BILL ANALYSIS

C.S.H.B. 4219
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Pensions, Investments & Financial Services
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Rising inflation rates have increased many Texans' need for access to safe and affordable credit in the form of consumer loans. Unfortunately, credit availability has tightened, and many Texans who seek consumer loans that are not secured by real property are being turned away. Those unable to obtain a loan from lenders of such loans still need credit and are subsequently pushed into unregulated loans offered on the internet and to other high-cost alternatives. C.S.H.B. 4219 seeks to increase the credit available to Texas borrowers from lenders regulated by state law with respect to consumer loans not secured by real property by more closely aligning existing statutory rate caps to the cost of obtaining funds as reflected by the federal funds rate, which would account for fluctuations in such costs while maintaining the rate structure deemed appropriate by policymakers.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

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.H.B. 4219 amends the Finance Code to require the consumer credit commissioner, on March 1 and September 1 of each year, to compute the ceilings for a rate or amount of interest that may be provided by a consumer loan contract that is not secured by real property for the six-month period effective the following May 1 and November 1, respectively. The bill establishes that those ceilings are effective for the six-month period beginning on the effective date and are subject to adjustment after each six-month period. The bill revises the method of calculating the ceilings by adding the federal funds rate to each of the existing percentages in that calculation. For purposes of calculating the ceilings, the bill defines "federal funds rate" as an interest rate computed by averaging the federal funds rates published by the Federal Reserve Bank of New York for each day during the six calendar months preceding the computation date of the ceilings, except as follows:

- if the average is greater than five percent, the federal funds rate is five percent; and
- if the average is less than zero percent, the federal funds rate is zero percent.

The bill requires the commissioner to submit the computed ceilings to the secretary of state for publication in the Texas Register not later than the 11th day after the date on which the ceiling is computed.

C.S.H.B. 4219 applies only to a loan made on or after the bill's effective date and establishes that, for purposes of its applicability, a refinance or renewal of a loan is considered made on the date the loan being refinanced or renewed was made.

EFFECTIVE DATE

September 1, 2023.

COMPARISON OF INTRODUCED AND SUBSTITUTE

While C.S.H.B. 4219 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

While both the introduced and the substitute require the commissioner to periodically recompute the ceilings, the substitute changes the period for which the commissioner must do so from the applicable calendar quarter, as in the introduced, to the applicable six-month period.

Whereas the introduced required a ceiling to be published before the 11th day after the date on which it is computed, the substitute requires the commissioner to submit a ceiling to the secretary of state for publication in the Texas Register not later than the 11th day after the date on which it is computed. The substitute defines "ceiling" as the maximum rate or amount of interest, which was not included in the introduced.

While both the introduced and the substitute define "federal funds rate" for purposes of calculating the ceilings, the introduced specified that the rate is published by the Board of Governors of the Federal Reserve System in its applicable statistical release, whereas the substitute specifies that the rate is published by the Federal Reserve Bank of New York.