

SUBJECT: Increasing the amount that may be used to guarantee agricultural loans

COMMITTEE: Agriculture and Livestock — favorable, without amendment

VOTE: 7 ayes — T. King, C. Anderson, Cyrier, González, Rinaldi, Simpson,
Springer

0 nays

WITNESSES: For — (*Registered, but did not testify*: David Gibson, Corn Producers
Association of Texas; John Zacek, Prosperity Bank, Texas Agricultural
Finance Authority)

Against — None

On — Karen Reichek, Texas Department of Agriculture

BACKGROUND: The Texas Agricultural Finance Authority (TAFA) was created in 1987 as a public finance authority within the Texas Department of Agriculture (TDA). Texas Agriculture Code, ch. 58, subch. E governs the Agricultural Loan Guarantee Program, which was created in 2009 for TAFA to provide loan guarantees to lenders on behalf of eligible agriculture producers or agriculture-related businesses who otherwise would be denied a traditional loan due to a lack of capital or other issues in their loan applications. The TAFA guarantee adds protection against reasonable risks associated with the loan by guaranteeing a percentage of debt in the event of a loan default.

The Agricultural Loan Guarantee program is backed by the Texas Agricultural Fund, which receives its funding through state and federal money, bonds, and other sources. According to TDA, the Texas Agricultural Fund balance was about \$18.8 million as of September 30, 2014. Under Agriculture Code, sec. 58.052(c), no more than three-fourths of the balance (about \$14.1 million) may be used to guarantee loans.

TAFA has guaranteed 52 loans, five of which have been paid off. The

total current guaranteed amount is about \$11 million. About \$3.1 million is available for additional guarantees.

DIGEST: HB 2350 would allow the Texas Agricultural Finance Authority to use up to three times the amount contained in the Texas Agricultural Fund to guarantee loans under the Agricultural Loan Guarantee program, instead of up to three-fourths of the fund as currently allowed.

This bill would take effect September 1, 2015.

SUPPORTERS SAY: HB 2350 would allow the Texas Agricultural Finance Authority (TAFA) to help more farmers, ranchers, and agribusiness owners in Texas by increasing the amount that may be used to guarantee loans under the Agricultural Loan Guarantee Program. By allowing TAFA to use up to three times the fund's current balance, the bill would make \$56.4 million available for loan guarantees to the state's farmers.

The Agricultural Loan Guarantee Program's existing standards are overly cautious and out of step with industry standards, which typically require setting aside a far smaller percentage to protect lenders against catastrophic losses. In fact, private lenders and other states, such as California, allow as much as five times the balances of their funds to be used for loan guarantees. This overabundance of caution severely limits the number of agricultural businesses and hardworking farmers that the program is able to serve. HB 2350 would bring statute more into line with industry standards to help TAFA continue assisting the next generation of farmers and ranchers and to keep the Agricultural Loan Guarantee Program competitive with similar loan guarantee programs.

While raising the amount available for loan guarantees could increase the Texas Agricultural Fund's exposure to loss, this proposal still would be conservative in comparison to the industry standard and what other states permit. Additionally, the Agricultural Loan Guarantee Program has been highly successful and never has experienced a default in its history. A significant amount of underwriting takes place before a guarantee is granted and the loans are typically highly collateralized, so liquidation of

assets would limit a payout amount in the event of a default.

OPPONENTS
SAY:

HB 2350 significantly would increase the Texas Agricultural Fund's exposure to loss. The state's prudent existing strategy should be maintained because borrowers that benefit from the Agricultural Loan Guarantee Program use this service because they have been turned down by a lending institution due to a weakness in their loan application. While the program has not experienced any defaults, it would be inappropriate to increase the funds available to a group of borrowers known to be a risk.

This legislation also is unnecessary because more than \$3 million is still available for additional guarantees. There is no need to increase the availability of funds if the existing statutory limitation has not been reached.

NOTES:

According to the Legislative Budget Board's fiscal note, the fiscal implication of HB 2350 cannot be determined at this time.