BILL ANALYSIS

Senate Research Center   C.S.S.B. 272
77R86564 DWS-F   By: Carona
Business & Commerce
3/15/2001
Committee Report (Substituted)

DIGEST AND PURPOSE

Currently, there is an established maximum interest charge of approximately 32 percent permitted on non-real property loans and this rate varies depending upon the amount borrowed and terms of the loan. C.S.S.B. 272 authorizes an alternative, blended rate for non-secured loans made under Chapter 342, Finance Code. C.S.S.B. 272 also completely eliminates the Rule of 78s method of calculating the refund of interest charges, and instead requires the refund of interest charges to be calculated according to the scheduled installment earnings method.

RULEMAKING AUTHORITY

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

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 342.201, Finance Code, as follows:

(c) Provides that a loan contract under this chapter that is an irregular transaction and is not secured by real property may provide for an interest charge, using any method or formula, that does not exceed the amount that, having due regard for the schedule of installment payments, would produce the same effective return as allowed under this section, rather than Subsection (a), if the loan were payable in equal successive monthly installments beginning one month from the date of the contract.

(e) Provides that a loan contract under this chapter that is not secured by real property may provide for a rate or amount of interest computed using the true daily earnings method or the scheduled installment earnings method that does not exceed certain percentages.

SECTION 2. Amends Section 342.351, Finance Code, as follows:

Sec. 342.351. New heading: REFUND OF PRECOMPUTED INTEREST: SUM OF THE PERIODIC BALANCES. (a) Provides that this section applies to a loan contract that includes precomputed interest authorized under Subchapter F or G and that is a regular transaction.

(b) Deletes a reference to Section 342.201 in this subsection concerning interest paid on contracts prepaid in full.

(c) Makes a conforming change.

SECTION 3. Amends the heading to Section 342.352, Finance Code, to read as follows:

Sec. 342.352. REFUND OF PRECOMPUTED INTEREST ON CONTRACT: SCHEDULED INSTALLMENT EARNINGS.

SECTION 4. Amends Sections 342.352 (a) and (f), Finance Code, as follows:

> (a) Provides that this section applies to a loan contract that includes interest contracted for under Section 342.201.

> (f) Provides that for the purposes of this section, the simple annual interest rate under a contract is equal to the rate computed under the scheduled installment earnings method. Deletes language regarding contractual terms.

SECTION 5. Amends Section 342.501(a), Finance Code, prohibiting an authorized lender from inducing or permitting a person or a husband and wife to be directly or indirectly obligated under more than one loan contract at any time for the purpose or with the effect of obtaining an amount (if interest greater than the amount of interest otherwise authorized under this chapter) for a loan of that aggregate amount with a maximum interest charge computed under Section 342.201(a), Section 342.201(e), Section 342.252, or any combination of those sections.

SECTION 6. Amends Section 342.508, Finance Code, to limit the maximum term of loans to 60 months.

SECTION 7. Effective date: September 1, 2001.

SUMMARY OF COMMITTEE CHANGES

SECTION 1. Amends As Filed S.B. 272, Section 342.201, Finance Code, to provide that a loan contract not secured by real property may provide for certain alternative rates of interest.

SECTION 2. Amends As Filed S.B. 272, by amending Section 342.351, Finance Code, to exclude installment loans under Section 342.201 from authority to compute the refund based on the rule of 78's, while SECTION 2 in the As Filed version contained the effective date.

SECTION 3. Amends As Filed S.B. 272, by amending the heading to Section 342.352, Finance Code.

SECTION 4. Amends As Filed S.B. 272, by amending Sections 342.352 (a) and (f), Finance Code, to calculate interest die on precomputed loans according to the actuarial method.

SECTION 5. Amends As Filed S.B. 272, by amending Section 342.501(a), Finance Code, to prohibit lenders from having more than one account at a time with the borrower.

SECTION 6. Amends As Filed S. B. 272, by amending Section 342.508, Finance Code, to limit the maximum term of loans to 60 months.

SECTION 7. Effective date: No Change (redesignated from As Filed SECTION 2).