

SENATE BILL REPORT

SB 6131

As Reported by Senate Committee On:
Financial Institutions, Economic Development & Trade, January 21, 2020

Title: An act relating to repealing the debenture company laws from the securities act of Washington.

Brief Description: Repealing the debenture company laws from the securities act of Washington.

Sponsors: Senators Mullet, Hobbs, Short, Wilson, L. and Das; by request of Department of Financial Institutions.

Brief History:

Committee Activity: Financial Institutions, Economic Development & Trade: 1/16/20, 1/21/20 [DP].

Brief Summary of Bill

- Repeals the state's debenture statutes.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE

Majority Report: Do pass.

Signed by Senators Mullet, Chair; Hasegawa, Vice Chair; Wilson, L., Ranking Member; Braun, Das and Hobbs.

Staff: Clint McCarthy (786-7319)

Background: Debentures. A debenture is a type of debt instrument unsecured by collateral. Since debentures have no collateral backing, debentures must rely on the creditworthiness and reputation of the issuer for support. Similar to most bonds, debentures may pay coupon payments. In Washington State, at least 50 percent of debenture securities must have maturity dates of two years or more.

Debenture Companies and the Jumpstart Our Business Startups Act of 2012. Debenture companies are required in the state of Washington to maintain a net worth of at least

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\$200,000 for securities up to \$1 million, and must maintain a net worth of 10 percent of the outstanding securities for securities between \$1 million and \$100 million. One half of the net worth must be held in cash or comparably liquid assets. Every debenture company must report annually on financial and business conditions of the issuer.

In 2012, Congress passed the Jumpstart Our Business Startups (JOBS) Act. The legislation loosened regulations instituted by the Securities and Exchange Commission on small businesses, and created new exemptions from federal securities registration requirements that sidestep state debenture statutes. Washington has not had a debenture company in operation since 2005.

Not-For-Profit Companies. Not-for-profit companies are exempt from registering securities. The security must be offered or sold to persons who, prior to their solicitation, were members of, contributors to, or listed as participants in, the organization. Not-for-profit organizations using unsecured debt to fund social impact investments or church projects are still subject to the debenture company laws with respect to liquidity and net worth for fundraising in Washington.

Summary of Bill: Washington debentures statutes are repealed.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: The Department of Financial Institutions (DFI) tends to work with industry over a period of time to get a bill that has the approval of a broad group of stakeholders. This is an example of that approach. DFI was approached by a constituent where a bank was having a hard time moving forward on lending money to a church because it fell within the debenture statutes. Unrealistic capital requirements for churches and social impact investors is an unintended consequence of these statutes. The bill simply repeals 20 provisions that were added in the 1970's and 1980's to regulate some failures that are no longer possible. These statutes have been an impediment to churches and social impact investors. DFI believes that they have regulatory statutes necessary to oversee non collateralized investments in the future.

Persons Testifying: PRO: Senator Mark Mullet, Prime Sponsor; Drew Bouton, Department of Financial Institutions; Bill Beatty, Department of Financial Institutions; Faith Anderson, Department of Financial Institutions.

Persons Signed In To Testify But Not Testifying: No one.