HOUSE
RESEARCH
ORGANIZATION bill analysis 5/21/97

SB 1877
Wentworth, et al.
(Greenberg, et al.)

SUBJECT: Texas community investment program

COMMITTEE: Economic Development — favorable, without amendment

VOTE: 8 ayes — Oliveira, Yarbrough, Greenberg, Keffer, Luna, Raymond, Seaman, Van de Putte

0 nays

1 absent — Siebert

SENATE VOTE: On final passage, April 16 — voice vote (Ogden recorded nay)

WITNESSES: *(On House companion HB 2545)*
For — Cheryl Standifer; Jose Chavez, Micro Media Solutions Inc.; Linda McKitrick, Texas Commerce Bank; George Zarate, Espresso Roma; C.D. Heinen, Comerica Bank; Jim Reid, Southern Dallas Development Corporation; Margo Weisz, Texas Multi-Bank Community Development Corporations

Against — None

On — Ruth Cedillo, Texas Department of Housing and Community Affairs

BACKGROUND: Multi-bank community development corporations (MCDCs) are locally operated non-profit corporations organized to enhance economic development opportunities and assist small businesses within their geographic areas. MCDCs are funded by banks and make loans to and invest in businesses in distressed areas of the state.

DIGEST: SB 1877 would require the Texas Department of Housing and Community Affairs (TDHCA) to create a community reinvestment program. TDHCA would award grants to or purchase stock in multi-bank community development corporations. MCDCs would be eligible to participate in the grant program if they had raised at least $500,000 in private investments and entered into a participation agreement with the TDHCA. Loans could only be made to disadvantaged businesses that were unable to secure conventional bank loans and that employed low or moderate income persons in distressed areas of the state.

A community reinvestment loan could be in form of debt, subordinate debt, or equity investment. An MCDC could make loans to qualified businesses by itself or in conjunction with financial institutions. The maximum amount loaned to a business under the program would be $200,000 if all of the loan to the business was direct or $100,000 if any of the debt was subordinated to another entity. Loans would have to repaid within 15 years of issuance.

The maximum equity investment an MCDC could make in a business would be $50,000 over seven years, not to exceed 50 percent of the business's equity. The MCDC would be able to keep any interest received as a result of an investment or loan.

Each participating MCDC in the grant program would be required to establish an investment committee to approve loan requests. The committee would have to be composed of at least five members, with bankers accounting for at least 50 percent of the committee and community representatives for at least 30 percent.

At least 60 percent of the grant money awarded by TDHCA to MCDCs would have to be invested in companies that had been in business for at least one year. If a loan recipient defaulted on more than 25 percent of the loans or investments an MCDC made with its grant money, the corporation would have to return the unencumbered money and report on its investments to the department.

All grant applications would have to list the type and number of businesses the MCDC planned to invest money into or loan funds. TDHCA would have to respond within 30 days of receiving the application. Grant monies would have to be spent by the recipient within 18 months of receiving the grant. Any amount not spend would be returned to the department within 10 days after the expiration of the 18-month period.

SB 1877 also would require each MCDC to submit a semiannual report to TDHCA detailing the status of each investment and loan and mandate an annual audit of all grant money awarded to the MCDC.

SB 1877 would take effect September 1, 1997.

SUPPORTERS SAY:

SB 1877 would strengthen Texas communities by directed investments through MCDCs. These entities play a critical role in rebuilding communities by making sound, high impact loans to businesses in distressed areas of the state. They loan funds that stimulate development, create jobs, and provide technical assistance to businesses. The bill would ensure MCDCs have access to the funds necessary to make the greatest impact on local economic development efforts.

The bill also could encourage the creation of MCDCs in Texas. Six MCDCs now work to enhance economic development in Texas' communities, but with additional funding and public resources, even more could be established. Banks are encouraged to make loans to community residents, and SB 1877 would give them one more way to fulfill federal community investment requirements.

SB 1877 would demonstrate the state's commitment to economic and social redevelopment based upon entrepreneurial spirit, fiscal responsibility, and public/private partnerships. SB 1877 would leverage private sector capital and participation rather than building another public sector bureaucracy. Grants to MCDCs would stretch public dollars to their maximum because MCDCs use resources to attract other investors for local projects. State resources of $5 million could be leveraged to attract another $20 million in private capital.

By increasing access to funding, SB 1877 would encourage economic and social redevelopment. It would allow businesses to grow, improve their facilities and create more jobs. Since 1995, the San Antonio MCDC has made 19 loans, retained 213 jobs, and created 56 new jobs. Additional state funding to MCDCs would increase the number of loans and jobs created and retained in the state's distressed communities.

SB 1877 would fill a gap in bank financing. Often, start-up enterprises and newer businesses do not have enough collateral or are too much of a business risk to qualify for conventional bank loans. Even if businesses do qualify for bank loans, however, they often need more than one method of financing to fund projects. SB 1877 would ensure MCDCs have access to the funds necessary to lend to and invest in new businesses with high potential.

In addition, the bill would establish guidelines for the use of grant money to ensure MCDCs invested only in companies that were good business risks. Furthermore, this risk would be mitigated because MCDCs provide technical assistance to loan recipients.

The administrative functions associated with the grant program would not result in an additional expense to the state. TDHCA already administers other community development block grants and could easily take on this new program that would complement existing efforts.

OPPONENTS SAY: Private banks already lend money to low and moderate income families in their respective communities, as required under the federal Community Reinvestment Act. There is no need to involve the state in and spend limited public resources on projects that are already adequately funded.

NOTES: A related bill, HB 1414 by Van de Putte, creating the state Community Reinvestment Work Group for leveraging private capital for community development, was signed by the governor on May 12.