

- SUBJECT:** Expanding car dealers' options for compensating car buyers for trade-ins
- COMMITTEE:** Financial Institutions — favorable, with amendment
- VOTE:** 9 ayes — Averitt, Solomons, Denny, Ehrhardt, Elkins, Grusendorf, Marchant, Pitts, Juan Solis
- 0 nays
- WITNESSES:** For — Karen Coffey, Texas Automobile Dealers Association
- Against — None
- On — Leslie Pettijohn, Office of Consumer Credit Commissioner
- BACKGROUND:** Under current law, a retail car dealer may pay off the amount a buyer owes on a trade-in vehicle. The dealer may add that amount to the total that the buyer must finance through a retail installment contract to purchase a different motor vehicle. However, if the buyer's car has been totaled in an accident, it cannot qualify as a trade-in. A dealer may not pay off any amount a buyer owes on the totaled vehicle or add that amount to the buyer's cost.
- All equity in a trade-in must be applied toward the down payment or toward monthly installment payments. Under current law, no dealer can rebate a buyer's equity in cash.
- DIGEST:** HB 3072 would allow retail car dealers to retire the debt owed on a motor vehicle that either is used as a trade-in or has been declared a total loss by the buyer's insurance company when this is done in connection with a retail installment transaction.
- The bill would allow retail dealers to pay in cash any portion of the net cash value of the trade-in owned by the buyer. "Net cash value" would mean the cash value of the vehicle once all payments securing the vehicle were made.
- The bill would make a conforming change in the tax code that would exclude any net cash value paid to the buyer from the motor vehicle sales tax.

CSHB 3072 would take immediate effect if finally passed by a two-thirds record vote of the membership of each house.

**SUPPORTERS  
SAY:**

Consumers often are surprised to learn that dealers cannot pay off the amount they owe on their totaled car, once their insurance has paid the value of the car, and add that to the amount they agree to finance in buying a new car. Current law requires these consumers to pay double car payments until the debt on the totaled car is paid off. CSHB 3072 would place into law what consumers already expect and make it financially easier for drivers whose cars have been totaled to get back on the road again.

The bill limits would affect debt for trade-ins and totaled vehicles only. Dealers still would be prohibited from adding the debt on other cars owned by the buyer to the retail installment agreement.

For consumers with equity in a car, or consumers who owe no further payments, the bill would provide an option to receive cash in lieu of reduced monthly payments once the down payment was made. The bill would ensure that any cash payment made to buyers would not count toward the total consideration of the car for purposes of the motor vehicle sales tax. This is consistent with current law, which exempts cash discounts and trade-in value from the tax.

**OPPONENTS  
SAY:**

No apparent opposition.

**NOTES:**

The committee amendment would provide that a dealer could pay off only the outstanding debt of trade-ins or total losses. The original bill would have allowed dealers to pay off the debt of any vehicle owned by the buyer.