

SENATE BILL REPORT

E2SHB 1015

As of March 31, 2021

Title: An act relating to creating the Washington equitable access to credit act.

Brief Description: Creating the Washington equitable access to credit act.

Sponsors: House Committee on Finance (originally sponsored by Representatives Maycumber, Chapman, Tharinger, Graham, Santos and Macri).

Brief History: Passed House: 3/9/21, 95-1.

Committee Activity: Business, Financial Services & Trade: 3/23/21, 3/25/21 [DPA-WM].
Ways & Means: 3/31/21.

Brief Summary of Amended Bill

- Creates the Equitable Access to Credit Program to fund grants through the Department of Commerce to certain community development financial institutions (CDFI) to provide loans to historically underserved communities during the 2021-23 biennium.
- Provides at least 65 percent of the grant funds awarded each calendar year to native CDFIs, or for grantees to provide services or invest in counties that have fewer than 100 persons per square mile, or have an area of less than 225 square miles.
- Restricts no more than 25 percent of all grants awarded in any calendar year from being awarded to the same CDFI.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Majority Report: Do pass as amended and be referred to Committee on Ways & Means.
Signed by Senators Mullet, Chair; Hasegawa, Vice Chair; Dozier, Ranking Member;
Brown, Frockt, Hobbs and Wilson, L.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Staff: Clinton McCarthy (786-7319)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Trevor Press (786-7446)

Background: Community Development Financial Institutions. A community development financial institution (CDFI) is a specialized financial institution certified by the United States Department of the Treasury (Treasury) to provide loans for community development purposes. CDFIs work in economically distressed markets underserved by traditional financial institutions and provide 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 and commercial loans to small businesses in low-income areas. The Treasury offers competitive financial and technical assistance awards to assist certified CDFIs offering these financial products. An emerging CDFI may apply for a technical assistance award if it can demonstrate the ability to become a certified CDFI within three years. CDFIs include institutions such as community development banks, credit unions, and venture capital funds. As of December 2020, 29 certified CDFIs were operating in Washington.

The Department of Commerce (Commerce) selected three CDFI partners to run the Early Learning Facilities loan program.

Summary of Amended Bill: Commerce is directed to create and operate the Equitable Access to Credit Program (program). The purpose of the program is to award grants to qualified lending institutions (QLIs) to provide access to credit for historically underserved communities. The grants are funded by federal funds.

Funding Disbursed to Qualified Lending Institutions. Expenditures from the account may be used only for the award of grants to QLIs under the program. A QLI must be:

- recognized by the Treasury as an emerging or certified CDFI;
- registered as a nonprofit organization exempt from taxation under the Internal Revenue Code; and
- able to demonstrate a history of lending in Washington.

A QLI must provide the following grant matching funds:

- at least 20 percent if recognized as an emerging CDFI;
- at least 50 percent if recognized as a certified CDFI with assets of fewer than \$3 million; or
- 100 percent if recognized as a certified CDFI with assets of at least \$3 million.

When a loan or investment of funds from the Program is repaid to a QLI, the QLI must offer the repaid funds as new loans or investments consistent with the terms of the program for ten years from the date of the grant award.

Amount of Disbursements to Qualified Lending Institutions Subject to Grant Criteria. No more than 25 percent of all grants awarded in any calendar year may be awarded to the same grant recipient. At least 65 percent of the grant funds awarded each calendar year must be provided to native CDFIs, or for grantees to provide services or invest in counties that have fewer than 100 persons per square mile or have an area of less than 225 square miles. Up to 20 percent of each grant award may be used by the grant recipient to fund a loan loss reserve, technical assistance, and small business training programs.

When ranking grant applications, the following criteria must be considered:

- the number and total value of loans and investments closed during the previous five-year period by the QLI in Washington and the percentage of those loans and investments that went to historically underserved communities;
- funds leveraged by the proposed grant award;
- projected loan or investment production with the award over the performance period of the grant;
- how the award supports the growth of the QLI;
- past performance of loans and investments made by the QLI; and
- awards to a diversity of QLIs.

Member Appointments to an Advisory Board to Rank Grant Applications. Commerce must appoint members to an advisory board that will assist in ranking grant applications. Commerce must seek to achieve a fair geographic balance of committee members and is encouraged to seek representation from members with relevant expertise, including the following: representatives of the banking industry who are familiar with CDFIs; economic development professionals who have experience in rural development; representatives of local government; and representatives of federally recognized Indian tribes.

Commerce may include additional criteria it deems helpful in achieving the goal of ensuring access to credit to underserved communities across the state.

