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HOUSE BILL 1226

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State of Washington

53rd Legislature

1993 Regular Session

By Representatives Zellinsky, Dellwo, Anderson and Mielke

Read first time 01/20/93. Referred to Committee on Financial  
Institutions & Insurance.

1 AN ACT Relating to the amounts of credit life insurance and credit  
2 disability insurance that consumer loan companies may make in  
3 connection with open-end loans; and amending RCW 31.04.115.

1 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

2 **Sec. 1.** RCW 31.04.115 and 1991 c 208 s 12 are each amended to read  
3 as follows:

4 (1) As used in this section, "open-end loan" means an agreement  
5 between a licensee and a borrower that expressly states that the loan  
6 is made in accordance with this chapter and that provides that:

7 (a) A licensee may permit the borrower to obtain advances of money  
8 from the licensee from time to time, or the licensee may advance money  
9 on behalf of the borrower from time to time as directed by the  
10 borrower;

11 (b) The amount of each advance and permitted charges and costs are  
12 debited to the borrower's account, and payments and other credits are  
13 credited to the same account;

14 (c) The charges are computed on the unpaid principal balance, or  
15 balances, of the account from time to time; and

16 (d) The borrower has the privilege of paying the account in full at  
17 any time without prepayment penalty or, if the account is not in  
18 default, in monthly installments of fixed or determinable amounts as  
19 provided in the agreement.

20 (2) Interest charges on an open-end loan shall not exceed twenty-  
21 five percent per annum computed in each billing cycle by any of the  
22 following methods:

23 (a) By converting the annual rate to a daily rate, and multiplying  
24 the daily rate by the daily unpaid principal balance of the account, in  
25 which case each daily rate is determined by dividing the annual rate by  
26 three hundred sixty-five;

27 (b) By multiplying a monthly rate by the average daily unpaid  
28 principal balance of the account in the billing cycle, in which case  
29 the monthly rate is one-twelfth of the annual rate, and the average  
30 daily unpaid principal balance is the sum of the amount unpaid each day  
31 during the cycle divided by the number of days in the cycle; or

32 (c) By converting the annual rate to a daily rate, and multiplying  
33 the daily rate by the average daily unpaid principal balance of the  
34 account in the billing cycle, in which case the daily rate is  
35 determined by dividing the annual rate by three hundred sixty-five, and  
36 the average daily unpaid principal balance is the sum of the amount  
37 unpaid each day during the cycle divided by the number of days in the  
38 cycle.

1 For all of the methods of computation specified in this subsection,  
2 the billing cycle shall be monthly, and the unpaid principal balance on  
3 any day shall be determined by adding to the balance unpaid, as of the  
4 beginning of that day, all advances and other permissible amounts  
5 charged to the borrower, and deducting all payments and other credits  
6 made or received that day. A billing cycle is considered monthly if  
7 the closing date of the cycle is on the same date each month, or does  
8 not vary by more than four days from that date.

9 (3) In addition to the charges permitted under subsection (2) of  
10 this section, the licensee may contract for and receive an annual fee,  
11 payable each year in advance, for the privilege of opening and  
12 maintaining an open-end loan account. Except as prohibited or limited  
13 by this section, the licensee may also contract for and receive on an  
14 open-end loan any additional charge permitted by this chapter on other  
15 loans, subject to the conditions and restrictions otherwise pertaining  
16 to those charges.

17 (4)(a) ~~If credit life or ((disability insurance is provided, and if  
18 the insured dies or becomes disabled when there is an outstanding open-  
19 end loan indebtedness, the insurance must be sufficient to pay the  
20 total balance of the loan due on the date of the borrower's death in  
21 the case of credit life insurance, or all minimum payments that become  
22 due on the loan during the covered period of disability in the case of  
23 credit disability insurance. The additional charge for credit life  
24 insurance or credit disability insurance shall be calculated in each  
25 billing cycle by applying the current monthly premium rate for the  
26 insurance, as permitted by the insurance commissioner, to the unpaid  
27 balances in the borrower's account, using any of the methods specified  
28 in subsection (2) of this section for the calculation of interest))  
29 credit disability insurance is provided, the additional charge for  
30 credit life insurance or credit disability insurance shall be  
31 calculated in each billing cycle by applying the current monthly  
32 premium rate for the insurance as the rate may be approved by the  
33 insurance commissioner to the entire outstanding balances in the  
34 borrower's open-end loan account, or so much thereof as the insurance  
35 covers using any of the methods specified in this subsection for the  
36 calculation of interest charges; and~~

37 (b) The licensee shall not cancel credit life or disability  
38 insurance written in connection with an open-end loan because of  
39 delinquency of the borrower in the making of the required minimum

1 payments on the loan, unless one or more of the payments is past due  
2 for a period of ninety days or more; and the licensee shall advance to  
3 the insurer the amounts required to keep the insurance in force during  
4 that period, which amounts may be debited to the borrower's account.

5 (5) A security interest in real or personal property may be taken  
6 to secure an open-end loan. Any such security interest may be retained  
7 until the open-end account is terminated. The security interest shall  
8 be promptly released if (a) there has been no outstanding balance in  
9 the account for twelve months and the borrower either does not have or  
10 surrenders the unilateral right to create a new outstanding balance; or  
11 (b) the account is terminated at the borrower's request and paid in  
12 full.

13 (6) The licensee may from time to time increase the rate of  
14 interest being charged on the unpaid principal balance of the  
15 borrower's open-end loans if the licensee mails or delivers written  
16 notice of the change to the borrower at least thirty days before the  
17 effective date of the increase unless the increase has been earlier  
18 agreed to by the borrower. However, the borrower may choose to  
19 terminate the open-end account and the licensee shall allow the  
20 borrower to repay the unpaid balance incurred before the effective date  
21 of the rate increase upon the existing open-end loan account terms and  
22 interest rate unless the borrower incurs additional debt on or after  
23 the effective date of the rate increase or otherwise agrees to the new  
24 rate.

25 (7) The licensee shall deliver a copy of the open-end loan  
26 agreement to the borrower at the time the open-end account is created.  
27 The agreement must contain the name and address of the licensee and of  
28 the principal borrower, and must contain such specific disclosures as  
29 may be required by rule of the supervisor. In adopting the rules the  
30 supervisor shall consider Regulation Z promulgated by the board of  
31 governors of the federal reserve system under the federal consumer  
32 credit protection act.

33 (8) Except in the case of an account that the licensee deems to be  
34 uncollectible, or with respect to which delinquency collection  
35 procedures have been instituted, the licensee shall deliver to the  
36 borrower at the end of each billing cycle in which there is an  
37 outstanding balance of more than one dollar in the account, or with  
38 respect to which interest is imposed, a periodic statement in the form  
39 required by the supervisor. In specifying such form the supervisor

1 shall consider Regulation Z promulgated by the board of governors of  
2 the federal reserve system under the federal consumer credit protection  
3 act.

--- **END** --- with open-end loans.