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The Honorable Larry Springer
132E Legislative Building
PO Box 40600
Olympia, WA 98504

The Honorable Marko Liias
226 John A. Cherberg Building
PO Box 40421
Olympia, WA 98504

Larry Marko
Dear Representative ~~Springer~~ and Senator ~~Liias~~:

I greatly appreciate your interest in providing improved access to credit for low-income consumers in Washington State. However, as you know, I oppose SHB 1922 and SSB 5899, which would substantially amend the existing check cashers and sellers provisions found in RCW 34.10 – the "payday lending" system – and create a new statute relating to small consumer installment loans. The new loan product created under this proposal would be significantly worse for the average consumer than the current payday loan product. This letter is in response to your request to articulate my concerns.

Drawing on recent reforms to the payday lending system in Colorado, SHB 1922 and SSB 5899 seek to create a small installment loan product that would provide consumers with an alternative to payday loans. However, unlike Colorado's prior system, Washington's current lending system has a number of important safeguards for consumers and does not need to be overhauled.

A borrower in Washington already has the option to convert his or her payday loan into an installment loan if they are unable to satisfy the loan in full at payday. Lenders are required to inform the borrower of the installment option, and DFI reports that almost 15% of borrowers convert their payday loans to installment plans. Under current law, when a traditional payday loan "balloon payment" is due, a borrower may request an installment plan and the lender *must allow an installment plan of up to 180 days.* Importantly, *the lender cannot add any additional fees or charges to the debt.*

The proposed bill will substantially raise the cost for consumers for a small installment loan compared to the current system. For example, under the current system if a borrower takes out a payday loan for $700, they would pay a maximum origination fee of $95 (15% on first $500 and 10% on amount over $500). If they request an installment plan under the current system, they will have up to six months to pay – and their total repayment would remain $795 (principal plus origination fee).

By contrast, the proposed system would impose additional costs and fees on a borrower. On the same $700 loan for 6 months, a borrower would pay 36% interest, a 15% origination fee, and a 7.5% monthly maintenance fee (capped at $60). If the borrower took the entire six months to pay the loan, the new system would allow an origination fee of $105, a total of $315 in six months of monthly maintenance fee, and $75.31 in interest. The total repayment would be over $1,195. *In short, the new system would cost this consumer an additional $400.*

While there may be cases where a borrower pays off the loan early and avoids some of these costs, apples to apples the new system is more expensive for Washington consumers.

When describing the costs to consumers, the proponents of the bill are ignoring the current installment loan option in our payday lending laws. They have asked you to assume that a consumer will take out a new payday loan to pay the previous loan and accrue an origination fee every two weeks with each new loan. In this model (similar to Colorado's previous system), they argue that a borrower would be charged $95 every two weeks, for a total of $760 in fees. *However, the 2009 reforms passed by the legislature addressed this cycle of debt by requiring a lender to offer a consumer-friendly installment plan. This legislation would eliminate the installment option for consumers.*

Setting aside the concerns raised above, I would like to commend the policy in Section 27 that specifically bans lenders from requiring a security of postdated checks or mandatory electronic payment plans when the loan is originated. The current payday lending regulations do not have these consumer protection provisions for borrowers entering an installment plan. This provision could protect borrowers from incurring overdraft fees from their bank and other creditors due to insufficient funds.

In sum, I urge you not to pass legislation that will set in motion a new regulatory scheme that will cost consumers more money. Rather, I ask you to engage in more discussion about whether there are ways to improve our lending laws while maintaining the existing consumer protections in the current system, including the installment option. My office would be happy to provide assistance or participate in any future discussions.

Thank you for all of your work on behalf of the people of Washington, and thank you for considering my concerns on behalf of Washington consumers. I am happy to answer any questions you may have regarding our concerns.

Sincerely,

BOB FERGUSON
Attorney General

RWF/jlg