

BILL ANALYSIS

Senate Research Center
76R6850 DWS-F

H.B. 2337
By: Edwards (Carona)
Economic Development
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Engrossed

DIGEST

Current Texas credit law permits lenders to make precomputed loans that rebate interest under the Rule of 78s method. The Rule of 78s allows higher interest to be charged at the beginning of a loan repayment period and obligates the borrower for the entire amount of interest over the life of a loan. The borrower receives a rebate on a portion of the interest if the borrower pays off the loan early. Some community banks, as well as other lenders, use the Rule of 78s transactions because they want to be able to charge late charges if the customer is delinquent without having to accelerate the entire loan. Late charges are not permitted on pure simple interest loans in Texas. Recently, the Internal Revenue Service amended tax accounting rules so that interest on consumer installment transactions must be reported on the simple interest or constant yield basis rather than the Rule of 78s. This is required even though the Rule of 78s is permissible under both federal and state banking and credit laws. Because of the complexity of keeping two sets of records or developing two financial reports on interest earned, many institutions in Texas are converting to simple interest loans. However, this has an impact on non-interest fee income for many of the institutions. They can increase interest rates on the loans to make up the yield, but that would be unfair to those customers who pay on time. H.B. 2337 authorizes the traditional late charge of five percent of the installment after 10 days on simple interest interactions.

PURPOSE

As proposed, H.B. 2337 authorizes the traditional late charge of five percent of the installment after 10 days on simple interest interactions.

RULEMAKING AUTHORITY

This bill does not grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

ARTICLE 1. AMENDMENTS TO TITLE 79, REVISED STATUTES

SECTION 1.01. Amends Article 3A.303, Title 79, to authorize a loan contract that includes simple interest and that is a regular transaction to provide for additional interest for default if any part of an installment remains unpaid after the 10th day after the date on which the installment is due, including Sundays and holidays. Makes conforming changes.

SECTION 1.02. Amends Article 3A.306, Title 79, Article 5069-3A.306, V.T.C.S., to authorize a loan contract that includes simple interest and that is an irregular transaction to provide for additional interest for default if any part of an installment remains unpaid after the 10th day after the date on which the installment is due, including Sundays and holidays. Prohibits the additional interest from exceeding five cents for each \$1 of a scheduled installment. Prohibits interest under this subsection from being collected more than once on the same installment. Makes a conforming change.

ARTICLE 2. AMENDMENTS TO FINANCE CODE

SECTION 2.01. Amends Section 342.203, Finance Code, to make conforming changes.

SECTION 2.02. Amends Section 342.206, Finance Code, to make conforming changes.

ARTICLE 3. EFFECTIVE DATE; EMERGENCY

SECTION 3.01. (a) Effective date: September 1, 1999, except as provided by Subsections (b) and (c) of this section.

(b) Provides that Article 1 of this Act takes effect only if the Act of the 76th Legislature, Regular Session, 1999, relating to nonsubstantive additions to and corrections in enacted codes, does not take effect.

(c) Provides that Article 2 of this Act takes effect only if the Act of the 76th Legislature, Regular Session, 1999, relating to nonsubstantive additions to and corrections in enacted codes, takes effect.

SECTION 3.02. Emergency clause.