

# SENATE BILL REPORT

## SSB 5406

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As Passed Senate, March 7, 1995

**Title:** An act relating to continuing market interest rates for consumer credit transactions.

**Brief Description:** Continuing market interest rates for consumer credit transactions.

**Sponsors:** Senate Committee on Financial Institutions & Housing (originally sponsored by Senators Prentice, Sellar and C. Anderson).

**Brief History:**

**Committee Activity:** Financial Institutions & Housing: 2/2/95, 2/21/95 [DPS].  
Passed Senate, 3/7/95, 46-3.

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

**Majority Report:** That Substitute Senate Bill No. 5406 be substituted therefor, and the substitute bill do pass.

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

**Staff:** Catherine Mele (786-7470)

**Background:** The Retail Installment Sales Act (RISA) governs the financing of retail purchases in Washington State. RISA divides retail credit into two types of transactions, open-ended and closed-ended transactions.

The primary difference between an open-ended and closed-ended transaction is the existence of restraints on the use of the borrowed money. Open-ended retail transactions generally involve an open line of credit through a revolving account at a particular store. A common type of open-ended retail transaction involves credit cards issued by a retailer which allow a consumer to purchase any goods up to a certain dollar limit. In comparison, closed-ended transactions involve the issuance of credit by a particular store to enable the consumer to purchase a certain item. An example of a closed-ended account would be a furniture store extending credit to a person to pay for a piece of furniture and allowing the person to repay the credit over a specified number of months.

In 1992, the Legislature removed the interest rate cap on retail installment sales transactions. Before the repeal, the laws governing retail installment sales established the maximum charges collected on certain retail transactions. As such, various formulas applied for computing the maximum charge depending on the type of goods involved and whether the contract involved an open-ended or closed-ended transaction. Currently, the contract rate of interest agreed to by the parties applies to all open-ended and closed-ended transactions.

The repeal of the interest rate cap on retail installment transactions expires June 30, 1995. It is suggested that the expiration of the provision which removes the cap on interest rates should be repealed.

**Summary of Bill:** The expiration of the provision which removes the cap on interest rates is repealed.

The interest rate cap on retail installment sales transactions is repealed.

These provisions are applied prospectively only.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.

**Testimony For:** Since 1992 when we lifted the interest rate cap, the free market has worked well. Competition keeps interest rates low. Used cars are now sold to consumers who would not be able to be served by traditional lenders. There has been growth due to deregulation of interest rates. Under a floating cap, people are rationed out of the market. The interest rate deregulation has provided people with marginal credit the opportunity to purchase goods which were unavailable before deregulation. Since the deregulation, three fourths of the retailers that were surveyed have not dramatically changed their interest rates.

**Testimony Against:** There should be an interest rate cap on the sale of older higher mileage used cars. There is no competition in this market and as a result, interest rates are very high. The Office of the Attorney General has received complaints that interest rates for these cars can be as high as 40 percent. The repossession rates are 25 percent. These people are paying for cars at a rate of interest that they cannot afford. This is a high price to pay for low quality goods. There should be a floating rate cap for older higher mileage vehicles.

**Testified:** Susie Tracy, WA State Financial Services Association (pro); Jean Leonard, Washington Retail Association (pro); Fred Morgan, Consumer Credit Counseling (pro); Robert L. Parlette (con); Tamara Warnke, Ted Grimes, Dennis Daus, Escrow Association of WA (pro); Ray McAlister, Washington Retail Association (pro); Paula Selis, Attorney General's office (con); Dick Scott, Desco Audio & Video (pro); Janet Cunningham, WA Auto Dealers Association (pro).

**House Amendment(s):** Courts are authorized to remedy unconscionable retail financing agreements. A charge or practice expressly permitted by the Retail Installment Sales Act is not in itself unconscionable.