

**SENATE BILL REPORT**

**SHB 1743**

**AS REPORTED BY COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE,  
APRIL 5, 1991**

**Brief Description:** Revising regulation of high-interest consumer loans.

**SPONSORS:** House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Dellwo, Broback, R. Meyers, R. Johnson, Dorn, Zellinsky, Paris, Scott and Winsley).

**HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE**

**SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE**

**Majority Report:** Do pass as amended.

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

**Staff:** Benson Porter (786-7470)

**Hearing Dates:** March 26, 1991; April 5, 1991

**BACKGROUND:**

Consumer loan companies can license or incorporate under either of two statutes, the Consumer Finance Act or the Industrial Loan Act. Both acts permit companies to charge rates in excess of the state usury statute and place the supervision of such companies with the state Supervisor of Banking. Many companies hold dual authority under both acts.

A person applying for a consumer finance company license must show that the company has \$50,000 in liquid assets and a \$2,500 bond for each location. Under the act, allowable interest rates vary depending upon the amount of the loan, ranging from a high of 2-1/2 percent per month for loans under \$500 to 1 percent per month on the portion of a loan amount exceeding \$1000. Loans are limited to a maximum of \$2,500 and may not exceed a term of 48-1/2 months. Consumer loan companies are permitted to use the "add-on" method of calculating interest.

Industrial loan companies are issued a certificate of authority after obtaining approval of their articles of incorporation and capital structure. Such companies are restricted as to their increases or decreases in capital stock, required cash reserves, real estate holdings, dividends, accounting for bad debts, and investments. Under the act, allowable interest rates are determined three ways. Loans under two years may be calculated using the discount

method with a maximum 10 percent annual interest rate. All other loans may not exceed 25 percent per year. In addition, companies may charge a 2 percent loan fee, a 50 cents per month charge while the loan is unpaid, and a 5 percent penalty for payments delinquent by one full week. Finally, companies are authorized to issue open-end loans (i.e., lines of credit) at a maximum rate of 25 percent per year.

Some have expressed that many provisions of the law are antiquated because of fundamental changes that have occurred over the past decades in the way industrial loan companies conduct business. For example, no industrial loan company issues investment certificates which the existing law anticipates. In addition, the existing Industrial Loan Act contains provisions concerning the solvency or business structure of a loan company, addressing potential insolvency concerns because of the deposit taking function of early company practices.

#### **SUMMARY:**

The existing Industrial Loan Act and Consumer Finance Loan Act are repealed effective January 1, 1992 and January 1, 1993 respectively. In their place, a new Consumer Loan Act is created combining elements of both repealed acts.

Existing statutory provisions governing industrial loan company business structure, business capital, and other regulatory tests are repealed. In their stead, loan companies must either post a bond of \$100,000 for each of the first five company offices and \$10,000 for each additional office or a loan company may maintain sufficient unimpaired capital and surplus.

The existing varied interest rate structure of both the Consumer Finance and the Industrial Loan Acts are replaced with a flat maximum permitted interest rate of 25 percent per year. Companies are permitted to increase their loan origination fee from 2 percent to 4 percent, and the late payment fees are increased from 5 to 10 percent with the grace period being extended to 10 days.

Companies are prohibited from using the current interest rate refund method (rule of 78s) in calculating interest rate refunds and from using the discount method for calculating new loans. New definitions are provided for methods of calculating interest accompanied by rule making authority to further explain these methods. Prepayment penalties are not permitted. In addition, the use of the add-on method for precomputed loans is retained but limited to loan terms not exceeding three years and 15 days. However, if the borrower prepays two or more installments on a loan calculated by the add-on method and continues to pay the loan in advance, the loan must be recalculated as if the loan had been made using a simple interest method of calculating borrower payments.

The supervisor is given broad administrative discretion to interpret the chapter to facilitate the delivery of financial

services. In addition, the supervisor is to adopt rules to ensure complete and full disclosures of lending transactions. Regulatory fees are revised and retained. Insurance sales and practices of loan companies must conform in all respects with the insurance code. The supervisor may direct the discontinuance of business conducted in an injurious manner or in violation of the new act.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** none requested

**Effective Date:** This bill takes effect January 1, 1992, except for section 23, repealing the Consumer Finance Act which takes effect January 1, 1993.

**SUMMARY OF PROPOSED SENATE AMENDMENT:**

An omission in replicating current language is corrected.

**TESTIMONY FOR:**

The Consumer Protection Act and Industrial Loan Company Act contain some provisions that are outdated. The proposed Consumer Loan Act will more accurately regulate the small loan business by recognizing modern lending practices, providing measures to protect the consumer and clarifying lending authority.

**TESTIMONY AGAINST:** None

**TESTIFIED:** Representative Dellwo, sponsor (pro); Lew McMurrin, Household Int'l. (pro); Jerry Gordon, Beneficial Management (pro); Susie Tracy, WA State Financial Services Assn. (pro); Tom Oldfield, Sup. of Banking