

## **BILL ANALYSIS**

C.S.H.B. 4195  
By: Johnson, Eric  
Economic & Small Business Development  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

Interested parties assert that many small businesses face difficulties in securing capital to finance their enterprises through traditional loans. However, these parties note that some small businesses have found success in accessing capital through community development financial institutions. C.S.H.B. 4195 seeks to improve access to capital for small businesses located in Texas by establishing the reinvestment in support for employment program.

### **CRIMINAL JUSTICE IMPACT**

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

C.S.H.B. 4195 amends the Government Code to establish the reinvestment in support for employment program, which is to be funded by direct appropriation and is required to expand access to capital for small businesses to create jobs in Texas. For purposes of the program, "small business" means a legal entity that is domiciled in Texas or has at least 51 percent of its employees located in Texas; that is formed to make a profit; that is independently owned and operated; and that employs fewer than 100 full-time employees. The bill requires a community development financial institution, as that term is defined by federal law, to enter into a participation agreement with the Texas Economic Development Bank in order to participate in the program and specifies that the agreement sets out the terms under which the bank will make contributions to the institution's revolving loan account. The bill requires the bank to specify the criteria for a revolving loan from the program and requires the bank, in establishing such criteria, to consider reasonable criteria relating to a community development financial institution, including the institution's financial capacity, historical disbursements, loan loss reserve capacity, and default rates.

C.S.H.B. 4195 requires the bank to determine the eligibility of a community development financial institution to participate in the program and authorizes the bank to limit the total number of institutions eligible to participate in the program. The bill sets out requirements for a loan to qualify as a capital investment loan and requires money from a revolving loan account to be disbursed quarterly to participating community development financial institutions. The bill makes a community development financial institution solely responsible for loan losses under the program and establishes that the state is not liable for money disbursed under the program.

C.S.H.B. 4195 requires a community development financial institution participating in the

program to report quarterly to the bank the names of businesses that have received capital investment loans, the current balance of all outstanding loans made under the program, the default rate on existing loans, and any other information the bank requires. The bill requires a participating institution to prepare a detailed financial statement each quarter and to allow the bank to inspect the institution's financial records on request. The bill requires the bank to issue an annual status report on the program and to deliver its report to the governor, the lieutenant governor, the speaker of the house, and the standing committees of the legislature with primary jurisdiction for small business and economic development.

### **EFFECTIVE DATE**

On passage, or, if the bill does not receive the necessary vote, September 1, 2017.

### **COMPARISON OF ORIGINAL AND SUBSTITUTE**

While C.S.H.B. 4195 may differ from the original in minor or nonsubstantive ways, the following comparison is organized and formatted in a manner that indicates the substantial differences between the introduced and committee substitute versions of the bill.

#### INTRODUCED

SECTION 1. Chapter 481, Government Code, is amended by adding Subchapter CC to read as follows:

#### SUBCHAPTER CC. SMALL BUSINESS CAPITAL ACCESS PILOT PROGRAM

Sec. 481.451. DEFINITIONS. In this subchapter:

(1) "Capital access fund" means the fund described by Section 481.402.

(2) "Capital access loan," "loan," and "small business" have the meanings assigned by Section 481.401.

(3) "Community development financial institution" has the meaning assigned by 12 U.S.C. Section 4702.

(4) "Disadvantaged individual" means a person whose annual income is equal to or less than \$37,000.

(5) "Program" means the small business capital access pilot program established under this subchapter.

(6) "Rural" means a community located in a county with a population of 50,000 or less.

#### HOUSE COMMITTEE SUBSTITUTE

SECTION 1. Chapter 481, Government Code, is amended by adding Subchapter CC to read as follows:

#### SUBCHAPTER CC. REINVESTMENT IN SUPPORT FOR EMPLOYMENT

Sec. 481.451. DEFINITIONS. In this subchapter:

(1) "Capital investment loan" means a loan given to small businesses to create jobs under the program.

(2) "Community development financial institution" has the meaning assigned by 12 U.S.C. Section 4702.

(3) "Default rate" means the percentage of loans made that did not meet the payment terms during a period specified by the bank.

(4) "Financial capacity" means the ability of a community development financial institution to service a dollar amount to be specified by the bank.

(5) "Historical disbursement" means the number and amount of loans a community development financial institution made during a defined period.

(6) "Program" means the Reinvestment in Support for Employment program established under this subchapter.

