

SENATE BILL REPORT

SB 6716

As Reported By Senate Committee On:
Financial Institutions, Housing & Consumer Protection, February 1, 2006

Title: An act relating to investigating and assessing performance in meeting community credit needs.

Brief Description: Changing the criteria for investigating and assessing performance in meeting community credit needs.

Sponsors: Senators Fairley, Brown, Eide and McAuliffe.

Brief History:

Committee Activity: Financial Institutions, Housing & Consumer Protection: 1/25/06, 2/1/06 [DPS, w/oRec].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & CONSUMER PROTECTION

Majority Report: That Substitute Senate Bill No. 6716 be substituted therefor, and the substitute bill do pass.

Signed by Senators Fairley, Chair; Berkey, Vice Chair; Finkbeiner, Franklin, Keiser and Spanel.

Minority Report: That it be referred without recommendation.

Signed by Senators Benton, Ranking Minority Member; Benson, Brandland and Schmidt.

Staff: Joanne Conrad (786-7472)

Background: Both federal and state law require banks to make affirmative efforts to meet the credit and banking needs of their entire communities, including low and moderate income neighborhoods. The federal "Community Reinvestment Act of 1977," and state law on "community credit needs" establish criteria used in bank examinations, in order to determine whether a community's needs are being met. Banks are assessed by the Department of Financial Institutions (DFI), and ranked on their performance in providing appropriate service to all segments of the population.

Existing assessment criteria include such things as: positively targeted marketing, ascertainment of credit needs, investments in local communities, origination of various types of loans, and geographic distribution of credit activity. Banks must avoid discriminatory or other illegal credit practices.

"Microenterprises" are very small business opportunities, frequently one or two-person start-up businesses. Some may be in low-income neighborhoods, and some are business ideas created to help people get off of public assistance. These types of small businesses are generally too small to qualify for credit under the regular standards applied to business

loans. Microenterprise entrepreneurs may have little or no personal or business credit history. Many new businesses that fail do so because of undercapitalization, and the inability to obtain start-up money may doom a microenterprise that has an otherwise-viable business idea.

Summary of Substitute Bill: A new factor, participation in microenterprise development, is added to the evaluation of the community reinvestment efforts of banks and savings banks.

Substitute Bill Compared to Original Bill: Several new factors were in the original bill, including ATM distribution, electronic banking services and credit counseling. Performance records of banks could be subject to public hearings. These provisions were eliminated in the substitute bill.

Appropriation: None.

Fiscal Note: Requested on January 23, 2006.

Committee/Commission/Task Force Created: No.

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

Testimony For: It is good public policy for financial institutions to become involved in microenterprises.

Testimony Against: This (original) bill would add burdensome reporting requirements. Current law permits federal CRA reporting requirements to suffice. There are better ways to promote the support of microenterprise, for example, the linked deposit program, which has performance measures.

Who Testified: PRO: Senator D. Fairley, prime sponsor.

CON: Denny Eliason, WA Bankers and United Financial Lobby; Brad Tower, Community Bankers Assn.