Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Financial Institutions & Insurance Committee

HB 2019

Brief Description: Offering a small loan borrower a repayment option.

Sponsors: Representatives Green, Schual-Berke, Kenney, Darneille, Cody, Dickerson, Kagi, Hasegawa, McCoy, McDermott, Lantz, Lovick, Hudgins, Conway, Kessler, P. Sullivan, Hunt, Flannigan, Morrell, O'Brien, B. Sullivan, Moeller, Chase, Quall, McIntire, Williams, Kirby, Ericks, Ormsby and Upthegrove.

Brief Summary of Bill

- Permits a borrower of a payday loan to skip a payday and make the payment from a subsequent paycheck within 45 days.
- Permits a lender and borrower to enter into a payment plan and removes the requirement that there be several successive loans prior to entering into the payment plan.

Hearing Date: 2/22/05

Staff: Sonja Hallum (786-7092).

Background:

The business of check cashing and selling is regulated by the Department of Financial Institutions (DFI) pursuant to the Check Cashers and Sellers Act (Act). One of the common practices of such businesses is the issuance of what have become known as "payday loans." The term "payday loan" refers to a type of short-term, high interest, unsecured loan that is typically offered to consumers by a business outlet offering check cashing services.

In a typical payday loan transaction, the consumer writes the lender a post dated check and, in return, the lender provides a lesser amount of cash to the consumer after subtracting interest and fees. Following this initial transaction, the lender holds the check for a specified period, during which the consumer has the option of either redeeming the check by paying the face amount to the lender or allowing the lender to cash the check after the loan period has expired.

Payday lending practices are subject to regulation under the Check Cashers and Sellers Act, Chapter 31.45 RCW (Act). The Act contains provisions for the licensing and regulation of businesses offering services related to check cashing and the selling of money orders, drafts, checks, and other commercial paper. The Act regulates payday lending practices and provides for regulation of licensees who are specially authorized to issue small loans.

One of the regulations permits a borrower and lender to agree to a payment plan for payday loans. After four successive loans, and prior to default on the last loan, a borrower is entitled to convert his or her loans into a payment plan with the lender. Such payment plans are subject to the following conditions:

- a written agreement is required;
- the lender may charge the borrower a one-time fee in an amount up to the fee or interest on the outstanding principal;
- the agreement must allow the buyer not less than 60 days to pay off the loans; and
- the borrower must be allowed to pay off the loan in at least three payments.

Summary of Bill:

Borrowers are offered the option of skipping a payday and having a payday loan repaid out of a subsequent paycheck within forty-five days with no additional fees or interest.

Borrowers are permitted to convert their small loan to a payment plan. The borrower may convert the loan to a payment plan at any time, rather than waiting until after there have been four successive loans and the fourth loan is near default.

The definition of "successive loans" is removed from the definition section.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.