

BILL ANALYSIS

C.S.H.B. 1380
By: Thompson
Financial Institutions
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Under current law, consumers may purchase credit insurance and other products from regulated loan licensees at the time they apply for a small loan. Credit insurance is purchased to insure the amount of the loan in the event of an unexpected occurrence. Consumers have the option of purchasing various types of noncredit insurance such as term life, disability, accident and health, or loss of income coverage. Other products such as a home security plan, an automobile club membership, or a service contract may also be purchased. Current law allows borrowers to finance the premiums for credit insurance, but financing for noncredit insurance or other products is not permitted. Many customers who obtain small loans have little or no insurance coverage. In order to obtain noncredit insurance, consumers must either pay cash or finance these premiums using higher-interest credit cards.

C.S.H.B.1380 would permit customers of regulated lenders to finance the charges for certain types of noncredit insurance and other products offered in connection with consumer loans.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the Office of Consumer Credit Commissioner in SECTION 1 (Section 342.4021, Finance Code) of this bill.

ANALYSIS

C.S.H.B. 1380 adds new Section 342.4021 to the Finance Code to permit authorized lenders to sell noncredit insurance and other products and permit borrowers to finance the costs of these products in a consumer loan contract.

Lenders may offer and include in the loan contract the costs of one or more of the following products: life insurance, disability income insurance, accident insurance, loss of income insurance, mechanical breakdown insurance, home security plans and club memberships, automobile security plans, automobile club memberships, and service contracts. Any insurance offered by a lender must comply with all applicable state insurance laws. The bill permits the lender to deduct the premiums or other identifiable charges for the products from the proceeds of the loan.

The lender shall provide the borrower with the option of purchasing the products separately from the loan. The lender shall not require purchase of any of the products as a condition of the loan. The lender must obtain the borrower's written acknowledgment of the borrower's intention to purchase the products. The lender must provide the borrower with a separate disclosure outlining the borrower's right to cancel the purchase. This notice must specify that the product is not credit insurance and the borrower will pay finance charges on the cost of the product if the borrower chooses to finance the cost of the product along with the loan. This notice must also include a detachable section that can be mailed to the applicable insurance company or product vendor allowing the borrower to cancel the purchase and receive a full refund. This notice shall also be available in Spanish. The consumer credit commissioner shall adopt a rule to provide for the Spanish language version of the notice and establish a form for the disclosure that conforms to existing requirements for plain language and readability.

Borrowers are entitled to cancel their purchase of the products, and receive a full refund, within 31 days

of receiving the required notice, except the process for refunding a service contract is governed by Chapter 1304, Occupations Code (Under current law, a service contract may be returned within the 20th day if it has been mailed or the 10th day if accompanying the delivery of an item covered by the service contract.).

EFFECTIVE DATE

September 1, 2003

COMPARISON OF ORIGINAL TO SUBSTITUTE

The substitute deletes language from the original permitting the products to be offered in connection with secondary mortgage loans. The substitute adds a provision to prohibit a lender from requiring purchase of the products as a condition for approval of the loan. The substitute deletes language permitting the consumer credit commissioner to authorize the sale of additional products in connection with a consumer loan. The substitute adds the provision requiring the consumer credit commissioner to establish a disclosure form consistent with existing plain language and readability requirements.