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**PROPONENT Testimony on
COVID – 19 ECONOMIC RECOVERY LINKED DEPOSIT LOAN PROGRAM
May 15, 2020
Given by: Jake LaTurner, Kansas State Treasurer**

Madam Chair and Members of the Committee,

Kansas businesses have taken some devastating losses during the drastic economic downturn we are facing due to COVID-19. Kansans have experience dealing with recovery when disaster strikes, and fortunately our previous disaster recovery efforts have given us some tools that are currently in place and can easily be repurposed to help businesses during this unprecedented time.

Beginning in the year 2000, Kansas employed their first iteration of what is known as a Linked Deposit Program. In short, a linked deposit program is when the State allocates a certain amount of its idle funds to be available for banks to borrow at less than the daily market rate so that they can turn around and provide loans to their customers at a lower rate.

By giving banks the opportunity to offer lower rate loans to its customers, we can aid Kansans and Kansas businesses who are looking for ways to rebuild and strengthen after the losses they have incurred during these past few months.

When the Kansas Legislature allocated \$50 million for the Kansas Agricultural Production Loan Deposit Program (APLDP), it was designed to assist struggling Kansas farmers with their day-to-day farming expenses at a low interest rate and was the first time we had employed a linked deposit program.

In this version of the program specifically:

- The funds are loaned by the State to banks at 2.00% less than the daily market rate as determined by the Pooled Money Investment Board with a minimum of 0.50%.
- Banks then use these funds to loan to eligible borrowers at a rate not to exceed 4.00% over the bank loan rate. All funds loaned to banks must be fully collateralized.
- Interest is recalculated and applied to all loans on July 1 and January 1 every year.

The KS APLDP has been very successful. Within 3 weeks of the KS Legislature approving the \$50 million to be used for the program, 36 banks had requested and received nearly the full amount allocated for the benefit of over 400 borrowers. In 2001 the Kansas Legislature added an additional \$5 million to the program.

Kansas businesses need our help, and the great news is we already have the funds available to get started right away by utilizing the same linked deposit model gearing it specifically toward businesses recovering from COVID-19 losses. There is a second linked deposit program that was started in 2008 when the KS Legislature allocated \$60 million for the Kansas Housing Loan Deposit Program (KHLDP) modeled after the successful Agricultural Production Loan Deposit Program. This was designed to provide funding for the construction of new housing. It was not utilized as heavily;

there were only 12 loans issued totaling just over \$2 million. At the end of FY 2019, there were no outstanding loans, which means that the \$60 million allocated for the Housing Loan Deposit Program is sitting idle and could easily be repurposed to be used for these KS Economic Recovery Linked Deposit Loans we are proposing.

There is nothing but upside to this reallocation. Depositing the State's idle funds with Kansas financial institutions provides the State with a more valuable return than the State is presently earning on those funds. This program would allow Kansas financial institutions to access funding that would enable these community banks to make loans to Kansans that would stabilize or improve their economic situation. This program would also enable Kansas financial institutions to provide loans to Kansas businesses for the purposes of retaining – or even expanding – employment.

I strongly encourage you to take the necessary steps to suspend the use of the \$60 million for the KS Housing Loan Deposit Program and authorize my office to use these dedicated state idle funds to deposit in banks, savings and loans, credit unions, and the farm credit system to bring low-cost loans to businesses financially affected by the COVID-19 pandemic.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jake LaTurner", is written over the word "Sincerely,".

Jake LaTurner
Kansas State Treasurer