

# FINAL BILL REPORT

## SHB 1743

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*Synopsis As Enacted*

**Brief Description:** Revising regulation of high-interest consumer loans.

By House Committee on Financial Institutions & Insurance  
(originally sponsored by Representatives Dellwo, Broback, R. Meyers, R. Johnson, Dorn, Zellinsky, Paris, Scott and Winsley).

House Committee on Financial Institutions & Insurance  
Senate Committee on Financial Institutions & Insurance

**Background:** Washington statutes permit the licensing or incorporation of consumer loan companies under either of two statutes - the Consumer Finance Act or the Industrial Loan Act. Both acts permit companies to charge rates in excess of the state usury statute and both acts place the regulation of such companies with the state supervisor of banking. Many companies hold licenses under both acts.

The Consumer Finance Act requires an applicant for a license to show that the applicant has \$50,000 in liquid assets and a \$2,500 bond for each location. Under the act, allowable interest rates are determined in accordance with the amount of the loan. Loans are limited to \$2,500 and are not to exceed a term of 48 and one-half months. The permitted rates range from a high of 2.5 percent per month for loans under \$500 to 1 percent on the portion of a loan amount exceeding \$1000.

Industrial loan companies are issued a certificate of authority after obtaining approval of their articles of incorporation and capital structure. Such companies are restricted as to increases or decreases in capital stock, the amount of cash reserves, real estate holdings, dividends, accounting for bad debts, and investments. Under the act, allowable interest rates are determined three ways. Loans under two years may be calculated using the discount method with a maximum 10 percent annual interest rate. All other loans may not exceed 25 percent per year. In addition, companies may charge a 2 percent loan fee. Finally, companies are authorized to issue open-end loans (lines of credit) at a maximum rate of 25 percent per year.

**Summary:** The Industrial Loan and Consumer Finance acts are repealed. In place of each act, a new Consumer Loan Act is enacted combining elements of both the repealed acts.

To ensure sufficient assets to pay fines, penalties, or judgments for violations of the new act, loan companies must either post a bond of \$100,000 for each of the first five company offices and \$10,000 for each additional office or a loan company may maintain a specified amount of unimpaired capital and surplus.

The varied interest rate structure of both the Consumer Finance and the Industrial Loan acts are replaced with a flat maximum permitted interest rate of 25 percent per year. Companies are permitted to increase their loan origination fee from 2 percent to 4 percent. Late payment fees are increased from 5 to 10 percent but authority to charge attorney fees and other collection costs is repealed.

Companies are prohibited from using the lender favored rule of 78's in calculating interest rate refunds and from using the discount method for calculating new loans. Prepayment penalties are not permitted. In addition, the use of the add-on method for precomputed loans is retained but limited to loan terms not exceeding three years and 15 days. However, if the borrower prepays two or more installments on a loan calculated by the add-on method and continues to pay the loan in advance, the loan must be recalculated as if the loan had been made using a simple interest method of calculating borrower payments. The pre-existing statutory provisions governing open-end loans are retained.

New provisions are added which allow both greater regulatory authority by the supervisor and clearer responsibilities on the part of the loan companies. New definitions are provided for methods of calculating interest accompanied by rule making authority to further explain these methods. Record maintenance procedures are simplified. Regulatory fees are revised and retained. Insurance sales and practices of loan companies must conform in all respects with the insurance code. The supervisor is granted clear authority to adopt all rules necessary to ensure full disclosure to borrowers and to interpret the new loan act. The supervisor may also issue cease and desist orders for companies conducting business in an injurious manner or in violation of the new act.

***Votes on Final Passage:***

House	98	0	
Senate	38	9	(Senate amended)
House	94	0	(House concurred)

*Effective:*        January 1, 1992  
                  January 1, 1993    (Section 24)