

BILL ANALYSIS

C.S.H.B. 727
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Financial Institutions
Committee Report (Substituted)

BACKGROUND AND PURPOSE

A community development financial institution (CDFI) is a private sector entity that provides funding to individuals and small businesses in circumstances where prime credit is not available. By targeting their services to groups that cannot borrow through conventional lending institutions, CDFIs have the potential to create new economic opportunities and become engines for growth by creating sources of jobs and wealth within distressed communities.

The purpose of the substitute is to address the lack of available funding that is necessary to promote development in economically distressed areas. It does this by instructing the Governor's Office of Economic Development and Tourism (OEDT) to create a community investment program, where it makes grants or interest-free loans to eligible institutions that use the money to make community development loans in distressed areas or to assist low-income areas by providing basic consumer financial services. Additionally, the substitute provides enabling legislation for \$250,000 per fiscal year of funding that has been previously granted for community development grants.

C.S.H.B. 727 allows for the creation of a program of grants and loans to provide capital for community development and economic development institutions serving economically distressed areas and low-income persons.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the Governor's Office of Economic Development and Tourism in SECTION 1 (Section 481.105, Government Code) of this substitute.

ANALYSIS

C.S.H.B. 727 amends Subchapter G, Chapter 481, Government Code, by adding Subchapter G, as follows:

The substitute instructs the Governor's Office of Economic Development and Tourism (OEDT) to create a community investment program, which allows the OEDT to make grants or interest-free loans to eligible institutions in distressed areas of the state or to assist low-income areas by enhancing access to credit, capital, and consumer financial services.

The substitute allows the OEDT to determine institutional eligibility by verifying that the institution meets the minimum selection criteria defined by 12 U.S.C. Section 4704. This criteria is necessary to establish that the applicant is a community development financial institution.

The substitute allows eligible institutions to file with the OEDT a grant or loan application approved by the Office. This application includes a plan of investment.

The substitute also allows the OEDT to set a limit on the number of eligible institutions participating in the program, and they must enter into a participation agreement with all participating institutions.

The substitute allows the OEDT to make a grant to an institution or nonprofit organization to meet the minimum selection criteria described by 12 U.S.C. Section 4704 or become an eligible institution and participate in the program. The department may also make a grant to a nonprofit that is performing activities consistent with the goals of this bill to provide the organization with operating support, technical assistance, and training assistance.

The substitute requires that all income received on a loan or investment made with money received under the program is the property of the institution that made the loan or investment, and each institution is required to submit a report that states in detail the status of each investment or loan made under the program after the expiration of each six-month period for which there is a participation agreement in effect.

The substitute requires the OEDT to provide for an annual audit in the participation agreement between it and the eligible institution.

EFFECTIVE DATE

September 1, 2005.

COMPARISON OF ORIGINAL TO SUBSTITUTE

C.S.H.B. 727 modifies the original by changing the entity responsible for administering the program from the Texas Department of Banking to the Governor's Office of Economic Development.

The substitute modifies the original by changing the definition of what the program does to assist low-income persons from only providing basic consumer financial services to enhancing access to credit, capital, and consumer financial services.