee On:**

Insurance, Financial Services & Consumer Protection

**Title:** An act relating to establishing the financial services intermediary.

**Brief Description:** Establishing the financial services intermediary.

**Sponsors:** Representatives Santos, Darneille and Kenney.

**Brief History:**

**Committee Activity:**

Insurance, Financial Services & Consumer Protection: 1/31/08, 2/5/08 [DPS].

**Brief Summary of Substitute Bill**

- Establishes the Financial Services Intermediary to improve the ability of low-income individuals to access and use mainstream financial products offered by financial institutions.

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### HOUSE COMMITTEE ON INSURANCE, FINANCIAL SERVICES & CONSUMER PROTECTION

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Kirby, Chair; Kelley, Vice Chair; Hurst, Loomis, Santos and Simpson.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Roach, Ranking Minority Member; Rodne and Smith.

**Staff:** Alison Hellberg (786-7152).

**Background:**

Various state and local nonprofit and governmental agencies are involved in activities related to financial literacy and asset accumulation.

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*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.*

The Department of Financial Institutions (DFI) regulates and examines various state-chartered financial services. The DFI also educates and provides outreach to protect consumers from financial fraud.

The Department of Community, Trade and Economic Development (DCTED) provides assistance to Washington's communities, businesses, and families. The DCTED is organized into several different divisions, one of which is the Community Services Division. Asset development is one of the programs within the Community Services Division. While asset development includes many different approaches, programs within the DCTED include Individual Development Accounts (IDAs) and the Earned Income Tax Credit (EITC).

The IDAs are dedicated savings accounts that help low-income families save money to pay for job training or education, buy a home, or start their own business. Saving is encouraged through a match by government or nonprofit organizations. The Savings, Earning and Enabling Dreams (SEED) Act, enacted in 2005, authorized the DCTED to create an IDA program to facilitate the creation by sponsoring organizations of IDAs for low-income individuals.

The EITC is a refundable federal income tax credit for low-income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of Social Security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit.

In 2004 the Financial Literacy Public-Private Partnership (FLPP) was created consisting of 12 members, including legislators, financial services representatives, educators and representatives from the Office of the Superintendent of Public Instruction (OSPI) and the DFI. The partnership was charged with developing a working definition of "financial literacy," identifying strategies to promote the use of financial literacy curricula in schools, serving as a resource, and seeking outcome measures to determine the effectiveness of educational efforts.

The Washington Housing Finance Commission (HFC) was created by the Legislature in 1983, but is not a state agency. It does not receive state funds, it does not lend state funds, and the state is not liable for any of the HFC's debt. The HFC acts as a financial conduit of federal funds and has the authority to issue bonds for the development of affordable housing and non-profit facilities.

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### **Summary of Substitute Bill:**

The Financial Services Intermediary (Intermediary) is established jointly by the Director of the DFI and the Director of the DCTED to improve the ability of low-income individuals to access and use mainstream financial products offered by financial institutions. The members, or their designees, of the Intermediary are:

- the Director of the DFI;
- the Director of the DCTED;

- the State Treasurer;
- the Executive Director of the Washington State Investment Board;
- the Director of the Department of Revenue;
- the Executive Director of the Housing Finance Commission;
- the Executive Director of the Higher Education Coordinating Board;
- the Executive Director of the Washington State Microenterprise Association;
- a member of the State Board for Community and Technical Colleges; and
- a member of the Financial Literacy Public-Private Partnership.

The Intermediary's responsibilities include:

- improving the ability of low-income individuals to access and use mainstream financial products offered by financial institutions;
- identifying strategies to make more mainstream financial products available to low-income individuals;
- coordinating with financial institutions to leverage the financial resources of low-income individuals to offer mainstream financial services to those individuals;
- consulting and cooperating with organizations and government agencies that are already engaged in asset building and financial literacy activities;
- entering into memoranda of agreement with organizations and financial institutions; and
- performing other duties as deemed appropriate by the Intermediary.

The Intermediary may contract with either a person a nonprofit entity with experience working in nonprofit programs related to asset accumulation and relationships with the financial services sector to administer the program. The Intermediary is required to report to the Legislature on its programs by November 15 each year.

Financial institutions and community organizations who choose to participate in the programs are required to enter into memoranda of agreement with the Intermediary. While the Intermediary may establish other requirements, the memoranda must also contain certain provisions.

For the memoranda of agreement between the Intermediary and financial institutions, the financial institutions are required to:

- offer mainstream financial products and services to low-income individuals who have IDAs;
- cooperate with and provide feedback to the Intermediary and other organizations and governmental agencies who currently offer financial literacy programs; and
- provide information to the Intermediary to assist in meeting its reporting requirements.

For the memoranda of agreement between the Intermediary and community organizations, the community organizations are required to:

- offer individual development account programs as provided for in the SEED Act;
- offer financial literacy programs, approved by the Intermediary; and
- provide information to the Intermediary to assist in meeting its reporting requirements.

Low-income individuals involved in the programs of the Intermediary must follow policies and procedures related to IDAs in the SEED Act and participate in approved financial literacy programs.

The DFI is responsible for tracking and monitoring the participation of financial institutions in the programs of the Intermediary. The Director of the DFI is directed to consider a bank's involvement in the programs when assessing the bank's performance record in meeting community credit needs.

A 1 percent exemption on retail and sales tax is available for financial institutions that participate in the programs of the Financial Services Intermediary and open at least 100 new accounts for low-income individuals also participating in the Intermediary's programs.

**Substitute Bill Compared to Original Bill:**

A 1 percent exemption on retail and sales tax is established for financial institutions that participate in the programs of the Financial Services Intermediary and open at least 100 new accounts for low-income individuals also participating in the Intermediary's programs. Two members are added to the Intermediary, a member of the State Board for Community and Technical Colleges and a member of the Financial Literacy Public-Private Partnership. Various clarifying language and structural changes are made.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) This committee has dealt with predatory practices and other consumer protection issues, but consumers still struggle with access to appropriate financial products. Many groups work on this issue, but not always efficiently. The considerable investments of the state need to be leveraged in an efficient and streamlined manner.

The proposed substitute bill adds two members to the Intermediary. Yet another iteration of this bill will include tax incentives for financial institutions who participate. A preliminary fiscal note has been issued, but this will go down.

The Department of Financial Institutions has worked with the prime sponsor and is comfortable with the proposed substitute bill. The underbanked and unbanked spend a tremendous amount on fees. Especially hit with these fees are immigrants, young families, seniors, and young professionals. This community is diverse and widespread and it is difficult to reach out to them.

This bill brings all of the strands together. It creates a brain trust of governmental agencies, financial institutions, and trusted community organizations. The Intermediary will focus and energize these groups' efforts and add synergy.

(Opposed) None.

**Persons Testifying:** Representative Santos, prime sponsor; Linda Jekel, Department of Financial Institutions; and Brad Williamson, Department of Financial Institutions.

**Persons Signed In To Testify But Not Testifying:** None.