SENATE BILL REPORT
SB 5547

As Reported by Senate Committee On:
Financial Institutions, Housing & Insurance, February 16, 2011

Title: An act relating to removing the cap on the maximum number of small loans a borrower may have in a twelve-month period.

Brief Description: Removing the cap on the maximum number of small loans a borrower may have in a twelve-month period.

Sponsors: Senators Prentice, Benton and Hewitt.

Brief History:
Committee Activity: Financial Institutions, Housing & Insurance: 2/09/11, 2/16/11 [DP, DNP, w/oRec].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: Do pass.
Signed by Senators Prentice, Vice Chair; Benton, Ranking Minority Member; Fain and Litzow.

Minority Report: Do not pass.
Signed by Senators Hobbs, Chair; Haugen.

Minority Report: That it be referred without recommendation.
Signed by Senator Keiser.

Staff: Alison Mendiola (786-7483)

Background: Payday lending practices are regulated by the Department of Financial Institutions (DFI) under the Check Cashers and Sellers Act (Act), Chapter 31.45 RCW. 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 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.

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.

The Act regulates payday lending practices and provides for regulation of licensees who are specifically authorized to issue small loans (also known as payday loans). A licensee is prohibited from making a small loan to a borrower if making that small loan would result in a borrower receiving more than eight small loans from all licensees in any 12-month period.

Summary of Bill: There is no limit on the number of small loans a borrower may receive in any 12-month period.

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: Since a cap was placed on the number of payday loans a consumer can have, consumers have been turning to the Internet where there are many unregulated lenders. This bill is an attempt to address this issue. The installment plans and database are working and those won't be changed by this legislation.

CON: This is an attempt to undo the many consumer protections that were put into place in 2009, and we should leave the law as it is. The eight loans a year cap has worked. Demand for Internet lending has not increased. It's hard to go after unlicensed Internet payday lenders, but other states have taken action specifically directed to targeting them which this state could do too. The unlicensed Internet lenders should be regulated, but the cap on loans shouldn't be removed. The law should be strengthened by placing a 36 percent cap on the interest charged, like for the military.

Persons Testifying: PRO: Senator Prentice, prime sponsor.

CON: Margie Engle, citizen; Bev Spears, Statewide Poverty Action Network; Bruce Neas, Columbia Legal Services; Norma Hernandez, Express Credit Union; Dick Burkhart, Washington Universal Unitarians Voices for Justice; Michael Warren, Washington Alliance for Retired Americans; Heather Villanueva, Service International Employees Union 775 Northwest; John-Paul Chaisson, Community Action Network.