

BILL ANALYSIS

C.S.S.B. 1211
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Financial Institutions
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Chapter 307, Finance Code permits lenders to protect their interest in property pledged as collateral for a loan when the borrower fails to maintain the required property insurance. It allows lenders to place collateral protection insurance coverage on the property. However lenders are limited to placing coverage in an amount that protects only the outstanding balance of the loan. In the case of real property, the borrower's equity is left completely unprotected. Homeowners have experienced difficulty in obtaining insurance coverage for their homes except that which is required by lenders. To some extent, the Texas Fair Access to Insurance Requirements (Texas FAIR) program serves as a market of last resort for homeowners who cannot obtain coverage from insurance companies.

C.S.S.B. 1211 amends 307.051, Finance Code to give lenders the option of placing property coverage that will reasonably protect the borrower's equity interest in real property pledged as collateral as well as the lender's loan interest.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.S.B. 1211 amends Section 307.051, Finance Code to permit a creditor, at the creditor's option, to obtain collateral protection insurance to cover either the replacement cost of improvements or the amount of unpaid indebtedness. Borrowers are obligated to reimburse the creditor for the premium, finance charge, and any other charges incurred by the creditor for this insurance.

The bill amends Section 307.052, Finance Code to require creditors that obtain such insurance for real property to inform the borrower that coverage may be available through the Texas FAIR program at a lower cost. Contact information for the Texas FAIR plan must also be provided to the borrower.

The changes in law made by the bill apply only to credit agreements entered into on or after the effective date.

EFFECTIVE DATE

On passage or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2003.

COMPARISON OF ORIGINAL TO SUBSTITUTE

The substitute clarifies that the borrower is obligated to reimburse the creditor for finance charges, and not interest, associated with the collateral protection insurance obtained for real property.