

# HOUSE BILL REPORT

## HB 1195

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**As Passed House:**  
March 1, 2011

**Title:** An act relating to clarifying that a license and endorsement are needed to make small loans.

**Brief Description:** Clarifying that a license and endorsement are needed to make small loans.

**Sponsors:** Representatives Kelley and Santos.

**Brief History:**

**Committee Activity:**

Business & Financial Services: 2/3/11, 2/4/11 [DP].

**Floor Activity:**

Passed House: 3/1/11, 97-0.

**Brief Summary of Bill**

- Clarifies licensing requirements for any person who makes a small loan.

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### HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

**Majority Report:** Do pass. Signed by 13 members: Representatives Kirby, Chair; Kelley, Vice Chair; Bailey, Ranking Minority Member; Buys, Assistant Ranking Minority Member; Blake, Condotta, Hudgins, Hurst, Parker, Pedersen, Rivers, Ryu and Stanford.

**Staff:** Jon Hedegard (786-7127).

**Background:**

Payday Loans.

Small loans (better known as "payday loans") are regulated by the Department of Financial Institutions (DFI) under the Check Cashers and Sellers Act (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 phrase "payday loan" refers to a type of short-term, unsecured loan that is typically offered to consumers by a business outlet offering check cashing services. In a typical payday loan

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transaction, the borrower 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.

#### Licensing.

A person or entity must be licensed to engage in the business of check cashing or check selling unless exempt from licensing requirements. A licensee must have a small loan endorsement to their check cashing or check selling license to make small loans in the state. An endorsement is required for each location where a licensee makes small loans. Applicants for a license or an endorsement must provide certain information and meet financial requirements.

#### Agency Enforcement.

The Director may impose sanctions against any:

- licensee;
- applicant; or
- director, officer, sole proprietor, partner, controlling person, or employee of a licensee.

Sanctions may include:

- the denial, revocation, suspension, or conditioning of a license;
- an order to cease and desist from specific practices;
- the imposition of a fine not to exceed \$100 per day for each day's violation;
- the provision of restitution to borrowers or other injured parties; and
- the removal from office or banning from participation in the affairs of any licensee.

#### Consumer Protection Act.

A violation of the Act is a violation of the Consumer Protection Act (CPA). Remedies under the CPA do not affect any other remedy available to an injured party.

In a suit for a CPA violation, an injured party may sue for:

- the actual damages sustained;
- the costs of the suit;
- reasonable attorney's fees; and
- additional damages in the amount of up to three times the actual damages sustained by the plaintiff. These discretionary treble damages are capped at \$25,000.

The Attorney General may also sue to:

- prevent or restrain violations of the CPA; and
- seek restitution for persons injured by violation of the CPA.

#### **Summary of Bill:**

Language is restructured so the provision that prevented a licensee from making a loan without an endorsement now states that no person may make a small loan without a license and an endorsement.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Staff Summary of Public Testimony:**

(In support) The bill involves a minor language change. Recently, a court decided that only a licensee is subject to the provisions of the Act even though the Act requires a license of those who make small loans. The decision was somewhat confused. The law is clear. This change makes the law even clearer. Illegal lending is a problem. This bill is a good start to addressing that problem.

(Available for questions) It is a good bill.

(Opposed) None.

**Persons Testifying:** (In support) Representative Kelley, prime sponsor; and Bev Spears, Statewide Poverty Action Network.

(Available for questions) Nathan Groff, Veritec.

**Persons Signed In To Testify But Not Testifying:** None.