

SENATE BILL REPORT

SB 6338

As Passed Senate, February 19, 2002

Title: An act relating to the consumer loan act.

Brief Description: Modifying the consumer loan act.

Sponsors: Senators Keiser, Winsley, Gardner and Kohl-Welles.

Brief History:

Committee Activity: Labor, Commerce & Financial Institutions: 1/28/02, 1/29/02. [DP]
Passed Senate: 2/19/02, 47-0.

SENATE COMMITTEE ON LABOR, COMMERCE & FINANCIAL INSTITUTIONS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Keiser, Vice Chair; Benton, Fairley, Franklin, Gardner, Hochstatter, Honeyford, Rasmussen, Regala and Winsley.

Staff: Matthew Adams (786-7784)

Background: The 1991 Legislature enacted the Consumer Loan Act to authorize higher interest rates for certain types of loans. In doing so, the Legislature recognized the need for lenders to serve the credit needs of borrowers who represent a higher than average credit risk.

The 2001 amendments made the Consumer Loan Act's licensing requirements more stringent and broadened and defined the authority of the Director of Financial Institutions. Under current law, a licensee must provide a written disclosure to each borrower within three business days after receiving the borrower's loan application. The disclosure statement must contain an itemized estimation and explanation of all fees and costs that the borrower is required to pay in connection with obtaining a loan from the licensee.

Disclosure in a form that complies with federal law and regulations constitutes compliance with the Consumer Loan Act when the licensee provides the disclosure to the borrower within three business days after receiving the borrower's loan application. The Consumer Loan Act specifically references the Truth in Lending Act, which prescribes the general disclosure requirements that must be met by lenders offering or extending consumer credit, Federal Reserve Board Regulation Z, which prescribes the specific disclosure requirements for both open-end and installment credit transactions, and the Real Estate Settlement Procedures Act.

Summary of Bill: When making a loan that is not secured by a real property lien, a licensee must make disclosures in accordance with the Truth in Lending Act, Federal Reserve Board Regulation Z, and other applicable federal laws and regulations. The three-day disclosure requirement applies only to loans that are secured by a real property lien.

Additional disclosure requirements are prescribed for all loans made by the licensee that are secured by a real property lien. First, a licensee must disclose whether or not the loan contains a prepayment penalty. Second, a licensee must provide to the borrower an estimate of the loan's annual percentage rate which is calculated in compliance with the Truth in Lending Act and Federal Reserve Board Regulation Z. In both cases, the licensee must make the disclosure within three business days after receiving the borrower's loan application.

The Director of the Department of Financial Institutions may make a determination by rule that compliance with federal disclosure requirements constitutes compliance with the Consumer Loan Act.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: The bill carries out the full intent of the 2001 Amendments to the Consumer Loan Act. The bill also helps to prevent predatory lending practices.

Testimony Against: None.

Testified: Jim Boldt, WA Financial Services Association (pro).