

BILL ANALYSIS

Senate Research Center
86R3113 TSR-F

S.B. 726
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

To demonstrate compliance with the federal Community Reinvestment Act (CRA), banks are assessed regarding their level of integration with their respective communities. Among the criteria for medium-sized and large banks (~\$1.28 billion or greater in assets) is the "investment test," wherein banks are assessed on the amount of qualified community development investments (e.g., in affordable housing development, urban revitalization projects, etc.) they make, the innovativeness and complexity of those investments, and the responsiveness of the investments to community needs. It should be said that this is not charity: More often than not, banks profit from these community development investments. To protect individual banks' integrity, however, the CRA sets an upper limit on the amount of community development investments a bank can make. For national-chartered banks (those subject most acutely to federal regulation), the limit is set at 15 percent of the bank's capital and surplus.

Texas law for state-chartered banks does not conform to the regulations for national-chartered ones. The cap is lower, at 10 percent. What's more, loans are considered community development investments in state law, further reducing the flexibility of state-chartered banks to invest in their communities.

S.B. 726 would create parity between state and national-chartered banks by raising the cap on CRA investments to 15 percent of the bank's unimpaired capital and surplus and excluding loans from that calculation. To ensure a bank is not overexposed in a single investment, the bill would cap a bank's exposure, including investments, loans, or commitments for loans, to any particular investment at 25 percent of its capital and surplus. This bill would affect Texas' 21 largest state-chartered banks, which cumulatively control nearly \$200 billion in assets, or roughly three-quarters of total state bank assets.

As proposed, S.B. 726 amends current law relating to investments by state banks to promote community development.

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 the heading to Section 34.106, Finance Code, to read as follows:

Sec. 34.106. INVESTMENTS TO PROMOTE COMMUNITY DEVELOPMENT.

SECTION 2. Amends Section 34.106, Finance Code, by amending Subsection (d) and adding Subsection (e), as follows:

(d) Prohibits a bank's aggregate investments under this section from exceeding an amount equal to 15 percent of the bank's unimpaired capital and surplus, rather than prohibiting a bank's aggregate investments under this section, including loans and commitments for loans, from exceeding an amount equal to 10 percent of the bank's unimpaired capital and

surplus. Deletes existing text relating to authorization of the banking commissioner to authorize certain investments.

(e) Prohibits a bank's exposure to a single project or entity described by this section, notwithstanding any other law, including all investments, loans, and commitments for loans, from exceeding 25 percent of the bank's unimpaired capital and surplus without the prior authorization of the banking commissioner in response to a written application.

SECTION 3. Effective date: September 1, 2019.