

SUBJECT: Permitting late fees and interest charges on some late vehicle loan payments

COMMITTEE: Financial Institutions — favorable, without amendment

VOTE: 8 ayes — Averitt, Solomons, Denny, Grusendorf, Hopson, Marchant,
Menendez, Wise

0 nays

1 absent — Pitts

WITNESSES: For — John T. Cody, Security Service Federal Credit Union; Karen Neeley,
Credit Union Coalition of Texas; *Registered but did not testify*: Kevin
Hamby, Texas Credit Union League; James McCarley, Community Credit
Union; John Mundy; Edward Riojas, Jr.; Buddy Schroeder, United Heritage
Credit Union; John Worthington.

Against — None

On — Leslie Pettijohn, Office of the Consumer Credit Commissioner

BACKGROUND: Under Finance Code, sec. 348.107, if a payment on an installment loan
contract for a heavy commercial vehicle is more than 10 days late or if a
payment on an installment loan contract for any other motor vehicle is more
than 15 days late, the lender either can charge a late fee or charge interest on
the late amount of the installment at the contract's interest rate.

A loan that calculates interest each day on the amount of the principal that
remains unpaid (as opposed to a contract that provides for precomputed
interest) is said to use the accrual earnings method.

DIGEST: HB 2154 would allow lenders whose contracts use the accrual earnings
method both to charge a late fee and continue to charge interest on the late
installment if the borrower fails to make the payment within two weeks of
when it was due.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001. It would apply only to retail installment transactions entered into on or after that date.

NOTES:

The companion bill, SB 1836 by Armbrister, has been referred to the Senate State Affairs Committee. A substantially similar bill, SB 1075 by Carona, has been referred to the Senate Business and Commerce Committee.