



House of Representatives

General Assembly

File No. 225

January Session, 2009

House Bill No. 6478

House of Representatives, March 25, 2009

The Committee on Banks reported through REP. BARRY of the 12th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT CONCERNING THE USE OF STATE GUARANTEES TO ENCOURAGE LENDING TO SMALL AND MEDIUM-SIZED BUSINESSES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective October 1, 2009*) As used in sections 2, 4
2 and 5 of this act: "Claimant" means a holder of a guaranteed public
3 offering from a Connecticut bank that has become insolvent, "eligible
4 bank" means a Connecticut bank that has received a certificate of fiscal
5 soundness from the Banking Commissioner pursuant to section 5 of
6 this act and "guaranteed public offering" means capital stock issued by
7 a Connecticut bank and guaranteed by the Treasurer.

8 Sec. 2. (NEW) (*Effective October 1, 2009*) There is established a fund
9 to be known as the "Public Offering Guaranty Fund" which shall be a
10 separate, nonlapsing account within the General Fund. The account
11 shall contain the proceeds of the sale of bonds pursuant to section 3 of
12 this act, and funds received from eligible banks pursuant to subsection
13 (b) of section 4 of this act. Moneys in the account shall be expended by

14 the Treasurer for the purposes of guarantying capital stock issued by a
15 Connecticut bank when approved by the Treasurer pursuant to section
16 4 of this act.

17 Sec. 3. (NEW) (*Effective July 1, 2009*) (a) For the purposes described
18 in subsection (b) of this section, the State Bond Commission shall have
19 the power, from time to time, to authorize the issuance of bonds of the
20 state in one or more series and in principal amounts not exceeding in
21 the aggregate one hundred million dollars.

22 (b) The proceeds of the sale of said bonds, to the extent of the
23 amount stated in subsection (a) of this section, shall be deposited in the
24 Public Offering Guaranty Fund, established pursuant to section 2 of
25 this act.

26 (c) All provisions of section 3-20 of the general statutes, or the
27 exercise of any right or power granted thereby, which are not
28 inconsistent with the provisions of this section are hereby adopted and
29 shall apply to all bonds authorized by the State Bond Commission
30 pursuant to this section, and temporary notes in anticipation of the
31 money to be derived from the sale of any such bonds so authorized
32 may be issued in accordance with said section 3-20 and from time to
33 time renewed. Such bonds shall mature at such time or times not
34 exceeding twenty years from their respective dates as may be provided
35 in or pursuant to the resolution or resolutions of the State Bond
36 Commission authorizing such bonds. None of said bonds shall be
37 authorized except upon a finding by the State Bond Commission that
38 there has been filed with it a request for such authorization which is
39 signed by or on behalf of the Secretary of the Office of Policy and
40 Management and states such terms and conditions as said commission,
41 in its discretion, may require. Said bonds issued pursuant to this
42 section shall be general obligations of the state and the full faith and
43 credit of the state of Connecticut are pledged for the payment of the
44 principal of and interest on said bonds as the same become due, and
45 accordingly and as part of the contract of the state with the holders of
46 said bonds, appropriation of all amounts necessary for punctual

47 payment of such principal and interest is hereby made, and the State
48 Treasurer shall pay such principal and interest as the same become
49 due.

50 Sec. 4. (NEW) (*Effective October 1, 2009*) (a) Any eligible bank may
51 apply to the Treasurer for a state guaranty of its capital stock. The
52 Treasurer shall enter into such guaranties in accordance with this
53 section and based on criteria established in regulations adopted
54 pursuant to subsection (d) of this section. The total amount of
55 guaranties issued pursuant to this section shall not exceed the amount
56 of funds available in the Public Offering Guaranty Fund, established
57 under section 2 of this act, or one hundred million dollars, whichever
58 is less. The state shall receive an equity interest in the capital stock for
59 which it issues guaranties pursuant to this section.

60 (b) Any bank receiving a state guaranty of its capital stock shall, as a
61 condition of receiving such guaranty, agree to pay annually into the
62 Public Offering Guaranty Fund, established under section 2 of this act,
63 an amount equal to two per cent of the face value of the guaranty
64 received. Such payments shall be made until such bank has made such
65 payments annually for ten years or has paid an amount equal to
66 twenty per cent of the face value of the guaranty received.

