
**Financial Institutions &
Insurance Committee**

2SSB 5782

Brief Description: Modifying provisions of the linked deposit program.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Shin, Prentice, Franklin, Kline, Kohl-Welles and Berkey; by request of Governor Gregoire).

Brief Summary of Second Substitute Bill

- Limits individual loans to less than \$1 million.
- Requires the State Treasurer to reduce the amount of the preference to ensure that the effective interest rate on the certificate of deposit is not less than 2 percent.
- Allows a qualified public depository to reduce the interest rate on the loans by an amount that corresponds to the reduction in the preference that the qualified public depository receives from the State Treasurer.
- Moves monitoring functions from the Department of Community Trade and Economic Development to the Office of Minority and Women's Business Enterprises.
- Repeals sunset provisions.

Hearing Date: 3/31/05

Staff: Jon Hedegard (786-7127).

Background:

The Linked Deposit Program was created in 1993. The stated purpose of the 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 \$50 million of short-term state treasury surplus funds. These funds are deposited with public depositories as certificate of deposits on the condition that the public depository make "qualifying loans" under the program. These funds are used to purchase certificates of deposit (CDs) equaling the total amount of money loaned to certified business. The state forgoes the up to 2 percent in interest on the CDs and passes along

the savings to the public depository with the condition that as a reduction of up to 2 percent in the interest rate for the loan recipients.

Qualifying loans are loans:

- made to certain minority or women's business enterprises;
- for a period not to exceed 10 years;
- 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 are limited to 1 percent of the loan principal.

To be eligible the applicant must:

- be a minority and/or a women;
- have at least 51% of ownership of the business; and
- control the business.

Three state agencies are involved in the program. The State Treasurer established the program. The Department of Community Trade and Economic Development (CTED) monitors the program. The office of Minority and Women's Business Enterprises (OMWBE) certifies the eligibility of the businesses.

The program is scheduled to sunset on June 30, 2008.

Summary of Bill:

The definition of "qualifying loan" is amended to limit the amount of any individual loan to a maximum of \$1 million.

The State Treasurer shall reduce the amount of the preference to ensure that the effective interest rate on the certificate of deposit is not less than 2 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 reduction in the preference below 200 basis points.

The duty of monitoring the program is moved from the CTED to the OMWBE.

The sunset provisions for the program are repealed.

Appropriation: None.

Fiscal Note: Not requested.

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