

**SUBJECT:** Linked deposits for loans to non-profits and child care providers

**COMMITTEE:** Economic Development — favorable, without amendment

**VOTE:** 7 ayes — Oliveira, Yarbrough, Greenberg, Luna, Raymond, Seaman,  
Van de Putte

0 nays

2 absent — Keffer, Siebert

**SENATE VOTE:** On final passage, April 16 — voice vote

**WITNESSES:** For — None

Against — None

On — Jim Albright, Texas Department of Commerce

**BACKGROUND** : The Texas Department of Commerce (TDOC) administers a linked deposit program to encourage commercial lending to small businesses located in distressed communities and to historically underutilized businesses (HUBs). Linked deposit loan recipients are required to use the funds as working capital or to purchase, construct or lease capital assets.

An area qualifies as a distressed community if it is part of an enterprise zone and has a per capita income of 80 percent or less than the median income of the municipality in which it is located, the unemployment rate is 1.5 times higher than the average unemployment rate in the municipality, or at least 10 percent of the individuals and families are in poverty.

Interested businesses must file an application for a loan to a commercial bank for review. Upon bank approval, TDOC reviews the application, and the comptroller then places the deposit with the bank. Banks give the state a lower interest rate on the deposit in order to provide the loan recipient a lower interest rate on the loan. The interest rate on the state deposit must be at least 1.5 percent or a rate equal to the current market rate of a comparable U.S. Treasury bill or note, minus two percent. The linked deposit cannot

remain with the bank past the end of the biennium during which it was deposited.

The maximum amount of money that can be placed as linked deposits is limited to \$3 million at any one time; the maximum amount of an individual loan is \$100,000.

**DIGEST:**

SB 265 would expand eligibility requirements for the linked deposit program. It would allow child care providers, small businesses operating or proposing to operate day care centers or group day care homes, and non profit corporations to apply for the program. SB 265 would also require TDOC to promote the linked deposit program to eligible borrowers and financial institutions. The department would be required to report on its promotion efforts to the Legislature by January 1 of odd numbered years.

The comptroller would have to place the linked deposit with a bank for the duration of the loan, but would not have to maintain the deposit if the loan was extended, renewed or renegotiated. The comptroller could modify the interest rate on the deposit during the period of the loan.

The bill also would replace references to the state treasurer with references to the comptroller and delete the definition of distressed communities.

SB 265 would take effect September 1, 1997.

**SUPPORTERS  
SAY:**

SB 265 would assist in the development of quality, affordable child care services. With the increased number of single-headed households and families with two working parents, child care services are in large demand. The bill would help provide much needed funding for the establishment and expansion of child care services.

By increasing lender liquidity through the deposit of state funds, the bill would provide banking incentives for non-profit organizations and child care providers. The bill would reduce lender risk by establishing a spread of interest rates that would ensure favorable returns on loans issued.

The state's linked deposit program has been a particularly useful tool for smaller banks, which tend to experience liquidity problems, and has been

very successful in the past. Since its creation in 1993, TDOC has made six loans worth \$519,000 to HUBs and small businesses in distressed communities. With \$3 million available for the program, there is plenty of money to fund different types of businesses, as provided by SB 265.

In addition, the bill would have no impact on general revenue funds because it would simply have the state deposit funds in an interest-bearing account with a bank instead of investing the money elsewhere.

**OPPONENTS  
SAY:**

By expanding the number of eligible businesses for the linked deposit program, SB 265 would undermine the state's efforts to support HUBs and small businesses in enterprise zones. These businesses would be required to compete with an increased number of businesses for limited state resources. In addition, SB 265 could reduce the state's investment earnings by placing state funds in linked deposits that would earn below-market rates.