Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Financial Institutions & Insurance Committee

HB 2017

Brief Description: Regulating the making of small loans.

Sponsors: Representatives Schual-Berke, Pettigrew, Kenney, Kagi, Darneille, Dickerson, Cody, Conway, McDermott, Kessler, Morrell, Lovick, Flannigan, Hudgins, Hunt, Hasegawa, O'Brien, Moeller, Chase, Quall, B. Sullivan, McIntire, P. Sullivan, Williams, Ormsby, Kirby, Ericks and Upthegrove.

Brief Summary of Bill

- Reduces the total amount a payday lender may loan to a borrower at any one time from $700 to $500.
- Reduces the interest rate a payday lender may charge a borrower to 10 percent interest up to a maximum of $25.

Hearing Date: 2/22/05

Staff: Sonja Hallum (786-7092).

Background:

The business of check cashing and selling is regulated by the Department of Financial Institutions (DFI) pursuant to the Check Cashers and Sellers Act (Act). One of the common practices of such businesses is the issuance of what have become known as "payday loans." The term "payday loan" refers to a type of short-term, high interest, unsecured loan that is typically offered to consumers by a business outlet offering check cashing services.

In a typical payday loan transaction, the consumer writes the lender a post dated check and, in return, the lender provides a lesser amount of cash to the consumer after subtracting interest and fees. Following this initial transaction, the lender holds the check for a specified period, during which the consumer has the option of either redeeming the check by paying the face amount to the lender or allowing the lender to cash the check after the loan period has expired.

Payday lending practices are subject to regulation under the Check Cashers and Sellers Act, Chapter 31.45 RCW (Act). The Act contains provisions for the licensing and regulation of businesses offering services related to check cashing and the selling of money orders, drafts, checks, and other commercial paper. The Act regulates payday lending practices and provides for regulation of licensees who are specially authorized to issue small loans. Two significant statutory limitations are the following:

- the loan amount may not exceed $700;
- the interest rate and fees, in the aggregate, may not exceed 15 percent for amounts below $500 and 10 percent for amount that exceeds $500.

Summary of Bill:

Maximum balance: The maximum balance that may be owed by a borrower to a lender on one or more loans cannot, in the aggregate, exceed $500.

Interest rate: The interest is limited to 10 percent, regardless of the amount of the loan, with a maximum not to exceed $25.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.