

# HOUSE BILL REPORT

## SSB 5651

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### As Reported by House Committee On:

Insurance, Financial Services & Consumer Protection

**Title:** An act relating to investigating and assessing performance in meeting community credit needs.

**Brief Description:** Changing the criteria for investigating and assessing performance in meeting community credit needs.

**Sponsors:** Senate Committee on Financial Institutions & Insurance (originally sponsored by Senators Kauffman, Kastama and Kilmer).

### Brief History:

#### Committee Activity:

Insurance, Financial Services & Consumer Protection: 2/21/08, 2/26/08 [DP].

#### Brief Summary of Substitute Bill

- Adds a bank's participation in microenterprise development projects to the factors used to determine if the bank is meeting the convenience and credit needs of its community.

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

**Majority Report:** Do pass. Signed by 8 members: Representatives Kirby, Chair; Kelley, Vice Chair; Roach, Ranking Minority Member; Loomis, Rodne, Santos, Simpson and Smith.

**Staff:** Jon Hedegard (786-7127).

### Background:

The federal Community Reinvestment Act of 1977 (CRA) was enacted to encourage banks and thrifts to help meet the credit needs of all segments of their communities, including low-income and moderate-income neighborhoods. The CRA requires a periodic evaluation of the record of each bank and thrift in helping meet the credit needs of its entire community. The evaluation is taken into account in considering an institution's applications for charters or for approval of bank mergers, acquisitions, and branch openings. The CRA examinations are

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conducted by the federal agencies that are responsible for regulating the various banks and thrifts.

In 1985 the Legislature adopted the Community Credit Needs Act (Act). The Act is similar to the CRA. In an intent section, the Legislature stated that banks "have a responsibility to meet the credit needs of the businesses and communities of Washington, consistent with safe and sound business practices and the free exercise of management discretion." The Director of the Department of Financial Institutions (Director) is required to investigate whether a bank is satisfactorily meeting the convenience and credit needs of its community. The Director must accept any CRA report or document that the bank must file with a federal agency in lieu of an investigation.

In making an assessment of the bank's performance, the Director must consider the following factors:

- any bank activities to ascertain credit needs of its community and to communicate the credit services being provided by the bank;
- the extent of the bank's marketing and special credit related programs to make members of the community aware of the credit services offered by the bank;
- the extent of participation by the bank's board of directors in developing the bank's CRA policies and reviewing its performance;
- any practices intended to discourage applications for types of credit;
- the geographic distribution of the bank's credit extensions, credit applications, and credit denials;
- evidence of prohibited discriminatory or other illegal credit practices;
- the bank's record of opening and closing offices and providing services at offices;
- the bank's participation in local community development projects;
- the bank's origination or purchase of certain housing loans, small business loans, or small farm loans in its community;
- the bank's participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses, or small farms;
- the bank's ability to meet various community credit needs; and
- other factors that bear upon the extent of the bank's assistance in meeting the credit needs of its entire community.

As part of the examination report, the Director must include a summary of the results of the assessment and must annually assign a community reinvestment rating as follows:

- excellent performance - 1;
- good performance - 2;
- satisfactory performance - 3;
- inadequate performance - 4; and
- poor performance - 5.

The Director must review a bank's community reinvestment performance before approving any application for:

- a new branch;

- an acquisition, merger, conversion, or purchase of assets of another institution that is not required for solvency reasons; or
  - the exercise of any new power.
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**Summary of Bill:**

A bank's participation in microenterprise development projects is added to the factors that are reviewed under the Act to determine if the bank is meeting the convenience and credit needs of its community.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) Microenterprises are very small businesses with fewer than five employees. Traditionally, they do not have the same access to credit as larger businesses. This bill adds to the list of areas that the Department of Financial Institutions will review in determining if a bank is meeting their existing community development responsibilities. Starting a microenterprise can average around \$35,000. Microenterprises make up about 17 percent of the state's economy. This bill will foster investment in our communities.

(Opposed) None.

**Persons Testifying:** Senator Kauffman, prime sponsor.

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