

SENATE BILL REPORT

SB 5541

As Reported By Senate Committee On:
Financial Services, Insurance & Housing, February 27, 2003

Title: An act relating to prepayment of unpaid time balance.

Brief Description: Concerning retail installment contracts.

Sponsors: Senators Keiser, Prentice and Winsley.

Brief History:

Committee Activity: Financial Services, Insurance & Housing: 2/27/03 [DP].

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Majority Report: Do pass.

Signed by Senators Benton, Chair; Winsley, Vice Chair; Keiser, Prentice, Roach and Zarelli.

Staff: Jack Brummel (786-7428)

Background: The Retail Installment Sales Act provides that the refund due a buyer for prepayment in full of the balance of an installment sales contract is to be computed according to the "rule of seventy eighths." This rule is a mathematical formula that was devised in the days before modern calculators. The formula was a quick way for lenders in the 1920s and 1930s to estimate payoff amounts. The buyer gets less money back under the rule of seventy eighths than would be returned using an actuarial calculation. According to the Attorney General's Office, the Retail Installment Sales Act is the only statute allowing the use of the rule. The Consumer Loan Act requires the use of the actuarial method when calculating refunds due for prepayments.

Summary of Bill: Refund credits for prepayment in full of installment contract balances are to be computed using the actuarial method. Under certain circumstances, the refund is to be made as if the contract had calculated interest using the simple interest method.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: This cleans up a part of the law that had been overlooked. We should switch to the actuarial method. The Attorney General supports the bill.

Testimony Against: None.

Testified: Senator Keiser, prime sponsor (pro); David Huey, Attorney General's Office (pro).