

HOUSE BILL REPORT

HB 2456

As Reported by House Committee On:
Financial Institutions & Insurance
Finance

Title: An act relating to the linked deposit program.

Brief Description: Modifying provisions relating to the linked deposit program.

Sponsors: Representatives Kessler, Hankins, Cooper, Chase, Conway, Jackley, Veloria, Ogden, Kenney, McDermott and McIntire; by request of Department of Community, Trade, and Economic Development.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/5/02, 2/6/02 [DPS];
Finance: 2/11/02 [DPS(FII)].

Brief Summary of Substitute Bill

- Requires designated state agencies to develop analytic tools to measure the performance of the linked deposit program.
- Adds the Office of Minority and Women's Business Enterprises to the list of state agencies charged with monitoring the performance of businesses receiving loans under the linked deposit program.
- Repeals the sunset provisions pertaining to the linked deposit program.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Cooper, Chair; McIntire, Vice Chair; Benson, Ranking Minority Member; Barlean, Cairnes, Hatfield, Mielke, Miloscia, Santos and Simpson.

Minority Report: Without recommendation. Signed by 1 member: Representative Roach.

Staff: Thamas Osborn (786-7129).

Background:

The State Treasurer regularly has surplus funds available. The treasurer limits the amount of funds that must be kept in demand deposits to the amount necessary for current operating expenses and to efficiently manage the treasury. Surplus funds not in demand deposits generally are held in certificates of deposit.

The Linked Deposit Program was established in 1993 by the Legislature using surplus funds not required to be in demand deposits. Under that program, the treasurer deposits surplus state funds in public depositories as a certificate of deposit 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 10 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.

Recipients of loans under the linked deposit program must be certified as a minority or women's business enterprise by the Office of Minority and Women's Business Enterprises (OMWBE). Also, such loan recipients must meet the definition of "small business" as determined by the Department of Community, Trade, and Economic Development (the department).

The department is required to consult with the State Treasurer for the purpose of monitoring the performance of the program.

The treasurer may currently use up to \$50 million per year of surplus funds for deposit in the Linked Deposit Program.

The statutes authorizing the Linked Deposit Program are subject to repeal as of June 30, 2003, pursuant to current sunset provisions.

Summary of Substitute Bill:

The recipient business is no longer required to meet the statutory definition of "small business", but the requirement of certification by the OMWBE is retained. The loss of this certification requires that the lender reduce the loan amount by the amount of the outstanding balance (i.e., the lender may not provide any additional loan money to the recipient).

The OMWBE is required to compile data on the businesses that have received loans under the program, must notify the treasurer of any businesses that lose certification, and

provide an analysis of the failure. This is to be done in consultation with the treasurer and the department.

The department, in consultation with the OMWBE, is required to monitor the performance of loans made under the linked deposit program, and to develop indicators to measure job creation, job retention and access to capital.

The bill repeals the sunset provisions that would have terminated the program as of June 30, 2003.

Substitute Bill Compared to Original Bill:

The substitute bill omits the definition of "prime interest rate." The substitute bill also omits the proposed change in the original bill that, for a loan to qualify under the linked deposit program, the interest rate on the loan must be at or below the prime interest rate of the lender.

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 (LDP) serves as an important economic development tool, since it provides a disadvantaged segment of the small business sector with affordable capital. The two groups served by the bill, minorities and women, have faced the twin barriers of lack of access to capital and credit. Twelve percent of all credit going to small businesses goes to women, whereas women own 38 percent of all such businesses. Minorities constitute 26 percent of the U.S. population, yet they own only 11.6 percent of the nation's businesses. Removing the historic financial barriers will benefit the entire economy with respect to job growth, income, and increased property values. Discrimination continues to exist and causes continuing disparities in access to capital. Nevertheless, the LDP has been very successful. It has achieved its goals and is of great benefit to the people of this state. Accordingly, the sunset provisions should be repealed and the program should be allowed to continue. The LDP serves diverse populations, both urban and rural, throughout the state, and exists in 66 cities and 21 counties. Many major financial institutions are participating and the default rate on loans is quite low. The bill requires that the program be carefully monitored. At present, no loans are available under the program insofar as the statutory maximum has been reached.

Testimony Against: None.

Testified: Sung Yang, Office of Trade and Economic Development; Michael J. Murphy, State Treasurer; Ahndrea Blue, Governor's Office; Chami Joe Ro, Chami Designs, Inc.; Lea J. Armstrong, Armstrong Uniserve, Inc.; Denny Eliassen, Washington Bankers Association; Earl Vinson, Vinson Brothers Corporation; and Tony Orange, Commission on African American Affairs.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Financial Institutions & Insurance be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Gombosky, Chair; Berkey, Vice Chair; Cairnes, Ranking Minority Member; Conway, Morris, Nixon, Orcutt, Roach, Santos, Van Luven and Veloria.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Financial Institutions & Insurance:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: Governor Locke supports making this program permanent. The program provides women and minorities access to capital. Without access to capital these firms will not have an opportunity to grow. The lack of access to capital was a barrier that existed when the program was started and this conditions still exists. The program has a very strong public benefit in terms of jobs, income, and property values. The program is not costly to administer. It is a successful public/private partnership. The program benefits the participating firms and the entire economy.

Testimony Against: None.

Testified: Ahndrea Blue, Office of the Governor; and Sung Yang, Office of Trade and Economic Development.