S.A.F.E. Act 2009

State of Connecticut
Proposed Bill for
Small Business Credit Line

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General Assembly

January Session, 2009

Raised Bill No. 6503

LCO No. **3736**

*03736_______CE_*

Referred to Committee on Commerce

Introduced by:

(CE)

AN ACT CONCERNING THE S.A.F.E. ACT 2009.

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

Section 1. (NEW) (*Effective July 1, 2009*) (a) There is established a fund to be known as the "State Assisted Fund and Exchange Fund". The fund shall contain any moneys required by law to be deposited in the fund. Any balance remaining in the fund at the end of any fiscal year shall be carried forward in the fund for the fiscal year next succeeding. The fund shall be used to provide secondary market capital liquidity for certain state charted banking institutions pursuant to subsection (b) of this section and to pay reasonable and necessary expenses incurred in administering such capital under this section.

(b) The Commissioner of Economic and Community Development, in consultation with the State Assisted Fund and Exchange Committee, established pursuant to subsection (c) of this section, may enter into a contract to provide secondary market capital liquidity for state chartered banking institutions authorized by the Commissioner of Economic and Community Development to originate small and mid-size business credit loans and credit facilities in the state. Banks eligible for funds pursuant to this section shall meet Banking Department licensing and lending requirements and all such originations shall meet Department of Economic and Community Development credit underwriting guidelines. When no more funds are available under section 2 of this act, the Department of Economic and Community Development shall exchange all originations as simple whole loans with the Unite States Treasury for an amount that is not less than the total amount of all originations, including the cost of originations.

(c) There is established a State Assisted Fund and Exchange Committee, which shall be comprised of one employee from each of the following: (1) the Banking Department, (2) the Office of Policy and Management, (3) the Office of the State Treasurer, (4) the Office of the State Comptroller, (5) the Connecticut Development Authority, and (6) the Department of

Economic and Community Development. Said committee shall advise the Commissioner of Economic and Community Development with regard to expenditures from the State Assisted Fund and Exchange Fund, established pursuant to subsection (a) of this section, including, but not limited to, developing guidelines for eligibility.

Sec. 2. (*Effective July 1, 2009*) (a) For the purposes described in subsection (b) of this section, the State Bond Commission shall have the power, from time to time, to authorize the issuance of bonds of the state in one or more series and in principal amounts not exceeding in the aggregate five billion dollars.

(b) The proceeds of the sale of said bonds, to the extent of the amount stated in subsection (a) of this section, shall be used by the Department of Economic and Community Development for the purpose of providing secondary market capital liquidity for certain state charted banking institutions pursuant to subsection (b) of section 1 of this act.

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

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2009*	New section
Sec. 2	*July 1, 2009*	New section

Statement of Purpose:

To provide access to business credit for certain qualified Connecticut businesses and balance sheet liquidity for Connecticut banks.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]

United States Senate

WASHINGTON, DC 20510

March 3, 2009

Mr. Timothy Geithner
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Dear Secretary Geithner:

We are enclosing a copy of the S.A.F.E. Act 2009, which was recently introduced in the Connecticut General Assembly. We respectfully request your prompt review of the legislation.

In Connecticut, small businesses and consumers are struggling to obtain badly needed credit in a lending environment that has become largely dysfunctional. The S.A.F.E. Act attempts to address this issue by creating a fund to provide secondary market capital liquidity for certain state-chartered banking institutions. It would authorize the State Commissioner of Economic and Community Development, in consultation with other state officials, to enter into contracts providing capital to state banks specifically for the purpose of small and mid-sized business lending. Funding for the program would come from the issuance of state bonds.

As you will note, the S.A.F.E. Act proposes that when no more funds are available under the bond cap, "the Department of Economic and Community Development shall exchange all originations as simple whole loans with the United States Treasury for an amount that is not less than the total amount of all originations, including the cost of originations." Because such an arrangement would require participation by the U.S. Treasury Department, we respectfully request your views on this proposal.

We appreciate your prompt attention to this matter. If your staff has any questions or would like any additional information on this proposal, please contact Clarine Nardi Riddle with Senator Lieberman at (202) 224-4041, or Jonathan Miller with the Senate Banking Committee at (202) 224-7391.

