
SUBSTITUTE HOUSE BILL 1226

State of Washington

53rd Legislature

1993 Regular Session

By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Zellinsky, Dellwo, Anderson and Mielke)

Read first time 02/03/93.

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.

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

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

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

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

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

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

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

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

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

12 (b) By multiplying a monthly rate by the average daily unpaid
13 principal balance of the account in the billing cycle, in which case
14 the monthly rate is one-twelfth of the annual rate, and the average
15 daily unpaid principal balance is the sum of the amount unpaid each day
16 during the cycle divided by the number of days in the cycle; or

17 (c) By converting the annual rate to a daily rate, and multiplying
18 the daily rate by the average daily unpaid principal balance of the
19 account in the billing cycle, in which case the daily rate is
20 determined by dividing the annual rate by three hundred sixty-five, and
21 the average daily unpaid principal balance is the sum of the amount
22 unpaid each day during the cycle divided by the number of days in the
23 cycle.

24 For all of the methods of computation specified in this subsection,
25 the billing cycle shall be monthly, and the unpaid principal balance on
26 any day shall be determined by adding to the balance unpaid, as of the
27 beginning of that day, all advances and other permissible amounts
28 charged to the borrower, and deducting all payments and other credits
29 made or received that day. A billing cycle is considered monthly if
30 the closing date of the cycle is on the same date each month, or does
31 not vary by more than four days from that date.

32 (3) In addition to the charges permitted under subsection (2) of
33 this section, the licensee may contract for and receive an annual fee,
34 payable each year in advance, for the privilege of opening and
35 maintaining an open-end loan account. Except as prohibited or limited
36 by this section, the licensee may also contract for and receive on an
37 open-end loan any additional charge permitted by this chapter on other
38 loans, subject to the conditions and restrictions otherwise pertaining
39 to those charges.

1 (4)(a) ~~If credit life or ((disability insurance is provided, and if~~
2 ~~the insured dies or becomes disabled when there is an outstanding open-~~
3 ~~end loan indebtedness, the insurance must be sufficient to pay the~~
4 ~~total balance of the loan due on the date of the borrower's death in~~
5 ~~the case of credit life insurance, or all minimum payments that become~~
6 ~~due on the loan during the covered period of disability in the case of~~
7 ~~credit disability insurance. The additional charge for credit life~~
8 ~~insurance or credit disability insurance shall be calculated in each~~
9 ~~billing cycle by applying the current monthly premium rate for the~~
10 ~~insurance, as permitted by the insurance commissioner, to the unpaid~~
11 ~~balances in the borrower's account, using any of the methods specified~~
12 ~~in subsection (2) of this section for the calculation of interest))~~
13 credit disability insurance is provided, the additional charge for
14 credit life insurance or credit disability insurance shall be
15 calculated in each billing cycle by applying the current monthly
16 premium rate for the insurance, at the rate approved by the insurance
17 commissioner to the entire outstanding balances in the borrower's open-
18 end loan account, or so much thereof as the insurance covers using any
19 of the methods specified in this subsection for the calculation of
20 interest charges; and

21 (b) The licensee shall not cancel credit life or disability
22 insurance written in connection with an open-end loan because of
23 delinquency of the borrower in the making of the required minimum
24 payments on the loan, unless one or more of the payments is past due
25 for a period of ninety days or more; and the licensee shall advance to
26 the insurer the amounts required to keep the insurance in force during
27 that period, which amounts may be debited to the borrower's account.

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

36 (6) The licensee may from time to time increase the rate of
37 interest being charged on the unpaid principal balance of the
38 borrower's open-end loans if the licensee mails or delivers written
39 notice of the change to the borrower at least thirty days before the

1 effective date of the increase unless the increase has been earlier
2 agreed to by the borrower. However, the borrower may choose to
3 terminate the open-end account and the licensee shall allow the
4 borrower to repay the unpaid balance incurred before the effective date
5 of the rate increase upon the existing open-end loan account terms and
6 interest rate unless the borrower incurs additional debt on or after
7 the effective date of the rate increase or otherwise agrees to the new
8 rate.

9 (7) The licensee shall deliver a copy of the open-end loan
10 agreement to the borrower at the time the open-end account is created.
11 The agreement must contain the name and address of the licensee and of
12 the principal borrower, and must contain such specific disclosures as
13 may be required by rule of the supervisor. In adopting the rules the
14 supervisor shall consider Regulation Z promulgated by the board of
15 governors of the federal reserve system under the federal consumer
16 credit protection act.

17 (8) Except in the case of an account that the licensee deems to be
18 uncollectible, or with respect to which delinquency collection
19 procedures have been instituted, the licensee shall deliver to the
20 borrower at the end of each billing cycle in which there is an
21 outstanding balance of more than one dollar in the account, or with
22 respect to which interest is imposed, a periodic statement in the form
23 required by the supervisor. In specifying such form the supervisor
24 shall consider Regulation Z promulgated by the board of governors of
25 the federal reserve system under the federal consumer credit protection
26 act.

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