

## **BILL ANALYSIS**

Senate Research Center

C.S.S.B. 1416

By: Ellis

Finance

4-28-97

Committee Report (Substituted)

### **DIGEST**

Currently, agencies of the State of Texas may not select as a depository institution any financial institution which has a rating below "outstanding record in meeting community credit needs" or "satisfactory record of meeting community needs" under 12 U.S.C. Section 2906. Essentially, this prohibits the state from utilizing a depository institution that has a poor record of performance under the Community Reinvestment Act. C.S.S.B. 1416 would extend this prohibition to include other political subdivisions within the state, including a county, municipality, special purpose district, and an authority.

### **PURPOSE**

As proposed, C.S.S.B. 1416 prohibits political subdivisions of the state from selecting as a depository a regulated financial institution that has been assigned a rating below "outstanding record of meeting community credit needs" or "satisfactory record of meeting community record needs" under 12 U.S.C. Section 2906.

### **RULEMAKING AUTHORITY**

This bill does not grant any additional rulemaking authority to a state officer, institution, or agency.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Title 10F, Government Code, by adding Chapter 2259, as follows:

#### **SUBCHAPTER 2259. DEPOSITORY INSTITUTIONS ELIGIBLE FOR DEPOSIT OF PUBLIC FUNDS**

Sec. 2259.001. DEFINITIONS. Defines "political subdivision," "public agency," "regulated financial institution," and "state agency."

Sec. 2259.002. SCOPE OF CHAPTER. Provides that, except as provided by Subsection (b), this chapter applies to funds deposited in a regulated financial institution by a public agency, including funds deposited under Chapter 116, Local Government Code, or any other law. Provides that this chapter does not apply to funds deposited by the comptroller under Chapter 404.

Sec. 2259.003. COMPTROLLER REPORT. Requires the comptroller to publish and make available for public inspection a report that shows the rating assigned under 12 U.S.C. Section 2906 to each regulated financial institution in this state. Requires the comptroller to make the report required by this section not later than August 1 of each year.

Sec. 2259.004. PROHIBITED DEPOSITS. Prohibits a public agency from selecting as a depository a regulated financial institution that has been assigned two consecutive ratings below "outstanding record of meeting community credit needs" or "satisfactory record of meeting community credit needs" under 12 U.S.C. Section 2906. Requires a public agency, if the rating of a financial institution is changed to a rating below that required by this section, to take immediate action to transfer all public funds on deposit with the institution to a qualified financial institution.

Sec. 2259.005. WITHDRAWAL WITHOUT PENALTY. Requires the depository contract between a regulated financial institution and a public agency to authorize the withdrawal without penalty of the public funds on deposit in the event that the rating of the institution is changed to a rating below that required by Section 2259.004.

SECTION 2. Amends Section 404.0212, Government Code, by adding Subsection (g), to require the comptroller to publish and make available for public inspection a report that shows the rating assigned under 12 U.S.C. Section 2906 to each regulated financial institution in this state. Requires the comptroller to make the report required by this section not later than August 1 of each year.

SECTION 3. (a) Requires, except as provided by Subsection (b) of this section, the state and each state agency, political subdivision, and publicly owned utility to which Chapter 2259, Government Code, as added by this Act, applies to ensure that funds deposited by the entity are deposited in compliance with Chapter 2259, Government Code, not later than January 1, 1998.

(b) Authorizes a regulated financial institution that is acting as a depository of funds subject to Chapter 2259, Government Code, as added by this Act, on the effective date of this Act and that does not have an assigned rating under 12 U.S.C. Section 2906 that satisfies the requirement of Section 2258.004, Government Code, as added by this Act, to continue to hold the funds only for the period necessary to avoid the imposition of a penalty on the depositing entity.

(c) Makes application of this Act prospective.

SECTION 4. Emergency clause.  
Effective date: upon passage.

## **SUMMARY OF COMMITTEE CHANGES**

### **SECTION 1.**

Amends Title 10F, Government Code, to make a technical numbering change. Renumbers chapter sections accordingly.

Amends proposed Section 2259.002, Government Code, to set forth an exception. Provides that this chapter does not apply to funds deposited by the comptroller under Chapter 404.

Replaces proposed Section 2258.003, Government Code, with Section 2259.003, Government Code, regarding a comptroller report.

Amends proposed Section 2259.004, Government Code, to make a nonsubstantive change.

Amends proposed Section 2259.005, Government Code, to make a conforming change.

### **SECTION 2.**

Sets forth a new SECTION 2 and renumbers remaining SECTIONS accordingly.

### **SECTION 3.**

Redesignated from proposed SECTION 2. Requires the state and each state agency, political subdivision, and publicly owned utility to which Chapter 2259, Government Code, as added by this Act, applies to ensure that funds deposited by the entity are deposited in compliance with Chapter 2259 not later than January 1, 1998. Makes conforming changes.

### **SECTION 4.**

Redesignated from proposed SECTION 3.

Amendment 1.

Page 2, line 12, strike "a rating" and replace with "two consecutive ratings."