

SENATE BILL REPORT

SB 5255

As Reported by Senate Committee On:
Financial Institutions & Insurance, February 12, 2015

Title: An act relating to the linked deposit program.

Brief Description: Concerning the linked deposit program.

Sponsors: Senators Hasegawa, McCoy, Chase, Hatfield and Keiser; by request of Office of Minority and Women's Business Enterprises.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/29/15, 2/12/15 [DPS].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: That Substitute Senate Bill No. 5255 be substituted therefor, and the substitute bill do pass.

Signed by Senators Benton, Chair; Angel, Vice Chair; Darneille, Hobbs and Roach.

Staff: Shani Bauer (786-7468)

Background: The Linked Deposit Program (Program) was created 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 \$175 million of the state's short-term surplus funds to purchase certificates of deposit (CDs) in exchange for the public depository making qualifying loans. A qualifying loan is one to women, minorities, or veteran-owned businesses, and cannot exceed \$1 million per business or have a repayment period greater than ten years.

The Program links the state's surplus fund deposits to the commercial loans that financial institutions make to certified minority and women's business enterprises. Two percent of the interest that is earned on the state's CD is used to reduce the interest rate that would otherwise be charged to a certified business for its loan or other financing. If the interest rate returns earned by the state on the CDs fall below 2 percent, banks are allowed to reduce the interest rate reduction passed onto the firms by an equivalent amount.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Office of Minority and Women's Business Enterprises (OMWBE) is authorized to adopt rules implementing the Program to:

- ensure businesses that have never received a loan under the Program are given first priority;
- limit the total principal loan amount that any one business or owner may receive over the business or owner's lifetime;
- limit the total amount of any one loan under the Program; and
- ensure that loans are made to qualifying businesses.

There are currently 24 financial institutions participating in the Program. The Program, however, is not a loan or loan guarantee; the state cannot help a firm obtain a business loan. Firms must independently satisfy their bank's financing or loan criteria.

Summary of Bill (Recommended Substitute): In order to qualify for a loan with the linked deposit program, a veteran-owned business or minority and women's business must demonstrate the loan will result in the creation of at least five jobs over the life of the loan. Funds must be used for active business pursuits and may not be used for passive investment activities. OMWBE may adopt rules to prioritize loans to applicants who demonstrate the ability to create jobs, serve underserved areas of the state, and do not already have a small business loan through a state program.

EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE (Recommended Substitute): In order to qualify for a loan with the linked deposit program, a veteran-owned business or minority and women's business must demonstrate the loan will result in the creation of at least five jobs over the life of the loan. Funds must be used for active business pursuits and may not be used for passive investment activities. OMWBE may adopt rules to prioritize loans to applicants who demonstrate the ability to create jobs, serve underserved areas of the state, and do not already have a small business loan through a state program.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony on Original Bill: PRO: The agency has the blessing of the Governor's Office for this bill. OMWBE has limited authority to pass rules now. We believe the Legislature intended to create business opportunities that would create jobs. A substantial portion of funds is going to investment opportunities. The agency would like the ability to pass rules to address regulation more broadly. The program was started in 1993 to remedy the problem of a lack of capital for minority and women's businesses. Since that time, over 8000 loans have been issued. In 2007 OMWBE was given regulatory authority over the business. Since the economic downturn, a significant portion of funds have been used for property management companies to purchase real property. These are static investments that do not generate jobs in the community. The program does not have the

regulatory authority to prevent this at this time. There are limited funds available and they should be able to prioritize for actual business operations. There will always be some room for real estate investment such as a business that would like to purchase the building they operate in and lease. The agency wants the ability to look at the particular parameters of the investment to make sure they are moving businesses forward with those investments.

Persons Testifying: PRO: Senator Hasegawa, prime sponsor; Brenda Brown, U.S. Bank; Amanda Migchelbrink, OMBWE.