SENATE BILL REPORT
SB 5613

As Reported by Senate Committee On:
Financial Institutions & Insurance, February 19, 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, 2/19/15 [DP, DNP].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass.
Signed by Senators Benton, Chair; Angel, Vice Chair; Fain, Litzow and Roach.

Minority Report: Do not pass.
Signed by Senators Mullet, Ranking Minority Member; Darneille and Pedersen.

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

---

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.

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 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.

Staff Summary of Public Testimony: PRO: The Consumer Financial Protection Bureau is now in the process of interviewing several small businesses to see where harm may or may not exist. Rules would then be crafted based on that information. It may be years before we see anything implemented at the federal level. Many payday lenders in the state have gone out of business because it is no longer profitable. There is no other area of the law where the state rations financial services in this manner. When a consumer is no longer able to take out a loan because of the cap, they turn to Internet lenders who are unlicensed. The complaints against online payday lenders has skyrocketed over the last few years since the cap was passed.

CON: Advocacy groups have worked on this issue over a number of years. We have had success in reining in the abuses of a few years ago. The cap has been doing its job and works as a circuit breaker for stopping the cycle of loans and kicking people into an installment plan. Sixty-nine percent of people who take payday loans are using them to cover living expenses. There is not evidence that this cap forces people to go to Internet lenders. The solution to Internet lending is enforcement and the fact that the loans are not enforceable.

This bill seeks only to benefit lenders by allowing debtors to stay indebted for the full year without a break. Payday reforms in 2009 have pretty well worked. The total number of loans has fallen from over 1.3 billion in 2009 to 330 million in 2013. Payday loans have fallen from 3.2 million in 2009 to 270,000 in 2013. The Consumer Finance Protection Bureau will be coming out with findings. It would be helpful to wait and see what those are before making changes to the law.

Persons Testifying: PRO: Senator Benton, prime sponsor; Trent Matson, Moneytree, Inc. Director of Government Affairs.

CON: Marcy Bowers, Statewide Poverty Action Network; Stephanie Bowman, WA Asset Building Coalition; Bruce Neas, Columbia Legal Services.