

SENATE BILL REPORT

SB 5686

As Reported By Senate Committee On:
Financial Institutions, Housing & Consumer Protection, February 22, 2005

Title: An act relating to check cashers and sellers.

Brief Description: Regulating check cashers and sellers.

Sponsors: Senators Fairley, Kline and Rasmussen.

Brief History:

Committee Activity: Financial Institutions, Housing & Consumer Protection: 2/15/05, 2/22/05 [DPS].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & CONSUMER PROTECTION

Majority Report: That Substitute Senate Bill No. 5686 be substituted therefor, and the substitute bill do pass.

Signed by Senators Fairley, Chair; Berkey, Vice Chair; Benton, Ranking Minority Member; Benson, Brandland, Delvin, Franklin, Keiser, Prentice, Schmidt and Spanel.

Staff: Joanne Conrad (786-7472)

Background: The Washington State Department of Financial Institutions (DFI) licenses check cashers and sellers and payday lenders. Licensees who obtain special "small loan endorsements" on their licenses are permitted to make "small loans" to consumers. Small loans generally cannot exceed \$700 to one borrower, with a maximum term of 45 days.

Concerns exist that some individuals and businesses act as "brokers" or "servicers" of small loans, without being licensed by DFI, in effect doing indirectly what they are unauthorized to do directly. This process is sometimes called "rent-a-charter." Financial institutions participating in subprime loans by way of these types of relationships are exposed to significantly increased legal, transaction and reputational risks, according to recent business guidelines for payday lending. In addition, "rent-a-charter" situations present enforcement challenges.

Summary of Substitute Bill: Brokers and servicers of small loans are subject to Washington's "payday lending law," 31.45 RCW. Brokers and servicers are prohibited from engaging in the business of brokering or servicing small loans without first obtaining a small loan endorsement to a check casher or seller license.

Substitute Bill Compared to Original Bill: Technical and clarifying changes in definition are made, providing consistency in use of the term "financial institution."

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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

Testimony For: This bill allows for legitimate partnerships to provide small loans to consumers.

Testimony Against: None.

Who Testified: PRO: Gary Gardner, BECU; Mark Thomson, Moneytree; Robert Pregulman, WASHPIrg; Chuck Cross, DFI.