

HOUSE BILL REPORT

HB 2407

As Reported by House Committee On:
Consumer Protection & Business

Title: An act relating to repealing the debenture company laws from the securities act of Washington.

Brief Description: Repealing the debenture company laws from the securities act of Washington.

Sponsors: Representatives Kirby and Vick; by request of Department of Financial Institutions.

Brief History:

Committee Activity:

Consumer Protection & Business: 1/21/20, 1/22/20 [DP].

Brief Summary of Bill

- Repeals the state's debenture statutes.

HOUSE COMMITTEE ON CONSUMER PROTECTION & BUSINESS

Majority Report: Do pass. Signed by 13 members: Representatives Kirby, Chair; Vick, Ranking Minority Member; Hoff, Assistant Ranking Minority Member; Barkis, Blake, Duerr, Dufault, Johnson, J., Ryu, Santos, Volz, Walen and Ybarra.

Staff: Robbi Kesler (786-7153).

Background:

Debenture Company.

"Debenture company" means an issuer of any note, debenture, or other debt obligation for money used or to be used as capital or operating funds of the issuer, which is offered or sold in this state, and which issuer is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in:

- notes, or other debt obligations, whether or not secured by real or personal property;
- vendors' interests in real estate contracts;
- real or personal property to be leased to third parties; or

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- real or personal property.

A debenture is a type of debt instrument unsecured by collateral. Because debentures have no collateral backing, debentures must rely on the creditworthiness and reputation of the issuer for support. Similar to most bonds, debentures may pay coupon payments. In Washington, at least 50 percent of debenture securities must have maturity dates of two years or more.

In Washington, debenture companies are required to maintain a net worth of at least \$200,000 for securities up to \$1 million and must maintain a net worth of 10 percent of the outstanding securities for securities between \$1 million and \$100 million. One-half of the net worth must be held in cash or comparably liquid assets. Every debenture company must report annually on financial and business conditions of the issuer.

Summary of Bill:

Washington debentures statutes are repealed.

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) Current debenture laws in place pose an impediment to social impact philanthropic organizations. The Department of Financial Institutions (DFI) has engaged in extensive stakeholder work and brings this bill forward with a lot of support from the nonprofit community. This bill would repeal about 20 debenture company provisions from the state securities laws. The laws were originally passed in the 1970s as a response to failures of various Washington-based companies that sold securities to fund investments, mostly in real estate related receivables. Some requirements imposed are not seen in any other securities regulations, including liquid net worth requirements that are a very steep hurdle for many companies and organizations. Changes to federal securities laws have preempted state securities registration requirements and make it unlikely that there will be anything resembling debenture companies registering in the state again. However, some nonprofits and religious organizations are inadvertently trapped by these regulations and cannot register because they do not have the capital required. These organizations have a long history of operation and the DFI has received no investor complaints. We believe we can better regulate these entities going forward with other securities regulations and rules.

(Opposed) None.

Persons Testifying: Representative Kirby, prime sponsor; and Drew Bouton and Bill Beatty, Department of Financial Institutions.

Persons Signed In To Testify But Not Testifying: None.