Sincerely,

Joseph I. Lieberman
United States Senator

Christopher J. Dodd
United States Senator

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 7, 2009

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Dodd:

Thank you for your recent letter concerning the State of Connecticut's S.A.F.E. Act. I want to apologize for my delay in responding. The Department of the Treasury has significant concerns with this piece of legislation, which would attempt to create a loan program for Treasury.

The proposed legislation would authorize the Connecticut State Commissioner of Economic and Community Development to enter into contracts providing capital to state banks in order to provide secondary market capital liquidity for these banks. Funds for this program would come from the State's issuance of bonds. When no more funds are available, the bill would authorize the State to exchange all originations as simple whole loans with Treasury. Treasury is strongly opposed to a state law that in essence creates a loan program for the Federal Government.

We understand that many creditworthy consumers and small businesses are facing difficulties in the current economic environment, and we are focused on addressing these issues. On March 16, Treasury announced a program to get capital flowing to small businesses. Treasury will begin making direct purchases of securities backed by SBA-guaranteed loans to get the credit markets moving again, and it will stand ready to purchase new securities to ensure that community banks and credit unions feel confident in extending new loans to local businesses. These purchases, combined with higher loan guarantees and reduced fees, will help provide lenders with the confidence that they need to extend credit, knowing they have a backstop against their risk and a source of liquidity. These measures will complement other steps the Administration is taking to help small businesses recover and grow. Treasury is working hard to implement the program as soon as possible.

Treasury has also undertaken a joint Consumer and Business Lending Initiative with the Federal Reserve that will broaden and expand the resources of the Term-Asset Backed Securities Loan Facility (TALF) Program. This initiative supports the purchase of loans by providing financing to private investors to help unfreeze and lower interest rates for auto, small business, credit card and other consumer and business credit.

Treasury will continue to work vigilantly to promote financial stability. In the critical months ahead, as we continue to grapple with serious economic issues, we look forward to working with you to overcome the economic challenges that our nation faces. I have sent a similar letter to Senator Lieberman.

Sincerely,

Timothy F. Geithner

First Responders: Hartford Legislators Hit the Ground Running

Hartford, CT: With the opening of the State legislature, State Representative Christopher Donovan (Meriden-CT) accepted the mantle of Speaker of the House with unanimous support from his piers.

With his opening remarks, Speaker Donovan called all legislators to act as "First Responders" to our state's financial liquidity crisis effecting all businesses and homeowners in Connecticut.

Below is a public request for Hartford lawmakers to legislate the S.A.F.E Act 2009 as soon as allowed.

The Challenge for Lawmakers

The challenge for lawmakers and other authorities is to create an environment of credit liquidity that supports greater bank intermediation, which should help to restore the health of the financial system and the state economy. Banks need access to funds to make credit facilities available, but they must do so in a responsible way that avoids past mistakes and does not create new ones. State regulatory participation is expected to assure good underwriting and process.

The Financial Liquidity Crisis in Connecticut

The turmoil in the US financial system during the past 16 months has put channels of financial intermediation under great strain and, in doing so has produced a significant financial crisis. These events have caused lenders to greatly tighten credit conditions for businesses and households, which, in turn, have contributed to a downturn in the economy that has reinforced the strains in the financial system.

The need for greater bank intermediation has occurred at a time when banks are 'managing losses' and are 'worried about meeting their capital liquidity needs'.

However, bank deposits as reliable source of funds protected by the federal safety net has perhaps helped to draw investment banks to convert to bank holding companies. But the competition for deposits has raised their relative cost, and deposits cannot be expected to make up for reduced funding from other sources.

S.A.F.E. Act of 2009

The S.A.F.E Act (**State Assisted Fund and Exchange**) is a proposed initiative for lawmakers to enact law responding to the state's financial liquidity crisis within Connecticut.

By enacting the authority, legislators will allow the State to provide $5 billion dollars in a revolving credit facility to be managed by cooperative effort of key state agencies. (eg: DECD)

Traditional credit underwriting, approval and funding will be made immediately available for qualified Connecticut businesses seeking credit in place of the credit facilities discontinued by banks.

Once the fund is drawn down to zero, the fund will exchange the loans for dollars committed by US Treasury. This '**exchange**' between the US Treasury and the State of Connecticut will result in immediate credit liquidity for Connecticut businesses without risk to the State.

Received by Office of Legislator — Name ______________________________

Date ________ — Signature ___________________________

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