

HOUSE BUSINESS AND INDUSTRY COMMITTEE

Chairman, Rep. Jerry Metcalf, called the Business & Industry Committee to order on March 21, 1983, in Room 420 of the Capitol Building, Helena, Montana at 10:00 a.m. All members were present except Rep. Fabrega, Fagg and Kitselman who were excused.

SENATE BILL 174

Sen. Himsl, District 9, sponsor, opened by saying SB 174 would remove the restriction that issuers of commercial paper for state investments would have to have a ratio of 1 1/2 to 1 of assets to current liabilities including current liabilities of any long term debt. (Exhibit #1)

PROPOSERS:

ROD YOUNG, Board of Investments: Since the statutes were written, there have been a lot of changes in the financial markets. A lot of corporations have set up credit corporations instead of issuing commercial paper directly - they have set up parent corporations for more leverage. We had no problem with the 1 to 1 1/2 ratio. In the parent corporation they maintain a ratio of 1 to 1. We have, therefore, been excluded from buying any commercial paper because of this. We're not looking to put a lot of money into commercial paper but this would add flexibility in the short term funds because often it does yield more than other methods. At the maximum out of the \$1 1/2 billion that we manage, we would have at the peak \$20 million in commercial paper.

SEN. HIMSL, in closing, said commercial paper was something that a lot of investors purchased until the CD Program came in. Now they go to short term CD's because six months looks good with the economy's fluctuations. This may be used or not used - it just gives an option.

QUESTIONS:

REP. SCHULTZ: If you cut out the current ratio of 1 to 1 1/2 how far down the line do you go? Mr. Young: It would have to be better than 1 to 1. We would buy only 1A - nothing lower than the highest rated paper.

REP. WALLIN: Do you have any guarantee from the parent company of GMAC or Ford? What guarantee do you have that the factory has high credit? Mr. Young: Ford does guarantee a payment of the interest. They guarantee at 1.15 or higher. In all of these corporations, the commercial paper is backed by retail auto loans and some wholesale. GM has invested several hundred million in their credit corporation. The credit of the borrower and the auto are used as collateral. We do not own any commercial paper at the moment.

REP. METCALF: Because of the ratio? Mr. Young: Because of the 1 to 1. Most corporations of good standing maintain a 2 to 1 ratio.

REP. SCHULTZ: There are several money market funds on the market today. Would you go to another fund or go directly to

GMAC? Mr. Young: We can save 1/8 of 1 percent by buying paper direct.

SENATE BILL 125

SEN. BLAYLOCK, District 35, sponsor, said this bill will help in the matter of equity capital in Montana. The Montana Development Credit Corporation was set up in 1969. It is a tool by which they pool the capital of the banks in Montana who wish to belong and they lend a portion of their capital to the Credit Corporation, thus making equity capital available, which we are short of. This bill will drop the word "credit" from the name Montana Credit Corporation because they wish to expand and raise their borrowing capabilities and thus become a more important feature of Montana development by making more capital available.

PROPOSERS:

RICHARD BOURKE, Vice President, Development Credit Corporation of Montana: I will explain the amendments which are designed to do four things. 1) To delete the word "credit" from the corporation. We are not in the credit business, but in the equity capital business. 2) On page 8, the amendment will allow us by four fold the ability to borrow from member banks. The original bill set the amount we could borrow. This allows us to increase our borrowing from \$2 1/2 million to \$10 million. Section 3 new subsection 4, page 9, allows the Development Credit Corporation to borrow upon the request of a financial institution that is a member with approval of 1/2 of the members who are the same type of institution. It will authorize a different loan limit from that institution. Page 9, subsection 6, line 23 reduces our cost of capital from 1/2 point over prime to 1/4 point over prime. Saving that 1/4 point is more important to us than the loss of that 1/4 point to our other banks. We have also deleted the language that refers to the prime rate at which we must borrow. It will read "to be the prime rate prevailing at the time." On Page 10, line 6, section 4, the old language says we are required to set aside 10% of our earnings every fiscal year until such surplus shall be equal to 100% of the paid in on capital stock. We want to reduce that to 50% to give us more flexibility over time with the earnings we accumulate. These amendments have been approved by the Board of Directors. In the Senate hearing the amendments were approved by the Dept. of Commerce, The Montana Banker's Association, etc. so there is broad support of these amendments.