Program Administration—Permitted Use of Funds From the Account. Up to 5 percent of the program revenues may be used for staffing and administrative costs incurred by state agencies for implementation of the program. Beginning in 2021, Commerce must submit an annual report to the Legislature that contains the following information:

- the list of grant applicants, total value of grants requested, and the location of each applicant;
- the list of grant recipients, total amount of awards, and required match amounts; and
- aggregated information on loans and investments provided by the QLIs receiving grants.

Commerce may contract for all or part of the program's administration.

Qualified Lending Institution—Grant Reporting Requirements. A QLI receiving a grant

under the program must submit an annual report to Commerce that includes:

- a list of loans and investments that provides information on a per-borrower or per-investee basis, including the term and type of loan or investment; the city and county where the funds will be invested; the projected number of jobs created; the entity structure; and whether the investee or borrower is more than 50 percent owned or controlled by one or more minorities, women, or low-income persons;
- certification that each loan or investment was to historically underserved communities; and
- other information required by Commerce.

Expiration Date. The program expires on July 1, 2023.

EFFECT OF BUSINESS, FINANCIAL SERVICES & TRADE COMMITTEE AMENDMENT(S):

- Removes the B&O tax credit and the Access to Equitable Credit Account.
- Shifts the fund source to federal funds—\$16 million in one time funds for the 2021-23 biennium.
- Shortens the duration of the program to the 2021-2023 fiscal biennium.
- Requires the Department of Commerce to do a program evaluation that is due December 1, 2022.

Appropriation: The bill contains an appropriation(s) totaling \$16,000,000 from the general fund—federal appropriation.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Engrossed Second Substitute House Bill (Business, Financial Services & Trade): *The committee recommended a different version of the bill than what was heard.* PRO: This is the greatest bill you will see all session. It is a bipartisan bill and has been worked through the Department of Commerce. This will work well in the post-COVID economy. So many small communities are using CDFIs because they cannot get traditional access to credit. This bill makes sure we can invest in areas that do not normally receive investment. We need to make sure that people have access to this credit. The loans are small for businesses that are just getting started. This helps support underserved communities pursue the American dream. We need to build back these underserved communities. This multiyear program would provide long term benefits to communities that struggle to receive access to capital. If this bill were to pass, CDFIs would put capital to work over and over again. This differs significantly from how credit unions and banks work—they are not as restricted on their capitalization requirements.

CDFI's have been filling financial gaps for underserved communities since the 1970's. Banks provide loans to CDFIs. It is challenging for them to plan long term. This program would allow them to plan over a longer period of time. CDFIs would be bringing money to the table with the amount dependent on the size of the CDFI.

OTHER: Commerce is providing working capital to small businesses. This program will provide a sustained long term effort to address financial access in underserved communities. The Governor provided \$30 million in December for loans to be run through CDFIs.

Persons Testifying (Business, Financial Services & Trade): PRO: Representative Jacquelin Maycumber, Prime Sponsor; Tommy Gantz, Association of Washington Business; Patricia Kibbe, Evergreen Business Capital; Nancy Jordan, Lummi CDFI, Director of Development; Chuck Depew, National Development Council; Michael Moran, Confederated Tribes of the Colville Reservation.

OTHER: Keith Swenson, Washington State Department of Commerce.

Persons Signed In To Testify But Not Testifying (Business, Financial Services & Trade): No one.

Staff Summary of Public Testimony on the Bill as Amended by Business, Financial Services & Trade (Ways & Means): PRO: Credit access supports creating retail business and jobs. This bill has the ability to increase tax revenue. This act will provide grants to existing CDFI funds and will multiply capital. The demand for CDFI funding is long term and a B&O tax would be a better way of funding this. CDFIs have higher interest rates than traditional lenders because they take riskier loans and have to offset risk with higher interest rates and also provide technical assistance through the entire life of the loan. Long term nature of relationships with clients does not end when the client gets the loan. CDFI lending programs help businesses get started not just financially. Prefer house language but will take any funding. Loans that CDFIs give are to people who can not get loans elsewhere. This bill recognizes the important role of CDFIs in our community and helps CDFIs meet the demand. Clients have high income to debt ratios that often excludes them from being able to access traditional forms of financing. CDFIs provide operating and equipment loans to native owned and operated businesses. Lack of access to capital in tribal communities is endemic. There are concerns with shifting funds to federal. These federal funds often have tough restrictions attached to them.

Persons Testifying (Ways & Means): PRO: Rose Gundersen, Washington Retail Association; Tommy Gantz, Association of Washington Business; Ted Piccolo, Northwest Native Development Fund; Joe Sky-Tucker, President and CEO, Business Impact NW; Emerson Sekins, Executive Director, Northwest Access Fund; Amber Schultz-Oliver, Affiliated Tribes of Northwest Indians Economic Development Corporation.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.