2690-S
Sponsor(s): House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Pelesky, Benton, Dyer, L. Thomas, Huff, D. Sommers, Kessler and Grant)

Brief Description: Authorizing the collection of fees and prepayment penalties for consumer loans.

HB 2690-S - DIGEST

<u>(DIGEST AS PASSED LEGISLATURE)</u>

Authorizes the collection of fees for consumer loans.

VETO MESSAGE ON HB 2690-S

March 30, 1996

To the Honorable Speaker and Members,
The House of Representatives of the State of Washington

Ladies and Gentlemen:

I am returning herewith, without my approval, Substitute House Bill No. 2690 entitled:

"AN ACT Relating to authorizing the collection of fees and prepayment penalties for consumer loans;"

Substitute House Bill No. 2690 deregulates the origination fee that consumer loan companies may charge on loans secured by real estate and removes restrictions on the types of third party fees consumer loan companies can charge on loans secured by real estate.

The market for providing consumer loans, especially those secured by real estate, has changed in recent years, and there is a great deal more competition for this business. Especially over the last year, the opportunity to secure a loan has improved for individuals whose credit history might previously have prohibited them from more desirable borrowing opportunities. While consumer loan companies are now competing for business with other financial institutions, the regulations between these institutions are not the same.

While I am generally supportive of creating a favorable climate for financial institutions, in weighing the proposed changes relative to the merits for both lenders and the borrowers, I am troubled by the detrimental impact of this measure for consumers. As written, these loans will now cost less sophisticated or debt-burdened consumers -- the very group who will most likely approach a consumer loan company -- more money. Only those with the knowledge and bargaining position sufficient to negotiate with these lenders will hypothetically realize any benefit. I find this scenario unlikely.

By deregulating origination fees and by allowing broad language on third party fees, consumers are susceptible to the kind of financial disadvantages present law was designed to prevent. RCW 31.04.005 recognizes that certain borrowers represent a higher risk to lenders who, in turn, should be allowed to charge higher interest rates in extending credit. When we expand this borrower distinction to allow various separate costs and fees in addition to a higher rate of interest, I have concerns with the potential for abuse.

For these reasons, I have vetoed Substitute House Bill No. 2690 in its entirety.

Respectfully submitted,
Mike Lowry
Governor