

# SENATE BILL REPORT

## SB 6276

---

As Reported By Senate Committee On:  
Financial Institutions, Insurance & Housing, January 28, 1998

**Title:** An act relating to the linked deposit program.

**Brief Description:** Participating in the linked deposit program.

**Sponsors:** Senators Winsley, Kline, Sellar and Hale.

**Brief History:**

**Committee Activity:** Financial Institutions, Insurance & Housing: 1/22/98, 1/28/98 [DPS].

---

### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, INSURANCE & HOUSING

**Majority Report:** That Substitute Senate Bill No. 6276 be substituted therefor, and the substitute bill do pass.

Signed by Senators Winsley, Chair; Benton, Vice Chair; Finkbeiner, Hale, Heavey, Kline and Prentice.

**Staff:** Dave Cheal (786-7576)

**Background:** The Linked Deposit Program was established in 1993 by the Legislature. Under that program, the Treasurer deposits state funds in public depositories on the condition that the public depository make qualifying loans under the program. Qualifying loans— are loans that are made to minority or women’s business enterprises that are defined as small businesses, for a period not to exceed ten years, and at an interest rate that is at least 2 percentage points below the market rate that normally would be charged for a loan of that type. Points or origination fees are limited to 1 percent of the loan principal. In turn, the bank or other public depository pays an interest rate on the certificate of deposit equal to 2 percent below the market rate for such certificates.

Participating lenders are not required to change their loan underwriting practices.

There is no requirement that any loans be made to business enterprises that could not obtain loans without the program.

Community development financial institutions (CDFIs) are nonprofit organizations organized pursuant to federal law that provide business loans to entrepreneurs that are unable to obtain capital from traditional lenders. CDFIs provide intensive business development and operation counseling and support services and as a result, have experienced a very low default rate on loans. CDFIs’ loan money raised from private contributions and federal grants.

**Summary of Substitute Bill:** Instead of depositing all the funds made available to the program as it is currently constituted, \$12.5 million of the available funds are deposited in

public depositories at market interest rates. The depository receiving deposits under this program at market rates remits 2 percentage points of interest to qualifying community development financial institutions. The remainder of the interest earned on the deposits is paid to the state Treasurer.

The CDFI receiving the 2 percentage point remittance is required to make qualifying loans, which are defined as (a) have terms that do not exceed ten years, (b) are made to minority and women's business enterprises owned by persons with incomes of less than 80 percent of the median income for the county where they live, and (c) incur loan charges and fees not exceeding 2 percent of the loan amount. The CDFI may use money received under this program for making loans and for technical assistance. The remittance of 2 percentage points on each deposit must be approved according to rules adopted by the Department of Community, Trade, and Economic Development.

Participating qualified public depositories receive community reinvestment act credit for their participation in the program.

**Substitute Bill Compared to Original Bill:** The funds available for the amended program are reduced from \$25 million to \$12.5 million. Qualifying loans are for a maximum term of ten years instead of five, and are to low-income minority and women's businesses instead of any low-income borrower.

Rule-making authority is given to the Department of Community, Trade, and Economic Development.

**Appropriation:** None.

**Fiscal Note:** Requested on January 16, 1998.

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

**Testimony For:** This bill will serve new enterprises that cannot raise capital from traditional sources. The current program does not serve these borrowers. Alternative lenders, like community development financial institutions can provide a level of support and guidance to new businesses (borrowers) that traditional lenders cannot offer.

**Testimony Against:** None.

**Testified:** PRO: Tani Allen, Shaw Canale, WA Lenders Network; Ted Sprague, Lewis County EDC.