HOUSE RESEARCH ORGANIZATION bill digest | 5/6/2019 | (2nd reading) HB 3855 Longoria

SUBJECT: Regulating methods for computing interest on certain consumer loans

COMMITTEE: Pensions, Investments, and Financial Services — favorable, without amendment

VOTE: 11 ayes — Murphy, Vo, Capriglione, Flynn, Gervin-Hawkins, Gutierrez, Lambert, Leach, Longoria, Stephenson, Wu

0 nays

WITNESSES: For — Ken Kinion, Texas Consumer Credit Coalition; (*Registered, but did not testify*: James Hines, Texas Association of Business; Deborah Polan, Texas Consumer Credit Coalition)

Against — None

On — Matthew Nance, Office of Consumer Credit Commissioner; (*Registered, but did not testify*: Leslie Pettijohn, Office of Consumer Credit Commissioner)

BACKGROUND: Finance Code sec. 342.201(e) allows a loan contract that is not secured by real property to provide for a rate or amount of interest computed using the true daily earnings method or the scheduled installment earnings method so long as the rate or amount does not exceed certain limits.

Some have suggested that such blended interest rate loans can cause confusion for both consumers and lenders.

DIGEST: HB 3855 would require the interest charge on a consumer loan not secured by real property to be contracted for, charged, or received using the scheduled installment earnings method or the true daily earnings method.

The interest charge on such a loan would have be contracted for, charged, or received either by:

- applying the applicable daily rate to each part of the unpaid principal balance corresponding to brackets established in statute for the actual or scheduled number of days during a payment period; or
- applying a single equivalent daily rate to the unpaid principal balance for the actual or scheduled number of days during a payment period.

The single equivalent daily rate would have to be determined at the inception of the loan using the scheduled installment earnings method and would earn an amount of interest authorized by statute if the debt were paid to maturity.

The bill would take effect September 1, 2019.