

CHAPTER 972

H.B. No. 1598

AN ACT

relating to types of credit insurance and collateral protection insurance in loan contracts.

Be it enacted by the Legislature of the State of Texas:

SECTION 1. Section (1), Article 3.18, Title 79, Revised Statutes (Article 5069–3.18, Vernon's Texas Civil Statutes), is amended to read as follows:

(1) On any loan having a cash advance of One Hundred Dollars or more, made under the authority of this Chapter, a lender may request, *offer, but not require, [or require]* a borrower to provide credit life insurance and credit health and accident insurance as additional protection for such a loan. *In addition, the lender may offer, but not require, involuntary unemployment insurance to the borrower at the time of making the loan and may include the premium for such insurance in the loan contract.* Policies of credit life insurance or credit health and accident insurance, *or involuntary unemployment insurance*, may not be in force with respect to any one obligor on any one loan contract at any one time that in combination exceed:

(i) as to credit life insurance, the total amount repayable under the contract of indebtedness and, where an indebtedness is repayable in substantial equal installments, the amount of insurance shall at no time exceed the scheduled or actual amount of unpaid indebtedness, whichever is greater, or

(ii) as to credit accident and health insurance, the total amount repayable under the contract of indebtedness and the amount of each periodic indemnity payment shall not exceed the scheduled periodic installment payment on the indebtedness, or

(iii) *as to involuntary unemployment insurance, the total amount repayable under the contract of indebtedness, and the amount of each periodic indemnity payment shall not exceed the scheduled periodic installment payment on the indebtedness.*

SECTION 2. Section (1), Article 4.02, Title 79, Revised Statutes (Article 5069–4.02, Vernon's Texas Civil Statutes), is amended to read as follows:

(1) On any loan made under the authority of this Chapter, a lender may request, *offer, but not require, [or require]* a borrower to provide credit life insurance and credit health and accident insurance as additional protection for such a loan. *In addition, the lender may offer, but not require, involuntary unemployment insurance to the borrower at the time of making the loan and may include the premium for such insurance in the loan contract.* Policies of credit life insurance or credit health and accident insurance, *or involuntary unemployment insurance*, may not be in force with respect to any one obligor on any one loan contract at any one time that in combination exceed:

(i) as to credit life insurance, the total amount repayable under the contract of indebtedness and, where an indebtedness is repayable in substantial equal installments, the amount of insurance shall at no time exceed the scheduled or actual amount of unpaid indebtedness, whichever is greater, or

(ii) as to credit accident and health insurance, the total amount repayable under the contract of indebtedness and the amount of each periodic indemnity payment shall not exceed the scheduled periodic installment payment on the indebtedness, or

(iii) *as to involuntary unemployment insurance, the total amount repayable under the contract of indebtedness, and the amount of each periodic indemnity payment shall not exceed the scheduled periodic installment payment on the indebtedness.*

SECTION 3. Chapter 2, Title 79, Revised Statutes (Article 5069–2.01 et seq., Vernon's Texas Civil Statutes), is amended by adding Article 2.09 to read as follows:

Art. 2.09. **COLLATERAL PROTECTION INSURANCE.** (1) *In this article:*

(a) "Creditor" means a lender or other person extending or collecting a loan or other credit transaction for personal, family, or household use.

(b) "Collateral protection insurance" means any insurance required and arranged by or for a creditor in connection with and subsequent to the inception of a loan or other credit transaction for personal, family, or household use.

(2) Any creditor who causes the initiation of collateral protection insurance must comply with this article as well as other applicable law.

(3) This article shall apply only to insurance for which the premium is required to be paid by the debtor, either directly or indirectly.

(4) When collateral protection insurance is procured, the creditor arranging such transaction shall give written notice to the debtor at the debtor's last known address that:

(a) describes the type of insurance procured, the extent of coverage, and whom it is designed to protect;

(b) defines the policy period by beginning and ending dates;

(c) discloses the total cost to the borrower of the policy;

(d) discloses the annual rate of interest to be charged on the insurance premium if different from the rate charged in the related loan or credit transaction;

(e) discloses the manner in which the premium and interest or other financing charge is to be paid; and

(f) at the option of the creditor, notifies the debtor of other repayment options to which the debtor may agree or has previously agreed to in the original loan or credit transaction agreement.

(5) The creditor may collect the premium and any authorized interest or other financing charge during the policy period in addition to and simultaneously with any scheduled payment or payments of principal or charges or in such other manner as may be provided for in the loan or credit transaction agreement. If there are no payments scheduled on the debt during the policy period, then collection shall be in substantially equal successive monthly installments.

(6) A creditor is authorized to charge the debtor the actual postage and fees paid to the United States Postal Service for mailing the required notice. If the notice is returned to the creditor undelivered, the creditor shall use its normal procedures for locating debtors and mail a second notice when the debtor is located.

SECTION 4. Article 2.09, Title 79, Revised Statutes (Article 5069-2.09, Vernon's Texas Civil Statutes), as added by this Act, is cumulative of and in addition to any other statutory provisions, and in case of any conflict or inconsistency with any provision less favorable to a debtor, Article 2.09, Title 79, Revised Statutes (Article 5069-2.09, Vernon's Texas Civil Statutes), as added by this Act shall prevail and control. Notwithstanding Article 1.10, Title 79, Revised Statutes (Article 5069-1.10, Vernon's Texas Civil Statutes), or other law, a credit union is subject to Article 2.09, Title 79, Revised Statutes (Article 5069-2.09, Vernon's Texas Civil Statutes), as added by this Act.

SECTION 5. This Act takes effect September 1, 1993.

SECTION 6. The importance of this legislation and the crowded condition of the calendars in both houses create an emergency and an imperative public necessity that the constitutional rule requiring bills to be read on three several days in each house be suspended, and this rule is hereby suspended.

Passed by the House on April 23, 1993, by a non-record vote; the House concurred in Senate amendments to H.B. No. 1598 on May 22, 1993, by a non-record vote; passed by the Senate, with amendments, on May 19, 1993, by a viva-voce vote.

Approved June 19, 1993.

Effective Sept. 1, 1993.