

BILL ANALYSIS

Senate Research Center
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S.B. 1410
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Natural Resources & Economic Development
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Texas small businesses—defined as having fewer than 100 employees—are critical to the state's economy. As measured in 2015, of the more than 2.2 million small businesses, nearly 400,000 serve as employers. Texas's small business workforce accounted for 4.4 million jobs for 46 percent of all Texas jobs in 2012. Like all businesses, the number one priority is access to capital. However, small business entrepreneurs have limited access to financial resources. Family and friend loans, self-financing that leads to stress, and maxed-out credit cards and credit lines are the financial tools most commonly used.

Further complicating the situation is that small business entrepreneurs tend to pursue capital in a reactive fashion, which nearly always means limited options at high costs. With prohibitive federal regulations on conventional loans on one hand, and expensive online lenders with exorbitant interest rates and loan terms on the other hand, capital options are few and far between. Since 1994, community development financial institutions (CDFIs) have provided financial products for those who are not part of the traditional banking system or who are preyed on by high interest alternative lenders.

S.B. 1410 will establish a pilot program to assist Texas small businesses in obtaining loans by partnering with non-profit CDFIs. More than 4,000 Texas small businesses deemed "unbankable" have been served by CDFIs. Typical CDFI clients include startups, women-owned businesses, minority-owned businesses, and veterans. The economic return, as history suggests, is discernible as business owners are empowered to launch a new endeavor, or expand an existing one. In either case jobs are created.

The demand for loans is at an all-time high. CDFIs have seen a spike in loan applications in the last two years as compared to 2013 or earlier. Given an ever-growing and dynamic Texas population, steady small business growth, and healthy capital in high demand, a Texas loan fund for small businesses would contribute to continuing a thriving economy.

As proposed, S.B. 1410 amends current law relating to establishing a pilot program to assist small business in obtaining capital.

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 Chapter 481, Government Code, by adding Subchapter CC, as follows:

SUBCHAPTER CC. SMALL BUSINESS CAPITAL ACCESS PILOT PROGRAM

Sec. 481.451. DEFINITIONS. Defines "capital access fund," "capital access loan," "loan," "small business," "community development financial institution," "disadvantaged individual," "program," and "rural."

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

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

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

Sec. 481.454. PROGRAM ADMINISTRATION. (a) Requires the institution administering the program to provide capital access loans to small businesses that face barriers in accessing capital. Requires the institution administering the program to give special emphasis to small businesses that are owned by certain individuals.

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

Sec. 481.455 OVERSIGHT. (a) Requires the institution administering the program to report monthly to the bank certain information.

(b) Requires the institution administering the program to prepare a detailed financial statement each quarter.

(c) Requires the institution to allow the bank to inspect the institution's financial records on request.

Sec. 481.456. PROGRAM REPORTS. Requires the bank to issue an annual status report on the program, including certain findings. Requires the bank 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.

Sec. 481.457. EXPIRATION. Provides that this subchapter expires September 1, 2020.

SECTION 2. Amends Section 481.402, Government Code, by adding Subsection (d), as follows:

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

SECTION 3. Effective date: upon passage or September 1, 2017.