

# SENATE BILL REPORT

## SB 6393

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As Reported By Senate Committee On:  
Financial Institutions & Housing, February 2, 1996

**Title:** An act relating to authorizing the collection of fees and prepayment penalties for consumer loans.

**Brief Description:** Authorizing the collection of fees and prepayment penalties for consumer loans.

**Sponsors:** Senators Prentice, Hale, Smith, Fraser, Sellar and Roach.

**Brief History:**

**Committee Activity:** Financial Institutions & Housing: 1/26/96, 2/2/96 [DPS].

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

**Majority Report:** That Substitute Senate Bill No. 6393 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair; Hale, Roach, Sellar, Smith and Sutherland.

**Staff:** Catherine Mele (786-7470)

**Background:** Consumer loan companies are regulated by state law. The maximum interest rate consumer loan companies can charge is 25 percent per year. Other statutory provisions limit the amount of fees that consumer loan companies may charge for making loans, and prohibit these companies from assessing a pre-payment penalty when the borrower pays the entire loan early.

**Summary of Substitute Bill:** The loan origination fee limitation is removed for real estate loans made by consumer loan companies.

**Substitute Bill Compared to Original Bill:** The substitute bill eliminates the authorization to charge prepayment penalties in the original bill, and removes the loan origination fee limitation for real estate loans.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** We compete with other lenders in the market that are permitted to charge prepayment penalties. This bill will allow us to compete with these lenders.

**Testimony Against:** Prepayment penalties add another cost to a loan for high risk borrowers who already pay higher interest rates. Prepayment penalties on second mortgages often preclude a borrower from refinancing the first mortgage when rates drop because of the cost of the prepayment penalty.

**Testified:** Marie Petrich, DFI; Jerry Edmonds, Williams, Kastner (con); David Schoeggl, Lane Powell (con); Jerry Gordon, Beneficial Investors (pro); Ken Lindberg, Lenders Mortgage (con); Jim Fitzgerald (con); Sally Gustafson, Attorney General's office (con); Lew McMurrin, Household Financial Group (pro); Susie Tracy, WA State Financial Services (pro); Keith Frachiseur, WA Assn of Mortgage Brokers (con).