

SENATE BILL REPORT

SB 5651

As Reported By Senate Committee On:
Financial Institutions & Insurance, February 6, 2007

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: Senators Kauffman, Kastama and Kilmer.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/31/07, 2/6/07 [DPS].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: That Substitute Senate Bill No. 5651 be substituted therefor, and the substitute bill do pass.

Signed by Senators Berkey, Chair; Hobbs, Vice Chair; Franklin, Hatfield and Prentice.

Staff: Diane Smith (786-7410)

Background: The Community Credit Needs chapter of law is patterned after the Community Reinvestment Act of 1977 (CRA). The CRA is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. It was enacted by Congress in 1977. The regulations implementing this federal legislation were revised in May, 1995.

The CRA requires that each depository institution's record in helping meet the credit needs of its entire community be evaluated periodically based on the institutions filed statements. That record is taken into account in considering an institution's application for deposit facilities. Neither the CRA nor its implementing regulation gives specific criteria for rating the performance of depository institutions. The law indicates that the evaluation process should accommodate an institution's individual circumstances and that the institution should follow safe and sound business practices.

CRA examinations are conducted by the federal agencies that are responsible for supervising depository institutions. Depository institutions that are examined by the Federal Reserve include state-chartered banks that are members of the Federal Reserve, as well as federal-chartered banks.

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.

State law sets forth 11 specific criteria, independent of any federal determination, for the Director of the Department of Financial Institutions (director) to use in assessing a bank's record of performance in meeting the credit needs of the bank's entire community.

A summary is also required. The summary must include an annual numerical community reinvestment rating to be scored so as to represent the results of the performance assessment.

Some of the 11 criteria that are scored annually include the bank's record of performance in marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution; any practices intended to discourage applications for the types of credit set forth in the bank's community reinvestment act statements; the geographic distribution of the institution's credit extensions, credit applications and credit denials; and the institution's participation in local community development projects.

The director must accept in lieu of an investigation, the relevant statements filed at the federal level to the extent that those documents assist the director in making the annual assessment.

Summary of Bill: For both banks and savings banks, additions are made to the specific criteria for the annual numerical community reinvestment assessment and rating. These additions include information about automatic teller machines; point-of-sale terminals; personal computer banking; debit cards; and, if the institution offers training, the training of its customers at each branch in the use of these electronic banking services.

Other added assessment factors are the institution's participation in microenterprise development projects and credit counseling services.

The director is allowed to provide for public hearings in making the performance assessments. The director is not required to accept the federal filings in lieu of an examination to the extent these reports assist the director in making the assessment.

EFFECT OF CHANGES MADE BY RECOMMENDED SUBSTITUTE AS PASSED COMMITTEE (Financial Institutions & Insurance): The recommended substitute bill is limited to the addition of just one assessment factor in the bank examination process, that being the institution's participation in microenterprise development projects..

Appropriation: None.

Fiscal Note: Requested on January 30, 2007.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: The premise of the bill is to encourage banks to loan to microenterprises. This has significant personal positive effects for families and community needs. This bill is aligned with the Governor's priorities. It develops basic financial skills for small businesses so that they can overcome any societal disadvantages and prosper.

OTHER: We were prepared to vehemently oppose the bill as drafted but our position in light of the sponsor's testimony is active neutrality. As originally drafted, the bill put unnecessary burdens on the already burdened state-chartered banks. Banks have been required to comply

with an average of one new regulation per week for years. This would put them at a competitive disadvantage to nationally chartered banks and reduce the number of small neighborhood banks. There is a strong need to support small independent businesses. It is these businesses that the small neighborhood banks are created to serve.

Persons Testifying: PRO: Senator Kauffman, prime sponsor.

OTHER: Denny Eliason, Washington Bankers' Association; Holly Chisa, Washington Independent Community Bankers' Association.