

**PUBLIC HEARING
ON
BILL 19-633, THE COMMUNITY BANK SMALL
BUSINESS LENDING PROGRAM ACT OF 2011**

**Before the
Committee on Public Services and Consumer Affairs
Council of the District of Columbia**

The Honorable Yvette M. Alexander, Chairperson

**February 8, 2012
Room 123, John A. Wilson Building**



**Testimony of Lasana K. Mack
Deputy Chief Financial Officer and Treasurer
Office of Finance and Treasury**

**Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairperson Alexander and members of the Committee. I am Lasana Mack, Treasurer and Deputy Chief Financial Officer in the Office of the Chief Financial Officer. I am here to testify regarding Bill 19-633, the “Community Bank Small Business Lending Program Act of 2011.”

For banks that qualify and choose to participate in the proposed Program, this Bill would provide that the District deposit funds with such participating banks, with the provision that such banks would make loans to small businesses in the District based on the amount of the deposits.

The Office of the Chief Financial Officer (OCFO) defers to the Executive Office of the Mayor, as represented by the Department of Insurance, Securities and Banking (DISB) and other Executive agencies, regarding the policy implications of the creation of such a Program; however, the OCFO does have some comments on the proposed legislation with respect to the District’s existing statutes and practices regarding the deposit and investment of District funds with local financial institutions.

The statute that governs the District’s deposits and investments is the Financial Institutions Deposit and Investment Amendment Act of 1997, as amended, which is codified in Chapter 3 of Title 47 of the District of Columbia Code. In 2008, the Council amended this statute to provide for up to ten percent of District funds available for deposit and investment to be placed with financial institutions with \$550 million or less in total assets located in the District. We believe that the Council’s intent associated with

that legislation was similar to that of this proposed legislation, namely to increase the amount of District funds on deposit with local banks in order to increase the amount of funds available to support the local economy and business lending in the District.

The OCFO has implemented the aforementioned statute by actively seeking to place District funds with local banks, which has resulted in the current placement of approximately \$100 million of District funds with various local banks. We do not have specific information on how the various banks utilize our deposited funds, but they have communicated to us that they seek to put such funds to work with lending activity in the District, and have been successful at least to some extent. The Committee should also be aware that there are collateral and/or FDIC insurance requirements associated with the receipt of District deposits, in order to ensure the security of District funds on deposit, along with our mandate to earn interest on the District's deposited and invested funds. These requirements, along with the extent to which the various banks may have viable lending opportunities that they deem good credit risks, present some limitations on the amount of District funds that various banks desire for deposit. Within the parameters of these dynamics along with our mandate to diversify the placement of District funds and adhere to certain policy limits regarding the amount and percentage of funds in any particular financial institution, we have sought to maximize the amount of District funds placed with local banks. With this as a backdrop, we are uncertain of the degree of potential additional effectiveness of this new proposed legislation, and again, we will defer to

DISB's assessment and perspective on that issue.

Regarding specific comments on the proposed legislation, I would be happy to share with you, Madame Chair, and your staff the entirety of our comments, but I will highlight here the comments that I think are the most substantive. We think that the proposed requirement that participating banks have a minimum of five branches in the District would exclude most small local banks and therefore would work against the objectives of the legislation, and we have a similar view regarding the proposed bank asset limitations. The proposed legislation calls for a premium or penalty to be charged to participating banks who fail to comply with the loan funding goal. We think such penalty should be defined and somewhat limited, because an open-ended penalty provision might serve as a deterrent to banks participating in the program. Moreover, we think that the committee should be aware of the various market-related factors that serve as challenges to lending activities in the current economic and financial market environment. It is my understanding that DISB will expound on some of these issues in its testimony. In addition, we think it needs to be clarified in the proposed legislation that the District would bear no liability for the repayment of any loan, interest or fees due to participating banks by borrowers under the Program.

Finally, we think it would be worth assessing and considering the extent to which existing District programs and statutes already serve to accomplish, or, perhaps with some modifications, could accomplish the desired

objectives of the proposed legislation. We would be happy to work with your staff, DISB and other interested parties in order to make such assessment in a comprehensive and coordinated manner, and thereafter determine the most desirable approach for moving forward.

Madame Chair, I thank you for the opportunity to testify on this proposed legislation. I would be happy to answer any questions that the Committee may have.