

SENATE BILL REPORT

SSB 6305

AS PASSED SENATE, FEBRUARY 18, 1992

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

SPONSORS: Senate Committee on Financial Institutions & Insurance (originally sponsored by Senators Sellar, Vognild and McCaslin)

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: That Substitute Senate Bill No. 6305 be substituted therefor, and the substitute bill do pass.

Signed by Senators von Reichbauer, Chairman; Erwin, Vice Chairman; McCaslin, Owen, Rasmussen, Sellar, Vognild, and West.

Minority Report: Do not pass.

Signed by Senator Pelz.

Staff: Benson Porter (786-7470)

Hearing Dates: January 16, 1992; February 6, 1992

BACKGROUND:

Washington law governing retail installment sales establishes maximum permissible charges that may be collected in various 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. Opponents cite the failure of these limits to apply to all consumer credit transactions and the lifting of interest and service charge ceilings in other states.

SUMMARY:

The permissible service charges for open- and closed-ended retail transactions are revised.

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.

Appropriation: none

Revenue: none

Fiscal Note: requested

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

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: PRO: W. Mandeville, Ford Credit; Janet Cunningham, WADA; Susie Tracy, WSFSA; Lew McMurrin, Household Ltd.; Jan Gee, WA Retail Assn.

