

# HOUSE BILL REPORT

## HB 1166

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### As Passed House:

March 4, 2009

**Title:** An act relating to allowing loans to community development financial institutions under the linked deposit program.

**Brief Description:** Allowing loans to community development financial institutions under the linked deposit program.

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

### Brief History:

#### Committee Activity:

Financial Institutions & Insurance: 1/27/09, 2/17/09 [DP].

#### Floor Activity

Passed House: 3/4/09, 62-33.

### Brief Summary of Bill

- Allows loans to Community Development Financial Institutions under the Linked Deposit Program.

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## HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** Do pass. Signed by 7 members: Representatives Kirby, Chair; Kelley, Vice Chair; Hurst, McCoy, Nelson, Santos and Simpson.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Bailey, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Roach.

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

### Background:

#### 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.

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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.*

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 certificates of deposit (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 CD 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 OMBWE, develops 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. A CDFI provides 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. Community Development Financial Institutions 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, which include:

- 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 Bill:**

Qualifying loans may be made to a CDFI that is certified by the U.S. Department of the Treasury and that makes loans to certified minority or women's business enterprises. The OMBWE may adopt rules to ensure that loans made by CDFIs are qualifying loans.

**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. Participation of CDFI's is a good start to addressing this problem.

(Opposed) The Program is an important public-private program and very beneficial to the community. The banking community has always supported expansion of the Program. There is some concern when other types of entities begin to participate. The banking community is very willing to sit down with other stakeholders to improve the Program if that is what is needed, but this is not the right solution if there are problems with the Program.

**Persons Testifying:** (In support) Representative Hasegawa, prime sponsor.

(Opposed) Denny Eliason, Washington Bankers Association.

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