

BILL ANALYSIS

C.S.H.B. 2709
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Financial Institutions
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Chapter 2256 of the Government Code imposes certain requirements on the investment of funds by public entities. Generally, an investment must be either adequately collateralized by an investment security, or be guaranteed or insured by the Federal Deposit Insurance Corporation. The Legislature authorized public entities to invest in certificates of deposit through a bank with its main office or a branch office in Texas, which invests in certificates of deposit held by other federally insured financial institutions in a manner that insures that the full amount of the principal and interest of each of the certificates of deposit is federally insured. In addition, the bank with which the public entity invests was eligible to receive deposit funds from other financial institutions to increase its available funds for loans and transactions.

C.S.H.B. 2709 would provide public entities with additional options for the placement of their funds while ensuring that they are federally insured. The bill allows public entities to invest some of their funds in demand accounts rather than tying them up in timed deposits. The bill would assist smaller banks who may wish to compete for public deposits but for whom it may be difficult to commit funds to collateralize public deposits.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 2709 amends Section 2256.010 of the Government Code to provide that investments by public entities in insured deposit accounts are authorized investments. In addition to certificates of deposit or share certificates, C.S.H.B. 2709 provides that investments by public entities in insured deposit accounts are authorized investments, as long as they meet certain criteria. The funds are invested through a depository institution with its main office or a branch office in this state. The depository institution selected by the public entity deposits those funds in insured accounts with other federally insured depository institutions for the account of the public entity. The full amount of the principal and interest is federally insured. The depository institution selected by the public entity acts as custodian of funds with respect to the insured deposit accounts. Finally, the depository institution selected by the public entity is eligible to receive funds from other financial institutions that would provide it with additional funds for loans or other transactions.

EFFECTIVE DATE

Upon passage, or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2007.

COMPARISON OF ORIGINAL TO SUBSTITUTE

C.S.H.B. 2709 corrects language to conform to legislative council drafting procedures. Neither the intent nor the effects of the bill are changed.