

SENATE BILL REPORT

HB 1166

As Reported by Senate Committee On:
Financial Institutions, Housing & Insurance, March 25, 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: Passed House: 3/04/09, 62-33.

Committee Activity: Financial Institutions, Housing & Insurance: 3/18/09, 3/25/09 [DPA, DNP, w/oRec].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: Do pass as amended.

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

Minority Report: Do not pass.

Signed by Senator Schoesler.

Minority Report: That it be referred without recommendation.

Signed by Senator Parlette.

Staff: Philip Brady (786-7460)

Background: The Linked Deposit Program (Program) was created 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 deposit up to \$190 million of short-term State Treasury surplus funds in public depositories as certificates of deposit (CDs) in exchange for the public depository making "qualifying loans." A qualifying loan is one to women, minorities, or veteran-owned businesses, and cannot exceed \$1 million per business or have a repayment period greater than ten years. The state forgoes up to 2 percent in interest on the CDs and the depository reduces the interest rate for the loan recipients by the same amount. The State Treasurer must reduce the amount of the

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preference to ensure that the effective interest rate on the CD is not less than 2 percent, and the qualified public depository may reduce the interest rate on the loans by an amount that corresponds to the reduction in the state preference.

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. CDFIs may be regulated institutions such as credit unions or nonregulated institutions such as venture capital funds.

Summary of Bill (Recommended Amendments): 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 Office of Minority and Women's Business Enterprises may adopt rules to ensure that loans made by CDFIs are qualifying loans.

The treasurer may deposit surplus funds in depositories to allow linked deposit loans to CDFIs.

EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS, HOUSING & INSURANCE COMMITTEE (Recommended Amendments): The original bill did not allow the treasurer to deposit surplus funds in depositories to allow linked deposit loans to CDFIs.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony on Original Bill: PRO: It's difficult for minority and women-owned businesses to get access to the capital they need to operate.

CON: Expansion of the program is good, but this would allow credit unions to become public depositories and hurt banks. Banks use the Linked Deposit Program to give back to their communities and to meet federal community reinvestment requirements. Credit unions don't have these requirements, and substantially don't pay state taxes. The Linked Deposit Programs funds are almost fully used, and allowing the State Treasurer to reduce the effective interest rate on CDs to zero percent will use the remaining funds without expanding the program to entities other than banks. Even if it expanded access to capital, it would be inappropriate to allow credit unions to participate in the program.

Persons Testifying: PRO: Representative Hasegawa, prime sponsor.

CON: Denny Eliason, Washington Bankers' Association.