Government of the District of Columbia

Department of Insurance, Securities and Banking

Testimony of

Christopher Weaver
Deputy Commissioner

A Public Hearing

on Bill B18-659,

The ***Community Bank Liquidity Access Pilot Program Act of 2010***

Committee on Public Services and Consumer Affairs
Muriel Bowser, Chairperson
Council of the District of Columbia

July 7, 2010
11:00 AM

John A. Wilson Building
1350 Pennsylvania Avenue, NW, Room 412
Washington, DC 20004

Good Morning Chairperson Bowser, Members of the Committee on Public Services and Consumer Affairs, and Committee Staff. I am Christopher Weaver, Deputy Commissioner for the Department of Insurance, Securities and Banking ("DISB" or the "Department"). I appreciate the opportunity to present testimony today on behalf of Commissioner Purcell on Bill 18-659, the Community Bank Liquidity Access Pilot Program Act of 2010 ("Bill")

DISB is supportive of the Bill's overall purpose to provide incentives to local banks to lend to District of Columbia businesses by increasing a bank's liquidity , while providing funding opportunities to local businesses.

The Bill proposes to accomplish this goal by establishing a Community Bank Liquidity Access Program ("CBLA"). Under the CBLA, the Chief Financial Officer ("CFO") would be

authorized to deposit District of Columbia ("District") government funds in eligible banks of up to $10 million per institution, under predetermined terms.

District-chartered banks and banks chartered by other states or federal agencies with their principal office in the District may participate in the program. Additionally, banks must meet certain eligibility criteria to participate in the CBLA. These criteria include the maintenance of a minimum of four branches in the District and a demonstrated record of providing a minimum of 25% of their total loans to residents and businesses located in the District. A participating bank also must agree to lend on a 2 to 1 ratio funds received from the CBLA program to District local, small, and medium sized businesses. I assume that this ratio means that banks must lend two dollars for every dollar received in deposits.

The Bill calls for a 2-year pilot program to be implemented by the CFO with the advice and consent of DISB.

The Department notes that there are other incentive-driven programs currently in place regarding the deposit of District funds that are very similar to the proposal in this Bill. They include:

- The linked deposits program that authorizes the CFO to place deposits in exchange for specific community development loans in low to moderate income areas;
- Funds for preservation of banking services, under which deposits or investments are placed in an institution in return for the institution maintaining banking services in a low to moderate income area in the District; and
- The District Funds Reserved Act, under which deposits or investments are placed in institutions that meet certain criteria and have less than $550 million in assets.

All of the above-referenced programs, and their specific requirements, are presently administered by the CFO who not only controls the District funds to be placed, but also has the expertise and resources for monitoring to ensure compliance with the programs.

As presently drafted, the Bill appears to assign a significant amount of administration of CBLA, beyond "advice and consent", to the Office of Banking and Insurance, which I assume should be the "Department of Insurance, Securities and Banking." Specifically, it would require the Department to review applications, monitory compliance with the CBLA, review loans, and enforce the CBLA by withdrawing funds from banks not in compliance with the CBLA. The Department recommends that the CFO be responsible for the investment of District government funds.

The Department suggests changes to a number of areas in the Bill which need to be clarified. First, the Bill needs to clarify whether DISB would be the primary recipient of CBLA applications. As presently drafted, DISB is required to acknowledge receipt of the application, process the request, make a recommendation to the CFO, and notify the applicant of the recommendation.

Second, although not primarily responsible for placing funds with participating banks, those banks are required to report activity under the program to DISB within15 days of the first 180 days and every 180 days thereafter.

Third, although control and investment authority of the funds generally rest with the CFO, DISB is responsible for ensuring compliance with the program and has the right to withdraw funds from non- compliant participating banks. No clear guidelines are provided as to how DISB would handle the withdrawn funds or

whether and to whom any reporting requirements regarding those funds would be made.

Given the similarity of the CBLA to the other District fund deposit programs, the general control and investment authority of the CFO over District funds, and DISB's limited expertise and staff in this area, the Department respectfully recommends a revision to the Bill to assign direct responsibility to the CFO's office with DISB providing assistance as needed in determining eligibility of banks to participate in the CBLA.

Finally, the Department believes that there are certain provisions in the Bill that warrant further review and consideration.
First, although it can be inferred, the Department suggests that the Bill specifically state that the program would operate "without regard to the competitive bidding requirements of D.C. Official Code §§ 47-351.05 and 47-351.07".

Second, DISB suggests that to avoid problems with interpretation and to ensure a seamless implementation, the definition of key terms (for example, "local, small and medium sized businesses", "principal office") be incorporated in the Bill and that these terms be consistent with those in other sections of the Financial Institutions Deposit and Investment Act of 2006, effective June 16, 2006, (D.C. Law 16-125; D.C. Official Code §§ 47-351.01 *et seq*.) (2001).

Third, the Bill does not indicate whether deposited funds would be subject to the collateral requirement of D.C. Official Code §§ 47-351.08, which requires collateral of 102% of the amount of District funds. DISB recognizes the need to secure the deposits of the District, but it should be noted that the collateral requirement has historically been a barrier to many banks participating in the existing incentive programs.

Finally, DISB recommends that credit unions be added to the list of eligible financial institutions. The section of the D.C. Code that

would be amended by this bill covers banks, thrifts, and credit unions.

That concludes my testimony. Thank you again for providing the opportunity for me to testify on this important subject. I will be happy to answer any questions you may have at this time.