

**SUBJECT:** Allowing letters of credit to serve as collateral for deposit of public funds

**COMMITTEE:** Pensions and Investments — favorable, without amendment

**VOTE:** 5 ayes — Tillery, Woolley, Crownover, Salinas, George  
0 nays  
4 absent — Goodman, Rangel, Telford, Williams

**WITNESSES:** For — Vernon Bryant; Allyn Dixon, Chip Lynch, Federal Home Loan Bank of Dallas; *Registered but did not testify:* Christopher Williston, Independent Bankers Association of Texas  
Against — None

**BACKGROUND:** For a bank or savings association to serve as a municipal depository, Local Government Code, sec. 105.031 requires that the institution provide investment security as required by the Public Funds Collateral Act (Government Code, chapter 2257). Investment securities are defined under the collateral act to include a security in which a public entity is authorized to invest under the Public Funds Investment Act (Government Code, chapter 2256). The investment act includes obligations of the United States or its agencies and instrumentalities as authorized investments.

**DIGEST:** HB 2857 would authorize a letter of credit by the United States or its agencies as an authorized investment to serve as collateral for deposit of public funds.  
The bill would take effect September 1, 2001.

**SUPPORTERS SAY:** HB 2957 expressly would permit a letter of credit from a Federal Home Loan Bank (FHLB) to serve as collateral for deposit of public funds. Although current law already allows FHLB letters of credit to serve as collateral, some municipalities have been reluctant to rely on FHLB letters of credit because of their obscure reference in current law. The bill simply

would specify that an FHLB letter of credit was an acceptable form of collateral for public funds.

OPPONENTS  
SAY:

No apparent opposition.