Texas Department of Banking
Testimony

Testimony Presented to The Business and Commerce Committee of the Texas Senate, Interim Charge #4

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On behalf of the Texas Department of Banking
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INTERIM CHARGE #4

Monitor trends in local lending practices in all regions of the state.

Determine if the Legislature should develop strategies to –

- Retain bank deposits made by public institutions in Texas communities;
- Increase the number of bank "decision making" centers in Texas;
- Increase the loan-to-deposit ratio in Texas; and,
- Develop incentives for lending institutions to locate in all areas of the state.

Summarized by the question –

- What can the State of Texas do to improve the availability of capital for small businesses and individuals in Texas?

Monitor trends in local lending practices in all regions of the state

Data gathered by federal agencies is comprehensive and includes –

- CRA – Community Reinvestment Act;
- HMDA – Home Mortgage Disclosure Act;
- SBA – Small Business Administration; and,
- FDIC – Consolidated Reports of Condition and Income, Banks and Thrifts.

Supplemental research is being conducted at the state level and includes –

- Small Business Lending Study – The Texas Finance Commission is completing this study which will be available in March 2002 (§11.305, Texas Finance Code);
- State Banking System Review – Prepared semi-annually by the Texas Department of Banking and the Texas Savings and Loan Department and presented to the Texas Finance Commission (§11.305(d),Texas Finance Code);

- Community Reinvestment in Texas – Updated reports prepared by the Texas Comptroller of Public Accounts that include economic and financial factors that affect our state (Chapter 395, Texas Finance Code); and,
- Numerous Reports and Periodicals – Prepared by the Texas Comptroller of Public Accounts covering economic and financial events significantly affecting our state.

Develop strategies to retain bank deposits made by public institutions in Texas communities

Public Funds (PF) deposits are not a primary source of "lendable" funds –

- PF deposits in excess of FDIC insurance coverage require depository institutions to pledge U.S. and state securities ($16.2 billion* as reported by the FDIC as of 6-30-01) (§45.208 and §53.47 Education Code, §404.0221 Government Code, §375.906 Local Government Code, and §6.09 Tax Code);
- PF deposit contracts are relatively short-term – one or two years; and,
- PF entities actively manage their funds resulting in higher costs for bank and savings institutions acquiring these deposits.

PF deposits, state and federal, are a small percentage of the total deposits of bank and savings institutions in Texas –

- 4.6% or $6.7* billion out of $145.4* billion in total deposits (as reported by the FDIC as of 6-30-01).

PF deposits tend to be marginally profitable to winning bidders.

**Data is only available for depository institutions chartered (state or federal) in this state.*

Develop strategies to increase the number of bank "decision making" centers in Texas

Several factors discourage regional or multi-regional financial institutions from locating their home office in Texas –

- Home Equity Laws – Texas was the last state to allow home equity lending and harbors some of the most restrictive requirements across the nation; and,
- Usury Laws – Texas restrictions on interest rates do not compete well with states that have no usury limits.

The Texas Department of Banking is encouraging state bank charters by –

- Holding examination fees significantly below those of the Comptroller of the Currency;
- Discounting or waiving branch application fees in economically depressed areas;
- Embracing a strong working relationship with the FDIC and Federal Reserve to coordinate supervision; and,

- Being responsive to application and supervisory issues that may necessitate customized responses.

Develop strategies to increase the loan-to-deposit ratio in Texas

The loan-to-deposit ratio has been a traditional measure to gauge an institution's liquidity but may not be an accurate method for determining lending practices in a particular area –

- Expanding markets - Sources and uses of funds (deposits and loans) are expanding beyond the traditional "primary market area" that has historically been a geographic radius around an institution's primary operating centers;
- Complex transactions - Mergers, acquisitions, and multi-state financial institutions tend to complicate identifying loan and deposit originations by entity because of purchase, sale, transfer, and booking transactions;
- Alternative funding sources - The funding sources for financial institutions is expanding beyond traditional deposits to include borrowings from the Federal Home Loan Bank, subordinated debentures, etc.; and,
- Borrowed Funds for Depository Institutions Chartered in Texas (state and federal as reported by the FDIC as of 6-30-01).
    - Commercial Banks $3.3 billion out of $137.7 billion in total assets
    - Savings Institutions $12.8 billion out of $51 billion in total assets

Develop incentives for lending institutions to locate in all areas of the state

The key is to develop "demand" –

- Developing borrowers that begin with less resources or economic advantages into credit worthy customers; and developing lenders with an understanding of more diverse business and social environments.

Possible considerations –

- State sponsored borrower certification workshops that teach basic business skills such as accounting, management, and contract and labor law;
- State sponsored grants or scholarships for minorities and the underprivileged to attend state universities and colleges to study areas such as accounting, marketing, and business management;
- State and local revenue sharing of sales tax receipts back to new minority owned businesses for a certain period of time to help repay loans;
- Franchise tax abatements for financial institutions that locate in dedicated enterprise zones; and,
- Embrace the ability of local Community Development Corporations or Community Development Financial Institutions to leverage public and private sector funding.

Summation

The availability of capital for small businesses and individuals is of paramount importance to the continued economic health of our state –

- Small businesses provide over 47% of the state's employment base in 1998 (2001 Small Business Profile – SBA Office of Advocacy).

The promotion of credit availability may best be achieved by strengthening the credit worthiness of potential borrowers –

- Coordination of state and local officials in offering educational and financial support programs.

The ability to increase the presence of "home" state financial institutions may require innovative legislative initiatives –

- Tax incentives, usury reforms, and corporate powers