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HOUSE BILL 2361

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State of Washington                      59th Legislature                      2006 Regular Session

By Representatives Appleton, Moeller, Morrell, Lantz, McIntire and Green

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1            AN ACT Relating to establishing a minimum duration for small loans;  
2 amending RCW 31.45.073; and creating a new section.

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

4            NEW SECTION.    **Sec. 1.** The legislature finds that there is  
5 inadequate information to determine the fairness or reasonableness of  
6 fees and interest associated with small loans, also known as payday  
7 loans. Consumers should be able to access loans at reasonable rates;  
8 no one should have to pay usurious interest rates. While it is unclear  
9 if the current rates associated with payday lending are unfair or  
10 excessive, it is very clear that the rates are high. Under current  
11 law, a borrower using a payday loan often pays annual percentage rates  
12 that result in the loan being paid off multiple times on an annual  
13 basis. For example, a five hundred dollar loan for two weeks could  
14 result in a borrower paying an annual percentage rate of almost four  
15 hundred percent. Paying these types of interest rates can cause a  
16 borrower to need a loan to pay off their loan. By turning to payday  
17 loans again and again, the borrower can become trapped in a debt cycle.  
18 This cycle is most likely to impact people with low incomes who can  
19 least afford to pay high interest rates and have the fewest options in

1 breaking the debt cycle. While every person must take responsibility  
2 for their actions and decisions, the legislature has a duty to help  
3 protect consumers, particularly the most vulnerable members of our  
4 society. To fulfill this duty, the legislature needs additional  
5 information.

6 **Sec. 2.** RCW 31.45.073 and 2003 c 86 s 8 are each amended to read  
7 as follows:

8 (1) No licensee may engage in the business of making small loans  
9 without first obtaining a small loan endorsement to its license from  
10 the director in accordance with this chapter. An endorsement will be  
11 required for each location where a licensee engages in the business of  
12 making small loans, but a small loan endorsement may authorize a  
13 licensee to make small loans at a location different than the licensed  
14 locations where it cashes or sells checks. A licensee may have more  
15 than one endorsement.

16 (2) A borrower must be allowed a minimum of thirty days to pay off  
17 a small loan. A licensee may not charge an additional fee or interest  
18 if the borrower pays off the loan within thirty days. The termination  
19 date of a small loan may not exceed the origination date of that same  
20 small loan by more than forty-five days, including weekends and  
21 holidays, unless the term of the loan is extended by agreement of both  
22 the borrower and the licensee and no additional fee or interest is  
23 charged. The maximum principal amount of any small loan, or the  
24 outstanding principal balances of all small loans made by a licensee to  
25 a single borrower at any one time, may not exceed seven hundred  
26 dollars.

27 (3) A licensee that has obtained the required small loan  
28 endorsement may charge interest or fees for small loans not to exceed  
29 in the aggregate fifteen percent of the first five hundred dollars of  
30 principal. If the principal exceeds five hundred dollars, a licensee  
31 may charge interest or fees not to exceed in the aggregate ten percent  
32 of that portion of the principal in excess of five hundred dollars. If  
33 a licensee makes more than one loan to a single borrower, and the  
34 aggregated principal of all loans made to that borrower exceeds five  
35 hundred dollars at any one time, the licensee may charge interest or  
36 fees not to exceed in the aggregate ten percent on that portion of the  
37 aggregated principal of all loans at any one time that is in excess of

1 five hundred dollars. The director may determine by rule which fees,  
2 if any, are not subject to the interest or fee limitations described in  
3 this section. It is a violation of this chapter for any licensee to  
4 knowingly loan to a single borrower at any one time, in a single loan  
5 or in the aggregate, more than the maximum principal amount described  
6 in this section.

7 (4) In connection with making a small loan, a licensee may advance  
8 moneys on the security of a postdated check. The licensee may not  
9 accept any other property, title to property, or other evidence of  
10 ownership of property as collateral for a small loan. The licensee may  
11 accept only one postdated check per loan as security for the loan. A  
12 licensee may permit a borrower to redeem a postdated check with a  
13 payment of cash or the equivalent of cash. The licensee may disburse  
14 the proceeds of a small loan in cash, in the form of a check, or in the  
15 form of the electronic equivalent of cash or a check.

16 (5) No person may at any time cash or advance any moneys on a  
17 postdated check or draft in excess of the amount of goods or services  
18 purchased without first obtaining a small loan endorsement to a check  
19 cashier or check seller license.

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