

# SENATE BILL REPORT

## SB 6426

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As Reported by Senate Committee On:  
Financial Institutions, Housing & Insurance, February 6, 2014

**Title:** An act relating to increasing the available funding limit of the linked deposit program.

**Brief Description:** Increasing the available funding limit of the linked deposit program.

**Sponsors:** Senators Hasegawa, Chase and Kline.

**Brief History:**

**Committee Activity:** Financial Institutions, Housing & Insurance: 2/04/14, 2/06/14 [DP-WM, DNP, w/oRec].

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

**Majority Report:** Do pass and be referred to Committee on Ways & Means.

Signed by Senators Angel, Co-Chair; Hobbs, Co-Chair; Mullet, Vice Co-Chair; Fain, Hatfield and Nelson.

**Minority Report:** Do not pass.

Signed by Senator Benton, Vice Co-Chair.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Roach.

**Staff:** Edward Redmond (786-7471)

**Background:** In 1993 the Washington State Legislature found that minority and women-owned businesses had been historically denied access to capital and that lack of capital is a key barrier to the development of minority and women-owned businesses. In response, the Legislature passed the Minority and Women Owned Business Assistance Act (Act), which created the Linked Deposit Program (LDP). The Act directs the State Treasurer (Treasurer), the Office of Minority and Women's Business Enterprises, and the Department of Commerce to operate a program that links the deposit of state funds to loans made by participating financial institutions to qualified minority and women-owned businesses. 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 an amount equivalent to the amount of the financial institution's loan to certified minority and women's business enterprises. In 2008 the

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Legislature authorized the Treasurer to use up to \$15 million for the same funding mechanism for the benefit of certified veteran-owned businesses.

The LDP links the state's surplus fund deposits to the commercial loans that financial institutions make to certified minority and women's business enterprises, and veteran-owned businesses. 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.

Qualifying loans are loans made (1) to certain minority or women's business enterprises; (2) for a period not to exceed ten years; (3) for up to a maximum amount of \$1 million for each individual loan; (4) 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 (5) with points or origination fees that are limited to 1 percent of the loan principal.

To participate as a veteran-owned business, the veteran-owned business must be certified by the Department of Veterans Affairs that it meets three requirements: (1) the veteran owner has sufficient expertise in the business's field of operation; (2) the veteran-owned business is a for-profit organization performing a commercially useful function; and (3) the veteran-owned business satisfies the definition for a small business concern.

There are currently 24 financial institutions participating in the LDP. The LDP, 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.

To date, the utilization rate of the LDP for minority and women's business enterprises is at 100 percent, \$175 million, with 548 firms receiving some portion of those loans. There are currently six veteran-owned businesses utilizing the LDP funding with \$3.2 million, or approximately 21 percent, of the loans outstanding.

**Summary of Bill:** The LDP funding limit is amended. The Treasurer is authorized to use an additional \$25 million of short-term state treasury surplus funds for the existing LDP for minority or women-owned businesses.

**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:** PRO: The LDP is really an innovative way to leverage the state's resources to get around the constitutional prohibition against lending the state's credit for private benefit. The state will take 2 percent less interest rate of return on its deposits in order for the bank to pass that 2 percent on to the certified business. The

OMWBE office is at capacity right now and there is a waiting list to use the LDP. This bill will help to remove the access to capital issue which is the number one barrier to OMWBE-certified businesses. OMWBE is in support of this bill. This allows certified businesses to access needed capital so that they can hire more employees, obtain additional equipment, etc., all which will allow their businesses to grow and flourish.

**Persons Testifying:** PRO: Senator Hasegawa, prime sponsor; Amanda Migchelbrink, OMWBE.