

HOUSE BILL REPORT

HB 2408

As Reported By House Committee On:
Economic Development, Housing & Trade

Title: An act relating to minority and women's business enterprises.

Brief Description: Modifying financial assistance laws for minority and women's business enterprises.

Sponsors: Representatives Veloria, Dunn, Scott, Stensen, Keiser, Kenney, Lovick, Cooper, Haigh, Lantz, Santos, Regala, Edmonds, Ogden and McIntire.

Brief History:

Committee Activity:

Economic Development, Housing & Trade: 1/21/00, 1/25/00 [DPS].

Brief Summary of Substitute Bill

- Increases the amount available for the Linked Deposit Program from \$50 million to \$60 million.
- Imposes a maximum loan amount of \$1 million to a certified minority or women's business enterprise.
- Requires that the loan interest rate cannot exceed the financial institution's prime interest rate.
- Requires the Office of Minority and Women's Business Enterprise compile information on minority and women's business enterprises that have requested financial assistance through the Linked Deposit Program.
- Requires the Department of Community, Trade, and Economic Development to develop indicators to measure the performance of the Link Deposit Program in meeting job creation/retention and access to capital needs.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, HOUSING & TRADE

Majority Report: Do pass. Signed by 12 members: Representatives Van Luven, Republican Co-Chair; Veloria, Democratic Co-Chair; Dunn, Republican Vice Chair; Eickmeyer, Democratic Vice Chair; Ballasiotes; Gombosky; Miloscia; Morris; Radcliff; Skinner; D. Sommers and Wolfe.

Staff: Kenny Pittman (786-7392)

Background:

Washington's Linked Deposit Program was created in 1993 by the Omnibus Minority and Women-Owned Businesses Assistance Act. The Linked Deposit Program, established in the Office of the State Treasurer, enables state-certified small minority or women-owned business enterprises to obtain loans from participating private Washington financial institutions at a reduced interest rate.

The State Treasurer is authorized to use up to \$50 million of short-term state treasury surplus funds to purchase certificates of deposit equaling the total amount of money lent by a private financial institution to a certified small minority and women-owned business enterprise. The interest earned by the state on these certificates of deposit is two percentage points (200 basis points) less than the current market rate.

In return for the reduced interest earning on the state's certificates of deposit, the financial institution makes loans to eligible recipients under the following conditions: (a) term not to exceed ten years; (b) interest rates that are two percentage points (200 basis points) below the current market rate for similar type loans; (c) recipient is a state certified minority or women's business enterprise; and (d) loan fees or points at loan closing do not exceed 1 percent of the loan amount. The Linked Deposit Program does not have a maximum loan amount to an eligible minority or women-owned business enterprise.

A financial institution is not required to change its current underwriting standards for borrowers. The certificates of deposit purchased by the state are not at risk of losing any portion of the principal amount.

Other state agencies involved in the implementation of the Linked Deposit Program include: (a) the Department of Community, Trade, and Economic Development is responsible for providing technical assistance to increase program access by minority and women-owned business enterprises and monitoring of the performance of loans made to minority and women's business enterprises; and (b) the Office of Minority and Women's Business Enterprise through the state certification of small business as a minority or women's business enterprise.

The Linked Deposit Program is scheduled to terminate June 30, 2000, and the program repealed June 30, 2001.

Summary of Substitute Bill: The Washington Linked Deposit Program is revised. The amount that the State Treasurer can use from short-term state treasury surplus funds for the program is increased from \$50 million to \$60 million. The interest earned on certificates of deposit remains at two percentage points (200 basis points) less than the current market rate for similar certificate of deposits of similar terms and amounts.

The conditions for qualifying loans made to state certified minority and women-owned business enterprises are revised as follows: (a) the total amount of the loan or loans per minority or women's business enterprise cannot exceed \$1 million; and (b) the interest rate on a linked deposit loan cannot exceed the financial institution's prime interest rate. The other provisions regarding the loan terms, points or loan fees, and eligibility limited to state certified minority or women's business enterprises are not changed.

The State Treasurer, upon notification that the minority or women's business enterprise is no longer certified by the Office of Minority and Women's Business Enterprise must reduce the amount of the certificates of deposit to the financial institution by the amount of the loan.

The Office of Minority and Women's Business Enterprise, in consultation with the Office of the State Treasurer and Department of Community, Trade, and Economic Development, must compile information on state certified minority and women's business enterprises that requested assistance through the Linked Deposit Program. The Office of Minority and Women's Business Enterprise must notify the State Treasurer that a minority or women's business enterprise is no longer certified under the state certification process.

The Department of Community, Trade, and Economic Development, in consultation with the Office of Minority and Women's Business Enterprise, must develop indicators to measure the performance of the Linked Deposit Program in the areas of job creation or retention and increasing minority or women's business enterprises' access to capital.

The Linked Deposit Program's sunset review termination date of June 30, 2000, and a repeal date of June 30, 2001, are each repealed.

Substitute Bill Compared to Original Bill: The substitute bill: (1) clarifies that the total amount of loan or loans per minority or women's business enterprise is capped at \$1 million; and (2) requires that the interest rate on loans to minority and women's business enterprises cannot exceed the financial institution's prime interest rate.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: The Linked Deposit Program has been a success and helps real people. Small businesses, in particular minority and women's businesses, have historically had a harder time getting access to capital. The financial institutions consider the program a valuable tool in assisting the state's small minority and women's business enterprises' access to needed capital. Reducing the cost of financing helps start-up businesses and those businesses that are trying to expand, thereby creating job opportunities. The proposed changes and removal of the sunset date will allow the program to continue.

Testimony Against: The Linked Deposit Program should be available to all small businesses, not just minority and women's business enterprises. This is another example of government inserting itself in private business.

Testified: (In support) Yvonne Blumenthol, U.S. Bank; Barton Potter, Office of the State Treasurer; Beryl Moon, The File Box; Nancy Trupp, Sterling Savings Bank; Iry Jones, Pacific Freight Express, Inc.; and John E. Jones and Dr. Charles A. Horne, Pacific Northwest Chapter National Black Chamber of Commerce.

(Opposed) Merton Cooper and Myrtle Cooper.