

SUBJECT: Loan-to-guarantee ratio for exporters loan fund, rural business fund

COMMITTEE: Economic Development — favorable, without amendment

VOTE: 7 ayes — Oliveira, Yarbrough, Davis, Luna, Raymond, Shields,  
Van de Putte

0 nays

2 absent — Moffat, Solomons

WITNESSES: For — None

Against — None

On — Dan McNeil, Texas Department of Commerce

BACKGROUND: The Texas Exporters Loan Guaranty Fund, established in 1989, permits the state to guarantee loans made by financial institutions for small business and manufacturer export transactions. On January 30, 1995, the fund balance was about \$2 million, with \$800,000 used to guarantee outstanding loans. Since 1989 the fund has made loan guarantees totaling \$12 million to support \$85 million in export sales.

The Texas Rural Economic Development Loan Guaranty Fund was created in 1989 to assist rural economic development, giving preference to food and fiber processing industries. The Department of Commerce is allowed to guarantee up to 90 percent of a loan made by a private financial institution. As of January 30, 1995, the fund balance was about \$4 million, with \$2 million guaranteeing loans made by financial institutions. Since 1989 the fund has guaranteed 17 loans totaling \$3.7 million.

DIGEST: HB 2343 would require the policy board of the Texas Department of Commerce to increase the loan-to-guarantee ratio for the Texas Exporters Loan Fund from one-to-one to as much as three-to-one. The policy board

would be required to review the loan-to-guarantee ratio each year and adjust the ratio based on loan performance and recommendations from the state auditor.

The bill would allow the policy board to increase the loan-to guarantee ratio of the Texas Rural Economic Development Loan Guaranty Fund from two-to-one to as much as three-to-one.

HB 2343 would take effect immediately if approved by a two-thirds vote of the membership of each house.

**SUPPORTERS  
SAY:**

HB 2343 would allow the policy board of the Texas Department of Commerce to increase the loan-to-guarantee ratios for the Texas Exporters Loan Guaranty Fund and the Texas Rural Economic Development Loan Guaranty Fund to as much as three-to-one. This would allow the guaranty funds to leverage their assets to provide more capital for the small businesses these funds were designed to assist.

The Special House Committee on Small Business Access to Capital found a lack of capital for small business in Texas. This bill would allow more capital to be available to small and rural businesses by allowing the state to increase its leverage on these two funds and would not cost the state any more money.

Little risk would be involved in increasing the loan ratios up to three times the value of the fund. These funds have guaranteed 80 loans in the past five years without any losses. This is an excellent example of public-private partnership to help economic development in the state. These programs are proven, and further safeguards are in place because the state auditor must report on the condition of the guarantee funds.

The conditions under which these loans are made assure their soundness and are low risk to the state. These funds guarantee loans made by financial institutions, which are required to put up at least 10 percent of

their own funds without state guarantee. If the loans are not prudent, the financial institutions can be liable for the losses, not the state.

Leveraging these fund up to as much as three-to-one is a very low ratio, considering other guaranty loans programs leverage as much as ten-to-one.

**OPPONENTS  
SAY:**

Although the performance of these two funds has been exemplary in the past, the funds might have defaults in the future. Allowing the funds to be leveraged at a three-to-one ratio would mean that the state could have to cover losses representing two-thirds more than is in the fund.

**NOTES:**

On September 1, 1995, the exporters loan fund and the rural economic development fund will be consolidated into the general revenue fund and will no longer be available for guarantee unless reappropriated or rededicated by the Legislature. The House version HB 1 by Junell, the general appropriations bill, does not reauthorize funding the Texas Exporters Loan Guaranty Fund or the Texas Rural Economic Development Loan Fund, but includes \$2.8 million in the budget "wish" list to fund the two programs. The Senate version does not appropriate funds for these programs.