

HOUSE BILL REPORT

HB 1415

As Reported by House Committee On:
Business & Financial Services

Title: An act relating to the linked deposit program.

Brief Description: Concerning the linked deposit program.

Sponsors: Representatives Kirby, Santos, Tarleton, Ryu, Van De Wege, S. Hunt, Kilduff, Ortiz-Self, McBride and Gregerson; by request of Office of Minority and Women's Business Enterprises.

Brief History:

Committee Activity:

Business & Financial Services: 2/3/15, 2/13/15 [DPS].

Brief Summary of Substitute Bill

- Grants specific rulemaking authority to the Office of Minority and Women's Business Enterprises to give lower priority to businesses seeking loans for certain purposes.

HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Kirby, Chair; Ryu, Vice Chair; Vick, Ranking Minority Member; Blake, G. Hunt, Hurst, Kochmar, McCabe, Santos and Stanford.

Staff: David Rubenstein (786-7153).

Background:

Linked Deposit Program.

The stated purpose of the Linked Deposit Program (Program) is to increase access to business capital for the state's certified minority- and women-owned businesses. Under the Program, certified businesses can obtain reduced interest rate loans from participating financial institutions. The Office of the State Treasurer (Treasurer) is authorized to use up to

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\$190 million of short-term State Treasury surplus funds for the Program. These funds are deposited in public depositories as certificates of deposit (CDs) on the condition that the public depository make "qualifying loans" under the Program. The state forgoes up to 2 percent in interest on the CDs and passes along the savings to the public depository with the condition that the depository reduces the interest rate for the loan recipients. The Treasurer must reduce the amount of the preference to ensure that the effective interest rate on the CD is not less than 2 percent. If the preference given to a qualified public depository is less than 200 basis points (or 2 percent), 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. Qualifying loans are loans:

- made to certain minority or women's business enterprises or veteran-owned businesses;
- for a period not to exceed 10 years;
- for up to a maximum amount of \$1 million for each individual loan;
- 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; and
- with points or origination fees limited to 1 percent of the loan principal.

Several agencies are involved in the Program. The Treasurer is authorized to fund the Program. The Office of Minority and Women's Business Enterprises (OMWBE) certifies the eligibility of the minority or women's businesses, monitors the performance of loans, and compiles information on borrowers in the Program. The Department of Veterans Affairs certifies the eligibility of veteran-owned businesses. The Department of Commerce provides technical assistance, loan packaging services and, in consultation with the OMWBE, develops performance indicators for the Program.

Community Development Financial Institutions.

A Community Development Financial Institution (CDFI) is a specialized financial institution certified by the United States Department of the Treasury to provide loans for community development purposes. A CDFI works in economically distressed markets that are underserved by traditional financial institutions. A CDFI provides financial products such as mortgage financing for low-income homebuyers and not-for-profit developers; flexible underwriting and risk capital for community facilities; and technical assistance, commercial loans, and investments to small businesses in low-income areas. A CDFI might be a regulated institution such as a credit union or a non-regulated institution such as a venture capital fund.

Office of Minority and Women's Business Enterprises.

The OMWBE is a state agency whose stated intent is to mitigate discrimination in public works and increase participation of minority- and women-owned and controlled businesses in public contracts. The Director of the OMWBE is appointed by the Governor, and the OMWBE is tasked with developing and implementing a comprehensive plan to accomplish the goal of increased participation by minority- and women-owned businesses.

In implementing its goals, the OMWBE certifies minority and women's business enterprises, monitors compliance with applicable provisions, makes rules, investigates complaints, and

submits an annual report to the Governor and the Legislature. Among other duties, the OMWBE is required to cooperate with the Department of Commerce in compiling information on financial assistance to minority and women's business enterprises made through the Program and monitor the performance of the loans.

Additionally, the OMWBE has authority to adopt rules to:

- ensure that businesses that have never received a loan through the Program are given first priority;
- limit the total amount any given business or business owner can borrow;
- limit the total amount of any single qualified loan; and
- ensure that loans made to a CDFI are qualifying loans to certified minority- and women-owned business enterprises.

Summary of Substitute Bill:

The OMWBE has authority to make rules giving first priority to applicants seeking to use loan funds for a purpose other than the purchase or refinancing of real property over a value set by the OMWBE. The OMWBE also has authority to make rules giving first priority to applicants seeking to use loan funds for a purpose other than improvements to real property (except tenant improvements) valued at an amount set by the OMWBE.

The OMWBE must create reporting requirements for businesses receiving linked deposit program loans. The reporting must not use personnel resources exceeding those already allocated to the OMWBE. The OMWBE must also report to the Legislature on the Program each December.

Substitute Bill Compared to Original Bill:

The substitute bill restores the OMWBE's specific rulemaking authority and eliminates the grant of broad rulemaking authority. Specific rulemaking authority to ensure that certain loans are given first priority is also added.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) The Program was created in 1993 to remedy the problem of the lack of access to capital by minority- and women-owned businesses. When a person wants to start or expand a business, the Program and the OMWBE can provide capital and other support to help.

However, the majority of the loans are being used for real estate investment, rather than the original purpose of the loan program—to grow Washington's economy. Refinanced apartment buildings and land deals help individual investors but do not help build Washington jobs. Real estate purchases have their place in the economy, but for the purposes of the Program, they should be incidental to growing a business and creating jobs.

(Opposed) None.

Persons Testifying: Representative Kirby, prime sponsor; Amanda Migchelbrink, Office of Minority Women's Business Enterprises; and Brenda Brown, US Bank.

Persons Signed In To Testify But Not Testifying: None.