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**Insurance, Financial Services &  
Consumer Protection Committee**

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**HB 2231**

**Brief Description:** Funding consumers' financial awareness.

**Sponsors:** Representatives Appleton, Haler, McCoy, Eddy, Seaquist, Moeller, Takko, Williams, Campbell, Hudgins, Pedersen, Rodne, Hunt, Rolfes, Dickerson, B. Sullivan, Cody, Kirby, Conway, Ormsby and Santos.

**Brief Summary of Bill**

- Places a surcharge of \$0.25 is placed on each small loan.
- Directs the funds raised by the surcharge to be divided between the Financial Literacy Public Private Partnership Account and a new account for financial consumer education.

**Hearing Date:** 2/22/07

**Staff:** Jon Hedegard (786-7127).

**Background:**

Payday lending practices are regulated by the Department of Financial Institutions (DFI) under the Check Cashers and Sellers Act (Act), Chapter 31.45 RCW. The phrase "payday loan" refers to a type of short-term, unsecured loan that is typically offered to consumers by a business outlet offering check cashing services. In a typical payday loan transaction, the consumer writes the lender a post-dated check and, in return, the lender provides a lesser amount of cash to the consumer after subtracting interest and fees. Following this initial transaction, the lender holds the check for a specified period, during which the consumer has the option of either redeeming the check by paying the face amount to the lender or allowing the lender to cash the check after the loan period has expired.

The Act contains provisions for the licensing and regulation of businesses offering services related to check cashing and the selling of money orders, drafts, checks, and other commercial paper. The Act regulates payday lending practices and provides for regulation of licensees who are

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specifically authorized to issue small loans. No lender may lend more than \$700 to a single borrower at any one time. The lender may charge up to 15 percent for the first \$500. If the borrower has a loan in excess of \$500, the lender can charge up to 10 percent on the amount over \$500. For example, a lender could charge up to \$30 for a \$200 loan or up to \$85 for a \$600 loan.

Under the Act, licensees must maintain business books, accounts, and records. The books and accounts must be maintained for at least two years after a transaction. The DFI also has statutory authority to examine books, accounts, records, and files, or other information of licensees and persons that the agency has reason to believe is engaging in the business governed by Chapter 31.45 RCW.

Borrowers and lenders may agree to a payment plan for payday loans at any time. After four successive loans, and prior to default on the last loan, a borrower is entitled to convert his or her loans into a payment plan with the lender. Such payment plans are subject to the following conditions:

- a written agreement is required;
- the lender may charge the borrower a one-time fee in an amount up to the fee or interest on the outstanding principal;
- the agreement must allow the buyer not less than 60 days to pay off the loan; and
- the borrower must be allowed to pay off the loan in at least three payments.

The Director of the Department of Financial Institutions (Director) may impose the sanctions against any:

- licensee;
- applicant; or
- director, officer, sole proprietor, partner, controlling person, or employee of a licensee.

Sanctions may include:

- the denial, revocation, suspension, or conditioning of a license;
- an order to cease and desist from specific practices;
- the imposition of a fine not to exceed \$100 per day for each day's violation;
- the provision of restitution to borrowers or other injured parties; and
- the removal from office or banning from participation in the affairs of any licensee.

### Financial Literacy

"Financial literacy" has been defined as the understanding of basic concepts of money and the skills needed to manage personal finances during the course of an individual's lifetime. It includes an understanding of how compound interest works, the meaning of net worth, the effects of annual percentage rates on credit cards, discernment of appropriate investments, price and term comparisons, and planning ahead for major transactions and life events, such as buying a home or car, or funding college or retirement.

In 2004, the Legislature created the Washington Financial Literacy Public-Private Partnership (Partnership) consisting of 12 to 14 members, including legislators, financial services representatives, educators, and representatives from the Office of the Superintendent of Public Instruction (OSPI) and the DFI. The Partnership is charged with developing a working definition of "financial literacy," identifying strategies to promote the use of financial literacy curricula in

schools, serving as a resource, and seeking outcome measures to determine the effectiveness of educational efforts.

The Washington Financial Literacy Education Partnership Account also was created to support the Partnership and its efforts to provide learning opportunities for students and professional development for educators. Public funds and donations may be included in the account. Money may be withdrawn from the account by the OSPI when equal matching amounts from private sources are received in the account.

**Summary of Bill:**

A surcharge of \$0.25 is placed on each small loan. The surcharge is collected at the same time that the licensee complies with annual reporting requirements. The funds raised by the surcharge are divided approximately equally between the Financial Literacy Public Private Partnership Account and a new dedicated account for financial education created in the custody of the State Treasurer.

Expenditures from the Financial Consumer Education Account may be used only for financial consumer education and public service announcements. Only the Director or the Director's designee may authorize expenditures from the account.

**Appropriation:** None.

**Fiscal Note:** Requested on February 19, 2007.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.