

STANDING COMMITTEE REPORT NO. 16-90

RE: C.B. NO. 16-69/R&D

SUBJECT: PROHIBIT CERTAIN LENDING REQUIREMENTS FOR
FSMD BANK LOANS

MAY 30, 2010

The Honorable Isaac V. Figir
Speaker, Sixteenth Congress
Federated States of Micronesia
Fourth Regular Session, 2010

Dear Mr. Speaker:

Your Committee on Resources and Development (R&D), to which was referred C.B. No. 16-69, entitled:

"A BILL FOR AN ACT TO FURTHER AMEND TITLE 30 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS ENACTED BY PUBLIC LAW NO. 8-47 AND AMENDED BY PUBLIC LAWS NOS. 9-114, 10-8, 11-26 AND 12-75, BY ENACTING A NEW SECTION 139 TO ESTABLISH A MAXIMUM PERMISSIBLE INTEREST RATE TO BE CHARGED BY THE FEDERATED STATES OF MICRONESIA DEVELOPMENT BANK AND TO PROHIBIT CERTAIN LENDING REQUIREMENTS FOR DEVELOPMENT BANK LOANS, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

Your Committee held public hearings on C.B. No. 16-69 on February 18 and 19, 2010 in Kosrae State; February 21, 2010 in Chuuk State; February 24 and 25, 2010 in Yap State.

The intent and purpose of the bill are expressed in its title.

The new provision being offered in title 30 of the Code of the Federated States of Micronesia is to prohibit the FSM Development Bank from requiring borrowers to establish, maintain or make deposits to any checking, savings or other cash equity or liquid account with any bank registered to do business in the Federated States of Micronesia.

Kosrae State Hearing

The Committee informed the leadership about the practice of the FSMDB on the cash collateral requirement, and commented that it prevents new borrowers to borrow from the FSMDB because of the requirement. On the interest rate, there were some concerns on the capping of the interest to seven percent because it might affect the operation of the FSMDB. The Committee informed the leadership that currently the FSMDB's interest rate varies from

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6 percent to 15 percent, and thus the disparity of interest rate is an issue. The Kosrae leadership has no objection on the bill, and fully supports its intent and purpose.

Chuuk State Hearing

The Committee conducted its hearing at the Governor's conference room. During the hearing on C.B. No. 16-69, Governor Simina indicated that the seven percent is too high because the FSMDB can restructure its operational budget. He commented that the outrageous salary of the CEO should be reduced. He indicated that the rationale for the existence of the FSMDB is not to make money, but to help the businesses. The Chuuk Executive Branch supports the bill and requested that the Committee expedite its action on the bill.

The hearing with the Chuuk legislative branch was held at the Chuuk State Legislature building. During the discussion of the bill, a representative from the FSMDB explained that the cash equity is required for those borrowers that have no land collateral. On the interest rate, he commented that the capping of the interest rate to seven percent might affect the operation of the FSMDB.

Yap State Hearing

During the hearing with the Yap Executive Branch, the Director of Resources and Development agreed to do away with the cash equity requirement. The Director commented that legislating the interest rate is a decision that should be reserved with the management of the FSMDB. The management must have the flexibility on determining interest rates depending on the business environment.

On May 26, 2010, the Committee discussed C.B. No. 16-69 and decided to take action on the bill, but not to act on the proposed amendment relating to interest rate. The Committee, therefore, recommends the following amendments to the bill to read as follows:

1. Page 1, title, line 4, delete in its entirety.
2. Page 1, title, line 5, delete "Federated States of Micronesia Development Bank".
3. Page 1, line 4, delete "Interest Rate" and insert "Requirement on Cash Collateral" in lieu thereof.

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4. Page 1, lines 5 through, delete in their entirety.
5. Page 1, line 9, delete "(2)".
6. Page 1, line 13, Delete "which has the".
7. Page 1, lines 14 and 15, delete in their entirety.
8. Page 1, line 16, delete "principal".

Your Committee on Resources and Development is in accord with the intent and purpose of C.B. No. 16-69 as amended herein, and recommends its passage on First Reading, and that it be placed on the calendar for Second and Final reading in the form attached hereto as C.B. No. 16-69, C.D.1.

Respectfully submitted,

/s/ Roger S. Mori
Roger S. Mori, chairman

Tony H. Otto, vice chairman

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Dion G. Neth
Dion G. Neth, member

/s/ Peter Sitan
Peter Sitan, member

Joseph J. Urusemal, member

/s/ Paliknoa K. Welly
Paliknoa K. Welly, member