OPPOSERS: none

SEN. BLAYLOCK: Rep. Metcalf, will you carry this bill to the House floor? Rep. Metcalf: Yes....

HOUSE BUSINESS & INDUSTRY COMMITTEE

MARCH 21, 1983

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EXECUTIVE SESSION

SENATE BILL 125

REP. SCHULTZ: I move SENATE BILL 125 BE CONCURRED IN.

QUESTION: The motion carried unanimously.

SENATE BILL 174

REP. LYBECK: I move SENATE BILL 174 BE CONCURRED IN.

QUESTION: The motion carried unanimously.

Rep. Schultz will carry this bill to the House floor.

SENATE BILL 249

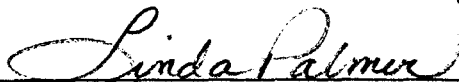
REP. BACHINI: I move we remove the Statement of Intent from Senate Bill 249.

QUESTION: The motion carried unanimously.

The hearing adjourned at 10:30 a.m.



REP. JERRY METCALF, CHAIRMAN



Linda Palmer, Secretary

STANDING COMMITTEE REPORT

.....MARCH 21..... 19.83.....

MR.SPEAKER:.....

We, your committee on.....BUSINESS & INDUSTRY.....

having had under considerationSENATE..... Bill No. 125

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color

A BILL FOR AN ACT ENTITLED: "AN ACT TO DELETE THE WORD
"CREDIT" FROM THE NAME OF DEVELOPMENT CREDIT CORPORATIONS OF
MONTANA; TO CHANGE THE LOAN LIMIT RESTRICTIONS FOR SUCH
CORPORATIONS; TO LOWER THE INTEREST RATE ON SUCH CORPORATIONS'
EVIDENCES OF INDEBTEDNESS; AND TO LOWER THE REQUIRED EARNED
SURPLUS OF SUCH CORPORATIONS; AMENDING SECTIONS 32-4-101,
32-4-201, 32-4-302, AND 32-4-304, MCA; AND PROVIDING AN
IMMEDIATE EFFECTIVE DATE."

Respectfully report as follows: That.....SENATE..... Bill No. 125

~~XXXXXX~~ PASS BE CONCURRED IN

STANDING COMMITTEE REPORT

MARCH 21

1983

SPEAKER:

MR.

BUSINESS & INDUSTRY

We, your committee on

SENATE

174

having had under consideration Bill No.

third reading copy (blue)
color

A BILL FOR AN ACT ENTITLED: "AN ACT TO ELIMINATE THE
REQUIREMENT THAT A CORPORATION MUST HAVE A RATIO OF CURRENT
ASSETS TO CURRENT LIABILITIES OF AT LEAST 1 1/2 TO 1 BEFORE
AN INVESTMENT OF PUBLIC FUNDS CAN BE MADE IN THE CORPORATE
COMMERCIAL PAPER OF THAT CORPORATION; AMENDING SECTION
17-6-211, MCA."

SENATE

174

Respectfully report as follows: That..... Bill No.

XXXXXX BE CONCURRED IN

DO PASS

SENATE BILL 174

(Bd of Investments)


SENATOR HIMSL

Senate Bill 174 would remove the restriction (page 2) that issuers of commercial paper available for state investments would have to have a ratio of $1\frac{1}{2}$ to 1 of assets to current liabilities including current liabilities of any long term debt.

The Board of Investments manages about \$500 million in short term funds. Montana Certificates of Deposit, Bank Acceptance, Overnight Repo -- (government securities sold and repurchased) and U. S. Treasury Bills are most often bought because of their high quality. However, commercial paper (unsecured short term notes) issued for less than 270 days are a predominate instrument in the market place and usually pay significantly higher yields.

About 2/3 of all the finance companies and bank holding companies are eliminated by the ratio requirement. I am told that John Deere Credit, General Electric Credit, General Motors Acceptance Corp., Sears Credit etc., cannot qualify -- yet the parent companies guarantee the short term commercial paper.

Commercial paper is rated by a national service so we propose that on page 2, line 4, the word "prime" be replaced by "the highest" -- to further insure the highest quality



commercial paper for any state investment.

This change is recommended by the Board of Investments, appears to be a prudent change, and I trust you will agree.

HOUSE Bus. & Ind.

BILL SB 174

DATE 3-21

[illegible]

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.