

**SUBJECT:** Financing balloon payments on leased cars

**COMMITTEE:** Financial Institutions — committee substitute recommended

**VOTE:** 6 ayes — Marchant, Ehrhardt, Grusendorf, Patterson, Smith, Solomons  
0 nays  
3 absent — Gutierrez, Elkins, Giddings

**WITNESSES:** For — John W. Fainter, Jr., Ford Motor Credit and General Motors Acceptance Corporation  
Against — Robert Schneider, Consumer's Union  
On — Leslie Pettijohn, Office of Consumer Credit Commissioner

**BACKGROUND :** State law prohibits retail installment contracts from including a final “balloon” payment that is more than twice as large as the average of all prior installments unless the buyer is given the option of refinancing under similar terms. Exemptions are provided for leases and retail installment transactions for vehicles used for business or commerce, among others.

**DIGEST:** CSHB 2924 would exempt automobile leases from the prohibition on balloon payments. The bill would specify that the prohibition not apply to retail installment transactions on vehicles that allow the buyer to (1) sell the car back to the seller based on an written agreement releasing the buyer from the final payment; (2) pay the final payment; or (3) refinance the final payment in 24 equal monthly payments at a price differential of up to 10 to 18 percent per year, depending on the age of the car, or five percent more than the interest rate on the original contract.  
  
The bill would take effect September 1, 1997.

**SUPPORTERS SAY:** CSHB 2923 would update Texas installment law. Auto leasing has become a preferred method of buying cars, but current law may be at odds with the terms of the normal lease agreement. A balloon payment is standard in these circumstances; buyers know that going in because of disclosure laws.

However, some buyers are prevented from having the option of purchasing the leased car because of statutory provisions that require any refinancing to track the original terms of the agreement.

This bill would provide clear authority for refinancing a balloon payment for a leased car under different terms. This would benefit both car purchasers who want to keep their leased vehicle and car dealers who would prefer not to have to take the car back just because the owner cannot afford the final balloon payment. Nothing in this bill would impose mandatory requirements on either dealer or buyer; the bill would only facilitate mutually agreeable contracts.

OPPONENTS  
SAY:

This bill should only apply to new cars and not all cars. The interest rate charged for older cars is much higher than that for new cars, a fact that could make the financing of the final payment as much as 18 percent per year.

NOTES:

Rep. Coleman plans to offer a floor amendment that would restrict the bill only to new cars.

The committee substitute is a Legislative Council draft of the original bill.