(7) "Revolving loan account" means an account allowing for loan amounts to be withdrawn, repaid, and redrawn until the program expires.

(8) "Small business" has the meaning

Sec. 481.452. REQUEST FOR PROPOSALS. Not later than October 1, 2017, the bank shall issue a request for proposals from community development financial institutions based in this state to administer the program. The bank shall select a community development financial institution to administer the program not later than December 1, 2018.

Sec. 481.453. PROGRAM FUNDING; PURPOSE. (a) The program shall be funded by allocating not more than 20 percent of the balance of the capital access fund for the purposes of the program.

(b) The program shall expand access to capital for small businesses located in this state.

Sec. 481.454. PROGRAM ADMINISTRATION. (a) The community development financial institution administering the program shall provide capital access loans to small businesses that face barriers in accessing capital. The institution administering the program shall give special emphasis to small businesses that are owned by:

- (1) disadvantaged individuals;
- (2) minorities;
- (3) persons who reside in rural areas;
- (4) veterans; or
- (5) women.

(b) The maximum forgiveness rate is 30 percent for loans less than or equal to \$50,000.

assigned by Section 481.401.

Sec. 481.452. PROGRAM FUNDING; PURPOSE. (a) The program shall be funded by direct appropriation.

(b) The program shall expand access to capital for small businesses to create jobs in this state.

Sec. 481.453. PROGRAM ELIGIBILITY; ADMINISTRATION. (a) To participate in the program, an eligible community development financial institution must enter into a participation agreement with the bank that sets out the terms under which the bank will make contributions to the community development financial institution's revolving loan account.

(b) The bank shall specify the criteria for a loan to be eligible for a revolving loan from the program. In establishing criteria, the bank shall consider reasonable criteria relating to a community development financial institution, including the community development financial institution's:

- (1) financial capacity;
- (2) historical disbursements;
- (3) loan loss reserve capacity; and
- (4) default rates.

(c) The bank shall determine the eligibility of a community development financial institution to participate in the program.

(d) The bank may limit the total number of community development financial institutions eligible to participate in the program.

(e) To qualify as a capital investment loan, a loan must:

- (1) be made to a small business entrepreneur;
- (2) be used by the business for a project, activity, or enterprise in this state that fosters job creation and economic development; and
- (3) meet all criteria provided by this

Sec. 481.455. OVERSIGHT. (a) The community development financial institution administering the program shall report monthly to the bank:

(1) the names of businesses that have received capital access loans;  
(2) the current balance of all outstanding loans made under the program; and

(3) any other information the bank requires.

(b) The community development financial institution administering the program shall prepare a detailed financial statement each quarter.

(c) The community development financial institution shall allow the bank to inspect the institution's financial records on request.

Sec. 481.456. PROGRAM REPORT. The bank shall issue an annual status report on the program, including preliminary or final findings concerning the program's effectiveness. The bank shall deliver its report to the governor, the lieutenant governor, the speaker of the house, and the standing committees of the legislature with primary jurisdiction for small business and economic development.

Sec. 481.457. EXPIRATION. This subchapter expires September 1, 2020.

SECTION 2. Section 481.402, Government Code, is amended by adding Subsection (d) to read as follows:

(d) To carry out the purposes of this subchapter, money in the fund may be appropriated for a loan made under Subchapter CC, as provided by Section 481.453. This subsection expires September 1, 2020.

SECTION 3. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not

subchapter.

(f) Money from a revolving loan account shall be disbursed quarterly to participating community development financial institutions.

(g) The state is not liable for money disbursed under this subchapter.

(h) The community development financial institution is solely responsible for loan losses under the program.

Sec. 481.454. OVERSIGHT. (a) A community development financial institution participating in the program shall report quarterly to the bank:

(1) the names of businesses that have received capital investment loans;  
(2) the current balance of all outstanding loans made under the program;

(3) the default rate on existing loans; and

(4) any other information the bank requires.

(b) A community development financial institution participating in the program shall prepare a detailed financial statement each quarter.

(c) A community development financial institution shall allow the bank to inspect the institution's financial records on request.

Sec. 481.455. PROGRAM REPORT. The bank shall issue an annual status report on the program. The bank shall deliver its report to the governor, the lieutenant governor, the speaker of the house, and the standing committees of the legislature with primary jurisdiction for small business and economic development.

No equivalent provision.

SECTION 2. Same as introduced version.

receive the vote necessary for immediate effect, this Act takes effect September 1, 2017.