

Date of Hearing: April 22, 2019

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Monique Limón, Chair

AB 1157 (Burke) – As Amended March 25, 2019

SUBJECT: Time Deposit Program: report

SUMMARY: Requires on or before January 1, 2022, and on or before January 1 each year thereafter, the Treasurer to submit a report to the Legislature on the Time Deposit Program, as specified. Specifically, **this bill:**

Requires the following information be included in the report:

- 1) The extent to which eligible banks that serve as a depository pursuant to this chapter do either of the following:
 - a. Reinvest in the communities in which they do business.
 - b. Offer responsible small dollar loans and microloans to customers.
- 2) The report submitted on or before January 1, 2022, shall include recommendations on how to incentivize the participation of credit unions in the Time Deposit Program.

FISCAL EFFECT: Unknown

COMMENTS:

According to the California State Treasurer, the Time Deposit Program was created in 1945 by the State Bank Deposit Law of California. The program allows the State Treasurer to place deposits with eligible California financial institutions. The goal of the Time Deposit Program is to stimulate local economies by supporting financial institutions that serve the interest of their communities throughout the state. All time deposits are fully collateralized.

The author states:

In the aftermath of the 2008 financial crisis, lending practices throughout the nation were made more stringent, resulting in a tightening of the credit market. Sub-prime borrowers were particularly impacted as the already limited market for them to access capital shrank even further. As a result, many of those struggling to make ends meet turned to alternative financial service providers, like payday and auto-title lenders, to address their financial situation.

Financial institutions that take part in the Time Deposit Program are uniquely positioned to leverage the increased liquidity from accepting deposits of state funds towards community focused financial benefits. To this end, Assembly Bill 1157 would require the Treasurer's Office to issue a report on the extent to which financial institutions engage in community reinvestment and whether these institutions offer responsible small dollar loans and microloans. Through this

report, the state can gain better insight into how the state can leverage available capital to further improve the lives of struggling Californians.

Arguments in Support

This bill requires the Treasurer's office to issue a report outlining community reinvestment and the extent to which microloans and responsible small dollar loans are issued by financial institutions participating in the Time Deposit Program. As these financial institutions receive increased liquidity at more reasonable rates than those available on the money market by accepting deposits of state funds, they are positioned to help leverage those funds to further the financial health of struggling communities. These financial institutions do engage in activities outlined in the Community Reinvestment Act, but clarity on the depth with which they engage in such activities would give better insight into how the state can further leverage available funds to promote community development.

Arguments in Opposition

The Time Deposit Program is a voluntary program whose participants are banks and credit unions. This bill seeks to collect information that can be used to incentivize credit unions to seek ways of entering the small dollar lending field. However, The California Bankers Association notes that the current Time Deposit Program already includes credit unions, so if the goal here is to incentivize participation in the program then banks should be included as well.

Additionally, given that participation in the program is voluntary, any increased reporting requirement may cause increased time and cost to gather program information that is not currently collected. This additional requirement could have a negative effect on voluntary participation.

The author's office continues to work with stakeholders and the Treasurer's office to determine the appropriate scope of the bill and how best to incentivize small dollar lending.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

California Bankers Association

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