
**Financial Institutions & Insurance
Committee**

HB 1358

Brief Description: Allowing credit unions to participate in the linked deposit program.

Sponsors: Representatives Hasegawa, Appleton, Chase, Moeller, Hudgins, Hunter, Ormsby, Green, Sullivan and Goodman.

Brief Summary of Bill

- Allows credit unions to participate in the Linked Deposit Program.

Hearing Date: 1/27/09

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. 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 certificate of deposits (CDs) on the condition that the public depository make "qualifying loans" under the Program. The state forgoes up to two 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 certificate of deposit is not less than two 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

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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 two 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 one 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, must develop performance indicators for the Program.

Public Depositaries

The Public Deposit Protection Act (Act), enacted in 1969, established a new manner of collateralizing bank balances of public treasurers' accounts. If one bank defaults, all participating banks in the state collectively assure that there will be no loss of funds by any public treasurer or custodian of public funds. Prior to the Act, a bank was required to execute a collateral agreement with each public treasurer having an account with the bank.

The Public Deposit Protection Commission (Commission) is responsible for protecting public deposits in banks and thrifts. Public funds may only be deposited in commercial banks and thrift institutions that have been designated as public depositaries.

Summary of Bill:

Funds deposited in public depositaries for purpose of the Linked Deposit Program may also be deposited in federal or state-chartered credit unions.

Appropriation: None.

Fiscal Note: Requested on January 19, 2009.

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