67 (c) Claimants shall be reimbursed from the resources of the Public
68 Offering Guaranty Fund up to the amount such holders paid for such
69 guaranteed public offerings. Should claims upon the Public Offering
70 Guaranty Fund exceed such resources, claimants shall be reimbursed
71 proportionally, based upon each investor's total loss.

72 (d) The Treasurer shall adopt regulations, in accordance with the
73 provisions of chapter 54 of the general statutes, for purposes of this
74 section, including the establishment of criteria for guarantying the
75 capital stock of banks.

76 Sec. 5. (NEW) (*Effective October 1, 2009*) In order to be eligible to
77 have the state guarantee its capital stock pursuant to section 4 of this
78 act, a Connecticut bank shall hold a certificate of fiscal soundness

79 issued by the Banking Commissioner. The commissioner shall issue
80 such a certificate to a Connecticut bank that the Banking Department
81 determines to be fiscally sound based on criteria established in
82 regulations adopted by the commissioner in accordance with the
83 provisions of chapter 54 of the general statutes. A Connecticut bank
84 shall apply for such certificate on such forms as the commissioner
85 prescribes.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>October 1, 2009</i>	New section
Sec. 2	<i>October 1, 2009</i>	New section
Sec. 3	<i>July 1, 2009</i>	New section
Sec. 4	<i>October 1, 2009</i>	New section
Sec. 5	<i>October 1, 2009</i>	New section

BA *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 10 \$	FY 11 \$
Treasurer, Debt Serv.	GOBonds - Cost	See Below	See Below
Treasurer	GF - Cost	100,000	None

Note: GOBonds=General Obligation Bonds; GF=General Fund

Municipal Impact: None

Explanation

The bill authorizes \$100 million in General Obligation (GO) bonds for the Public Offering Guaranty Fund. The total General Fund debt service cost for principal and interest payments on this amount over 20 years assuming a 5.0% interest rate, is \$152.5 million. The first year that the state will experience costs associated with the bonds depends on when they are allocated through the State Bond Commission and when the funds are expended.

There is a one-time cost to the Office of the State Treasurer of \$100,000 in FY 10 to adopt regulations. It is anticipated that the Department of Banking can adopt regulations within existing resources.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**HB 6478*****AN ACT CONCERNING THE USE OF STATE GUARANTEES TO ENCOURAGE LENDING TO SMALL AND MEDIUM-SIZED BUSINESSES.*****SUMMARY:**

This bill allows the state treasurer to guaranty the capital stock of certain Connecticut banks in return for an unspecified equity interest in the stock. The bill establishes the "Public Offering Guaranty Fund," a nonlapsing account within the General Fund, for this purpose. It authorizes the state to issue up to \$100 million in general obligation bonds, the sale proceeds of which must go into the fund, and allows holders of guaranteed capital stock of an insolvent bank to make claims against the fund.

EFFECTIVE DATE: October 1, 2009, except for the bond authorization provision, which is effective July 1, 2009.

BANKS ELIGIBLE TO APPLY

Connecticut banks wishing to apply for the guaranty must obtain a certificate of fiscal soundness from the banking commissioner. The bill requires the Department of Banking to adopt regulations establishing criteria for determining fiscal soundness, and requires the issuance of a certificate, on a commissioner-prescribed form, if they meet it.

Banks that have obtained the certificate can apply to the treasurer for the guaranty. The bill requires the treasurer to adopt regulations on the guaranty, including the criteria for issuing it. The bill limits the total guarantees the treasurer can issue to the lesser of the amount in the fund or \$100 million.

GUARANTY FUND

The bill allows the State Bond Commission to authorize the issuance of bonds for the fund. The proceeds of the sale of those bonds, up to \$100 million must go into the fund. The bonding provisions and procedures in existing law apply.

Any bank receiving a state guaranty must, as a condition of receiving it, agree to pay 2% of the face value of the guarantee into the fund annually. The payments must be made for 10 years, or until the bank has paid 20% of the face value of the guaranty received.

The fund must reimburse holders of a guaranteed public offering (i.e., capital stock guaranteed by the treasurer) from a Connecticut bank that has become insolvent, up to the amount they paid for the guaranteed public offering. If claims exceed the amount in the fund, claimants must be reimbursed proportionally, based upon each investor's total loss.

COMMITTEE ACTION

Banks Committee

Joint Favorable

Yea 16 Nay 0 (03/10/2009)