

SENATE BILL REPORT

SB 5279

As Reported By Senate Committee On:
Financial Institutions & Housing, February 7, 1995

Title: An act relating to fees for making small loans.

Brief Description: Authorizing fees for certain small loans.

Sponsors: Senators Prentice, Roach, Prince, Spanel, Hale, Heavey, Kohl, Sellar and C. Anderson.

Brief History:

Committee Activity: Financial Institutions & Housing: 1/26/95, 2/7/95 [DPS].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

Majority Report: That Substitute Senate Bill No. 5279 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair; Hale, Roach, Sellar, Smith and Sutherland.

Staff: David Cheal (786-7576)

Background: The Consumer Loan Act authorizes higher interest rates and fees than certain other statutory provisions governing interest rates for other loans.

A lender, licensed under the Consumer Loan Act, may charge a nonrefundable, prepaid loan origination fee of up to 4 percent of the first \$20,000 and 2 percent of principal amounts over \$20,000.

The original bill changed the maximum permissible nonrefundable loan origination fee charged by lenders licensed under the Consumer Loan Act to 15 percent for loans up to \$500. Licensed check sellers and cashers are prohibited from making loans.

Summary of Substitute Bill: Licensed check sellers and cashers are authorized to make loans of up to \$500 for a period of 31 days or less, and may accept a post-dated check from the borrower as security for the loan.

Check cashers and sellers who wish to make small loans must obtain an endorsement on their license for each location where they will make these loans.

The aggregate of interest and fees is limited to 15 percent of the amount loaned.

To obtain a license endorsement to allow them to make loans, a check cashier or seller must obtain a bond or other approved financial security device in an amount and format determined by the director of the Department of Financial Institutions. This bond or other

device is in addition to the financial security required for the underlying license. Anyone damaged by violations of the act by a check casher or seller can claim against the bond or other security for actual damages.

The prohibition against check cashers and sellers making small loans is appropriately amended.

Certain parts of the application for a small loan endorsement are exempt from the Public Disclosure Act.

Substitute Bill Compared to Original Bill: The original bill amended the Consumer Loan Act and established fees for small, short-term loans.

The substitute bill establishes fee and interest limits for small, short-term loans and provides a regulatory framework for licensed check cashers and sellers who wish to offer small, short-term loans.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: Short-term small loans serve a credit need in the community. Some loan granting costs are constant regardless of the amount of the loan. Therefore, a fee at this level is justified. Loans of this type are probably going to occur, whether authorized or prohibited by law. It is better to regulate the activity than to simply ignore it or prohibit it.

Testimony Against: None.

Testified: Dennis Bassford, Check-X-Change; Mark Thomson, Dept. of Financial Institutions.