

BILL ANALYSIS

Senate Research Center
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H.B. 1380
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Engrossed

DIGEST AND PURPOSE

Under current law, consumers may purchase credit insurance and other products from regulated loan licensees at the time they apply for a small loan. Credit insurance is purchased to insure the amount of the loan in the event of an unexpected occurrence. Consumers have the option of purchasing various types of noncredit insurance such as term life, disability, accident and health, or loss of income coverage. Other products such as a home security plan, an automobile club membership, or a service contract may also be purchased. Current law allows borrowers to finance the premiums for credit insurance, but financing for noncredit insurance or other products is not permitted. To obtain noncredit insurance, consumers must either pay cash or finance premiums with credit cards. H.B.1380 authorizes authorized lenders to finance the charges for certain types of noncredit insurance and other products offered in connection with consumer loans. This bill establishes the structure in which such products can be sold, including consumer protection provisions.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the consumer credit commissioner in SECTION 1 (Section 342.4021, Finance Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter I, Chapter 342, Finance Code, by adding Section 342.4021, as follows:

Sec. 342.4021. PRODUCTS OFFERED IN CONNECTION WITH LOAN. (a) Authorizes an authorized lender, contemporaneously with or subsequent to a loan made under Subchapter E, to offer, subject to all applicable insurance laws of this state, including agent licensing requirements, policy form requirements, and refunding methods, one or more of certain types of noncredit insurance and other products.

(b) Requires the lender to provide the borrower with the option of purchasing any of the products under Subsection (a) separately and prohibits the lender from requiring the purchase of any of the products under Subsection (a) as a condition for approval of the loan.

(c) Authorizes the cost of noncredit insurance or another product under Subsection (a) to be collected from the borrower only if the purchase of the noncredit insurance or product is not a condition for approval of the loan, the borrower provides written acknowledgment of the borrower's intent to purchase the noncredit insurance or product, the borrower is entitled to cancel the transaction and receive a full refund of the purchase price under certain circumstances, the borrower is provided a separate notice stating certain information, the notice required includes a separate section that states the mailing address of the insurance company or vendor of the product and that may be detached and returned to the insurance company or vendor permitting the customer to cancel the purchase and receive a full cash refund, and any benefit payable as a result of the ownership of the noncredit insurance or product will be paid directly to the borrower or the borrower's designated representative.

(d) Authorizes an authorized lender to include in the loan contract the cost for noncredit insurance or another product under Subsection (a).

(e) Prohibits an authorized lender from charging or collecting an amount for a type of noncredit insurance or other product that is not specified in Subsection (a).

(f) Provides that the cost of noncredit insurance and other products purchased under this chapter, and any gain or advantage received by an authorized lender or an employee, officer, director, general or other agent, affiliate, or associate of the lender as a result of a charge for noncredit insurance or other products authorized under this chapter, is not considered a further or other charge or amount received in connection with a loan made under this chapter.

(g) Requires the commissioner to adopt a rule providing for Spanish language disclosure of the information required in Subsection (c) and to establish a form for the disclosure conforming to the plain language and readability requirements applicable to a loan contract under Section 341.502 (Form of Loan Contract).

SECTION 2. Amends Section 342.410, Finance Code, as follows:

Sec. 342.410. New heading: PAYMENT FOR INSURANCE OR OTHER PRODUCT FROM LOAN PROCEEDS. Authorizes a lender, including an officer, agent, or employee of the lender, who offers credit insurance, noncredit insurance, or another product as permitted by this subchapter, rather than accepts insurance as protection for a loan, to deduct the premium or identifiable charge for the credit insurance, the premium for the noncredit insurance, and the charge for the other product from the proceeds of the loan and requires the lender to pay the deducted amounts to the insurance company writing the insurance or the vendor of the other product.

SECTION 3. Amends Section 342.502(b), Finance Code, to authorize a lender, on a loan subject to Subchapter E, or a secondary mortgage loan subject to Subchapter G, to assess and collect from the borrower an amount incurred by the lender for the premium or an identifiable charge received in connection with the sale of credit insurance, the premium received in connection with the sale of noncredit insurance, and the charge for any other product authorized under this chapter, as well as other costs.

SECTION 4. Makes application of this Act prospective.

SECTION 5. Effective date: September 1, 2003.