

## BILL ANALYSIS

Senate Research Center  
84R10370 AJZ-D

H.B. 2350  
By: Anderson, Charles "Doc"; Guillen (Kolkhorst)  
Agriculture, Water & Rural Affairs  
5/21/2015  
Engrossed

### AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

The Texas Agricultural Finance Authority (TAFE) was established within the Texas Department of Agriculture (TDA) to act as a Public Authority. The Agricultural Loan Guarantee (ALG) program was designed to incentivize and encourage qualified lenders to extend credit to farmers, ranchers, and agri-business owners who wish to establish, improve or enhance an agricultural operation in Texas. Funds are utilized to support the lender's capital and add protection against reasonable risks associated with the loan by honoring a percentage of debt. TAFE provides loan guarantees to a lender on behalf of eligible applicants who desire to establish or enhance their operation. Guarantees are backed by the Texas Agricultural Fund.

A loan guarantee recipient may use loan proceeds for any agricultural-related purpose, including:

- working capital for operating a farm or ranch;
- lease of facilities;
- purchase of machinery and equipment; and/or
- purchase of real estate.

Since February 2010, and as of March 20th, 2015, TDA has guaranteed 52 loans with a current value of \$10,982,741.00. None of these loans have defaulted. TDA has not been asked to pay on any of the guaranteed loans, illustrating the program's success rate.

Currently, the amount that may be used to guarantee a loan may not exceed three-fourths of the amount contained in the Texas Agricultural Fund. This amount used to guarantee a loan is grossly behind industry standards. While there are no official regulatory or industry guidelines for what constitutes appropriate multipliers for loan guarantees, the United States (U.S.) Treasury has provided guidance to states on the implementation of loan guarantee programs. As part of the Small Business Credit Initiative, the U.S. Treasury states it is typical for a state to set aside 20 to 25 percent for each dollar guaranteed to protect lenders against catastrophic losses.

Using the "typical" state program approach would allow the state ALG program to guarantee loans four to five times the amount contained in the Texas Agricultural Fund. As it stands, the current three-fourths rule sets aside 125 to 133 percent for each dollar guaranteed (or \$1.25 to \$1.33 per one dollar guaranteed). This severely limits the number of constituents the ALG program may provide service to. If the TDA would like to continue assisting the next generation of farmers and ranchers and stay competitive with similar loan guarantee programs, it is necessary to amend the statute to closer reflect industry standards.

The statute needs to more closely reflect industry standards and allow for loans to be guaranteed up to three times (up from three-fourths) the amount in the Texas Agricultural Fund. Amending the statute would make the Agricultural Loan Guarantee program a more useful program and allow TDA to provide service to more farmers, ranchers, and agri-business owners who wish to establish, improve, or enhance an agricultural operation in Texas.

H.B. 2350 amends the Agriculture Code to allow the amount used to guarantee loans to be no more than three times the amount contained in the Texas Agricultural Fund, instead of three-fourths of the Texas Agricultural Fund.

H.B. 2350 amends current law relating to the amount that may be used to guarantee loans under the Texas Agricultural Finance Authority's agricultural loan guarantee program.

**RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

**SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Section 58.052(c), Agriculture Code, as follows:

(c) Prohibits the amount that may be used to guarantee loans under this subchapter from exceeding three times the amount contained in the Texas agricultural fund, rather than three-fourths of the amount contained in the Texas agricultural fund.

SECTION 2. Effective date: September 1, 2015.