SENATE BILL REPORT
HB 1270

As Reported By Senate Committee On:
Financial Institutions & Insurance, March 27, 2007

Title: An act relating to the duration period of loans made under the consumer loan act.

Brief Description: Modifying provisions of the consumer loan act with respect to loan restrictions.

Sponsors: Representatives Kirby, Roach and Moeller.

Brief History: Passed House: 2/28/07, 96-0.
Committee Activity: Financial Institutions & Insurance: 3/20/07, 3/27/07 [DP].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass.
Signed by Senators Berkey, Chair; Hobbs, Vice Chair; Franklin, Hatfield, Parlette and Schoesler.

Staff: Diane Smith (786-7410)

Background: Consumer loan companies are lenders authorized to make loans for more than the usury rate. They are authorized and regulated because the Legislature has recognized the need for lenders to serve the credit needs of borrowers who represent a higher than average credit risk.

Consumer loan companies may charge up to 25 percent simple interest as well as certain prescribed loan origination fees. Consumer loan companies are regulated by the Department of Financial Institutions (DFI) under the Consumer Loan Act.

Consumer loan companies may make both secured and unsecured loans. Loans secured by a lien of real property are not subject to a limitation on the number of years the repayment of the loan can extend.

Open-end loans are also not limited in the number of years the repayment of the loan can extend. An "open-end loan" is a loan that allows the borrower to take advances which are debited to the borrower's account. The borrower may pay in monthly installments that are fixed or determinable and may pay the full amount at any time without a prepayment penalty.

All loans made by licensees under the Consumer Loan Act must have a repayment period less than six years and 15 days after the loan is originated. This restriction does not apply to an open-end loan or a loan secured by real estate or personal property used as a residence.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Within three days of the receipt of a loan application, a licensee must provide the borrower with a written disclosure and explanation of all costs and fees imposed in connection with obtaining the loan. Compliance with the federal Truth in Lending Act for loans not secured by real estate and with both the federal Truth in Lending Act and the Real Estate Settlement Procedures Act for loans that are secured by real estate constitutes compliance with the Consumer Loan Act.

Violations of the chapter that constitute unfair or deceptive acts or practices are violations of the Consumer Protection Act.

Summary of Bill: The limitation on the number of years the repayment period for all loans can extend, except open-end loans and loans secured by a lien or real estate, is removed. A licensee may make a loan with a repayment period greater than six years and 15 days after the loan origination date for all types of loans under the Consumer Loan Act.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: A little fluke in the law sets apart consumer loans. This bill levels the playing field for auto loans. Also, for RVs and motor homes, people can only get payback periods over six years and 15 days if the loan is converted to an open-ended loan. Some companies cannot do that and some people want a fixed, pre-computed loan. This is a fairness issue as other states are not limited the way Washington is by current law.

Persons Testifying: PRO: Representative Kirby, prime sponsor; Tom Echols, Washington State Financial Services Association.