

# HOUSE BILL REPORT

## SSB 6305

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*As Reported By House Committee on:  
Financial Institutions & Insurance*

**Title:** An act relating to a national competitive retail credit market.

**Brief Description:** Removing service charge and rate limits on retail installment contracts.

**Sponsor(s):** By Senate Committee on Financial Institutions & Insurance (originally sponsored by Senators Sellar, Vognild and McCaslin).

**Brief History:**

Reported by House Committee on:  
Financial Institutions & Insurance, February 28, 1992,  
DPA.

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**HOUSE COMMITTEE ON  
FINANCIAL INSTITUTIONS & INSURANCE**

**Majority Report:** *Do pass as amended.* Signed by 13 members: Representatives Dellwo, Chair; Zellinsky, Vice Chair; Broback, Ranking Minority Member; Mielke, Assistant Ranking Minority Member; Anderson; Dorn; Inslee; R. Johnson; R. Meyers; Paris; Schmidt; Scott; and Winsley.

**Staff:** John Conniff (786-7119).

**Background:** The Retail Installment Sales Act (RISA) limits the service charge (interest) that may be collected by a creditor. The limit depends upon the type of transaction. RISA generally divides retail installment transactions into closed-end and open-end transactions. Closed-end transactions are one-time contracts for the purchase of identified goods with a fixed repayment period, e.g. credit extended by car and boat dealers. Open-end transactions permit periodic use of credit with an open-ended repayment period hence, its name. Open-end credit is identified as retail charge agreements under RISA distinguishing between retail cards and bank cards.

RISA has two basic types of interest rate limits - an indexed rate and a fixed rate. Retail and lender (non-bank) cards may not collect more than 18 percent. Closed-end loans are governed by an indexed rate of 6 percent over the bill

rates for 26 week T-bills for the last market auctions conducted during February, May, August, and November of the year prior to the date of the consumer credit transaction. However, the indexed rate is calculated differently for car and boat loans than for all other closed-end contracts for the purchase of other kinds of goods. Most closed-end loans are indexed to the quarterly T-bill rates of the preceding year. Car and boat loans are indexed to the T-bill rate for the preceding quarterly auction of T-bills. In other words, car and boat loans use a more current market index.

**Summary of Amended Bill:** A joint select committee is created to study state and federal consumer credit statutes and to develop a comprehensive state statute addressing consumer credit transactions. The committee must file a progress report with the Legislature in January of 1993 and a final report in January 1994.

Closed-end retail installment sales contracts are permitted to use the 18 percent rate authorized for open-end credit agreements (retail charge cards) under the Retail Installment Sales Act.

Both the joint select committee and the change to the Retail Installment Sales Act expire July 1, 1994.

**Amended Bill Compared to Substitute Bill:** HB 2944 creating a joint select committee and increasing the interests permitted for closed-end retail sales contracts replaces the senate bill which removed interest rate limits for both open-end and closed-end retail credit transactions.

**Fiscal Note:** Not requested.

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

**Testimony For:** (Senate bill): Retailers issuing revolving credit cards and accounts cannot earn enough income under the current 18 percent interest rate limit to cover the costs of supplying credit.

**Testimony Against:** None.

**Witnesses:** (Pro): Jean Leonard, Washington Retail Association; Russ Beacock, Beacock's Music Co.; and Susie Tracy, Washington State Financial Services Association.