

By: Van de Putte

S.B. No. 1211

A BILL TO BE ENTITLED

AN ACT

relating to collateral protection insurance.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 307.051(e), Finance Code, is amended to read as follows:

(e) A premium for collateral protection insurance for collateral that is real property may be based on the amount of unpaid indebtedness, the cash value or replacement value of the property, or the amount of insurance previously maintained by the debtor, and may include an additional premium for any liability coverage provided to the debtor. A premium for collateral protection insurance for other types of collateral may not be based on an amount that exceeds the actual amount of unpaid indebtedness of the debtor as of the effective date of the policy. This condition applies without regard to whether the coverage under the policy limits the insurer's liability to:

- (1) the amount of unpaid debt;
- (2) the cash value of the collateral; or
- (3) the cost of repair of the collateral.

SECTION 2. Section 307.052(a), Finance Code, is amended to read as follows:

(a) A creditor who requires collateral protection insurance that is paid for directly or indirectly by a debtor may place collateral protection insurance if:

1 (1) the debtor has entered into a credit transaction
2 with the creditor for which a credit agreement exists;

3 (2) the credit agreement requires the debtor to
4 maintain insurance on the collateral; and

5 (3) a notice has been included in the credit agreement
6 or a separate document provided to the debtor at the time the credit
7 agreement is executed that states that:

8 (A) the debtor is required to:

9 (i) keep the collateral insured against
10 damage in the amount the creditor specifies [~~equal to the debtor's~~
11 ~~indebtedness to the creditor~~];

12 (ii) purchase the insurance from an insurer
13 that is authorized to do business in this state or an eligible
14 surplus lines insurer; and

15 (iii) name the creditor as the person to be
16 paid under the policy in the event of a loss;

17 (B) the debtor must, if required by the creditor,
18 deliver to the creditor a copy of the policy and proof of the
19 payment of premiums; and

20 (C) if the debtor fails to meet any requirement
21 listed in Paragraph (A) or (B), the creditor may obtain collateral
22 protection insurance on behalf of the debtor at the debtor's
23 expense.

24 SECTION 3. The change in law made by this Act applies only
25 to a credit agreement entered into on or after the effective date of
26 this Act. A credit agreement entered into before the effective date
27 of this Act is governed by the law in effect when the credit

1 agreement was entered into, and the former law is continued in
2 effect for that purpose.

3 SECTION 4. This Act takes effect immediately if it receives
4 a vote of two-thirds of all the members elected to each house, as
5 provided by Section 39, Article III, Texas Constitution. If this
6 Act does not receive the vote necessary for immediate effect, this
7 Act takes effect September 1, 2003.