HOUSE
RESEARCH
ORGANIZATION bill analysis | 4/11/95 | HB 2674 | T. Hunter

SUBJECT: Eliminating grace period for interest on accounts

COMMITTEE: Financial Institutions — favorable, without amendment

VOTE: 5 ayes — Marchant, Carona, Elkins, Gutierrez, Patterson

0 nays

4 absent — Giddings, Grusendorf, Hudson, Romo

WITNESSES: For — Sam Kelley

Against — None

BACKGROUND: When no interest rate is specified in a contract, current law allows a 6 percent charge in annual interest after the principal amount has been due for 30 days. If the rate is charged before the 30th day, the party charging the interest is subject to penalties, including loss of principal and forfeiture of interest.

DIGEST: HB 2674 would allow imposition of the 6 percent interest rate commencing on the date a sum becomes due. The bill would take immediate effect if approved by two-thirds of the membership of each house.

SUPPORTERS SAY: Entering into contracts without agreeing to a specific interest rate should not prevent a business from charging another business interest on delinquent payments on the day those payments are due. No where else in the law does the state impose a 30-day grace period on charging interest. Current law punishes businesses for making the simple mistake of charging interest a day or so too early. A business can be penalized with loss of the principal it is owed as well as the forfeiture of interest it would have collected.

OPPONENTS SAY: If businesses enter into contracts without agreeing on specific interest rates, they have a responsibility to know the laws governing these contracts. Knowledge of the 30-day waiting period is not an unduly burdensome requirement. In addition, the waiting period gives businesses time to raise the money they owe, without paying interest.

NOTES: The companion bill, SB 1429 by Cain, was referred to the Senate Economic Development Committee.