SENATE BILL REPORT
SB 5613

As of February 4, 2015

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

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

Sponsors: Senator Benton.

Brief History:
Committee Activity: Financial Institutions & Insurance: 2/18/15.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Shani Bauer (786-7468)

Background: 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 Act regulates payday lending practices and provides for regulation of licensees who are specifically authorized to issue small loans by applying for and receiving an endorsement to their check casher or check seller license.

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 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 time the borrower 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.

A borrower may not take out payday loans at any time that total more than $700 or 30 percent of the borrower's gross monthly income, whichever is less. The lender may charge up to 15 percent for the first $500 and 10 percent for any amount over $500. The minimum term of a loan is the borrower's next paycheck unless the borrower's next paycheck is less

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than seven days away, in which case the minimum term is the next following pay date. The maximum loan term is 45 days.

A lender may not make a payday loan to a borrower:

- who is in default on a previous loan; this prohibition lasts until the loan is paid in full or two years have passed since the loan was made;
- who is in an installment plan; this prohibition lasts until the installment plan is paid in full or for two years after the origination of the installment plan; or
- if making the loan would result in a borrower receiving more than eight payday loans from all lenders in any 12-month period.

DFI maintains a database system that allows a lender to verify if the potential borrower is eligible for a small loan.

Summary of Bill: The limitation on the number of payday loans a borrower may have in a 12-month period is raised from eight to sixteen.

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.