

SENATE BILL REPORT

HB 2944

AS REPORTED BY COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE,
FEBRUARY 28, 1992

Brief Description: Regulating consumer credit transactions.

SPONSORS: Representatives Dellwo, Broback, Zellinsky, R. Johnson, Winsley, Mielke, Paris, Anderson, Dorn and Schmidt

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass as amended.

Signed by Senators von Reichbauer, Chairman; Erwin, Vice Chairman; McCaslin, Moore, Sellar and Vognild.

Minority Report: Do not pass.

Signed by Senator Pelz.

Staff: Benson Porter (786-7470)

Hearing Dates: February 28, 1992

BACKGROUND:

Washington law governing retail installment sales establishes the maximum charges that may be collected in certain retail transactions. As such, various formulas apply for computing the maximum charge in these transactions depending upon the type of goods involved and whether the transaction involves an open- or closed-ended transaction.

The primary difference between open- and closed-ended transactions is the existence of any 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 that allow a consumer to purchase any goods up to a certain dollar limit. In comparison, the closed-ended transaction involves 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.

Washington law currently allows the following charges for open- and closed-ended retail transactions. With regards to closed-ended accounts (i.e., retail installment contracts), retailers can charge 11.75 percent for durable goods, such as televisions, washers and dryers, purchased under a retail installment contract. For motor vehicles purchased under such

a contract, the permissible maximum rate is 10.75 percent. If the retailer sells a boat under a retail installment contract, the maximum rate is 10 percent. Under open-ended retail installment accounts (i.e., revolving charge agreements or retailer credit cards), the retailer can charge 1 1/2 percent per month.

Some concern has been expressed about the ceilings on service charges in the retail transactions.

SUMMARY:

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 of 1994.

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

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

Appropriation: none

Revenue: none

Fiscal Note: none requested

SUMMARY OF PROPOSED SENATE AMENDMENT:

A retailer can charge the service charge agreed to in the retail installment contract for the purchase of durable goods, motor vehicles, and boats. In addition, the permissible service charge for open-ended accounts, including retail charge agreements and revolving charge agreements, is the rate agreed to in the contract.

The National Competitive Retail Credit Market Task Force is created. The task force consists of eight members, two members appointed by each caucus of the House of Representatives and the Senate. The task force is required to study the impact of the national competitive retail credit market on retailers, their customers, and Washington State financial institutions. The task force is required to submit a report to the Legislature by January 1, 1995.

The deregulation of rates for closed- and open-end credit expires on June 30, 1995.

TESTIMONY FOR:

The deregulation of retail credit will promote the availability of retail credit in the state, make Washington's limits more commensurate with surrounding states, and encourage retail business in this state.

TESTIMONY AGAINST: None

TESTIFIED: Cliff Webster, Washington Retail Credit Association (pro - with amendment); Lew McMurrin, Household International (pro with amendments); Prof. Ray McAllister, Washington Retail Association (pro with amendment); Susie Tracy, Washington State Financial Services Association (pro with amendment)