

SENATE BILL REPORT

ESB 5616

As Passed Senate, March 5, 2015

Title: An act relating to pawnbroker fees and interest rates.

Brief Description: Concerning pawnbroker fees and interest rates.

Sponsors: Senators Benton, Hobbs, Angel, Keiser, Fain, Roach, Hatfield, Conway, Chase and Baumgartner.

Brief History:

Committee Activity: Financial Institutions & Insurance: 2/04/15, 2/05/15 [DP, DNP].
Passed Senate: 3/05/15, 42-2.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass.

Signed by Senators Benton, Chair; Angel, Vice Chair; Fain, Hobbs and Litzow.

Minority Report: Do not pass.

Signed by Senators Mullet, Ranking Minority Member; Darneille and Pedersen.

Staff: Shani Bauer (786-7468)

Background: Washington regulates the business of pawnbrokers under chapter 19.60 RCW. There is, however, no state licensing requirement for pawnbrokers. Local governments may issue licenses for pawnbroker businesses and have the authority to enact provisions that are more restrictive than those in chapter 19.60 RCW. A pawnbroker is defined as every person engaged, in whole or in part, in the business of loaning money on the security of pledges, deposits, or conditional sales of personal property, or the purchase and sale of personal property.

The statutory term of a pawnbroker loan is 90 days. Every loan transaction entered into by a pawnbroker must be a written agreement, and a copy must be furnished to the pledger of the property. Interest may be charged every 30 days, and a preparation fee may be charged once for the term of the loan. If a pledged article is not redeemed within the 90-day term of the loan, the pawnbroker has all rights, title, and interest of that item of personal property. The pawnbroker is not required to account to the pledger for any proceeds received from the

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disposition of that property. A new loan, by agreement of the parties, may be written after the 90-day term is up.

Pawnbrokers are authorized to receive interest and loan preparation fees up to statutory limits. The schedule for the maximum amount of interest and fees that pawnbrokers may charge is set out in incremental categories. There are 12 categories for interest, and they range from loans in amounts of less than \$10 to loans in amounts of \$100 or more. Under Washington law, there is no limitation regarding the maximum loan amount. The schedule allows for interest of \$1 every 30 days for a loan less than \$10. For loans of \$100 or more, the maximum interest rate per 30 days is 3 percent of the loan amount. A schedule of the maximum fees that pawnbrokers may charge for the preparation of documents, pledges, or reports required by law is also set out in statute. The fee schedule contains 56 categories of loan amounts, from loans less than \$5 to loans of \$4,500 or more. The fee for a loan in an amount less than \$5 is \$1.50 and for a loan of \$4,500 or more, it is \$91.

The pawnbroker may also charge a general storage fee of \$3 and an additional \$3 fee for the storage of a firearm.

The table below illustrates the maximum interest and fees permitted for certain loan amounts:

Loan Amount	30-Day Loan			90-Day Loan		
	Interest	Prep Fee	Storage	Interest	Prep Fee	Storage
\$50	\$2.50	\$8	\$3	\$7.50	\$8	\$3
\$100	\$3	\$13	\$3	\$9	\$13	\$3
\$250	\$7.50	\$19	\$3	\$22.50	\$19	\$3
\$500	\$15	\$29	\$3	\$45	\$29	\$3
\$1,000	\$30	\$56	\$3	\$90	\$56	\$3

Summary of Engrossed Bill: The interest and fees allowed for pawnbroker loans are modified. For loan amounts of \$100 or more, the interest charged per 30-day period is increased to 4 percent of the loan. The one-time preparation fee for loans of \$50 or more is a gradually decreasing percentage rate based on the amount of the loan. The fee ranges from 15 percent for a loan amount of \$50 to \$99.99 down to 6 percent for loan amounts of \$2,000 or more. The interest for loan amounts of less than \$100 remain at 3 percent and incremental fees stay the same for loan amounts less than \$50.

The general storage fee and the firearm storage fee are each increased to \$5. Both storage fees may be charged on a recurring basis, every 30 days.

The table below illustrates the maximum interest and fees permitted for certain loan amounts under this act:

Loan Amount	30-Day Loan			90-Day Loan		
	Interest	Prep Fee	Storage	Interest	Prep Fee	Storage
\$50	\$2.50	\$7.50	\$5	\$7.50	\$7.50	\$15
\$100	\$4	\$13	\$5	\$12	\$13	\$15
\$250	\$10	\$25	\$5	\$30	\$25	\$15
\$500	\$20	\$40	\$5	\$60	\$40	\$15

\$1,000	\$40	\$75	\$5	\$120	\$75	\$15
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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: Pawnbroker regulations were adopted in 1909 and the 3 percent interest rate was original to that time. Pawn loans are securitized, nonrecourse loans. If someone defaults there is no collection or other recourse; the pawnbroker gets the item and that's it. This bill seeks to protect the customer but give the industry a well-deserved and reasonable fee increase. The Legislature is in control of rates and the fee structure. Businesses cannot increase fees to offset the cost of inflation. Pawnbrokers had a small de minimis increase in 2007. An average pawn loan runs around \$100 to \$125. The bill attempts to value the cost according to the risk of the item. Risk increases as the value of the item increases. Pawnbrokers help people who may have medical needs, gas money, or money for college. People need these services. All costs have gone up significantly. Fee increases are a reasonable and necessary change to cover these costs and allow pawnbrokers to stay in business. This fee increase would put Washington in the middle of states with regard to the amount of fees charged.

OTHER: Legal aid organizations around the state do not have concerns with the operation of pawnbroker businesses. It appears that the bill would result in a large increase in fees once the loans escalate to the \$500 level. The fee increase shouldn't be quite that steep. It might also be prudent to add a cap on the amount of a loan under this law.

Persons Testifying: PRO: Michael Transue, Cash America; Tammie Warnke, Nick Buell, Kevin Opdahl, Dan Maks, Tim Mabry, WA State Pawnbrokers Assn.

OTHER: Bruce Neas, Columbia Legal Services.