



HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 2191

PRINTERS NO. 3645

PRIME SPONSOR: Ross

COST / (SAVINGS)

FUND	FY 2011/12	FY 2012/13
General Fund	\$0	\$
Banking Department Fund	\$0	\$5,000,000
Consumer Credit Counseling Account	\$0	\$1,500,000

SUMMARY: House Bill 2191, Printer's Number 3645, amends Titles 7 (Banks and Banking) and 18 (Crimes and Offenses), providing for short-term loan protection in Title 7 and for deceptive or fraudulent business practices and unlicensed short-term lending in Title 18.

ANALYSIS: This legislation adds Chapter 51 (Short-term Loan Protection) to Title 7 which provides a new regulatory program governing the making of short-term loans in Pennsylvania which is to be administered by the Department of Banking. Persons wishing to engage in short-term lending must obtain a license from the department. Depository institutions would be exempt from this requirement. The annual license fee is \$3,000 for the principal place of business and \$1,000 for each additional branch office. The Department shall engage a third-party provider who shall develop, implement and maintain a compliance system with real time access for reporting of loan transactions and verifying information.

A short-term loan is defined as a loan or advance of money or credit to a consumer for a fee, finance charge or other consideration where the short-term lender does all of the following: (1) accepts a check or other repayment mechanism from the consumer; (2) agrees to hold the check or repayment mechanism for a deferment period; and (3) pays to the consumer a cash advance, a locally cashable check, debit card or money order or credits to the consumer's account the amount of the check less finance charges. The term includes any arrangement in which a person pays a cash advance to a consumer in return for a repayment mechanism and a fee, finance charge or other consideration.

Applicants for licensure as a short-term lender would be required to establish that they have a tangible net worth of \$250,000 and that they will maintain the minimum tangible net worth at all times thereafter. Prior to and as a condition of licensure, the applicant would be required to maintain a bond of \$100,000 from a surety company authorized to do business in Pennsylvania.

Licensees may impose a finance charge which may not exceed \$0.125 per \$1.00 of the short-term loan. A verification fee of up to \$5.00 for a loan or renewal may be charge. Fifty cents (\$0.50) of the fee shall be remitted to the Commonwealth Consumer Credit Counseling Account, which shall be established by the PA Housing Finance Agency, to pay for the costs to provide consumer budget and credit counseling. Fifty cents (\$0.50) of the fee shall be remitted to a compliance system provider. One dollar and fifty cents (\$1.50) shall be remitted to the Department of Banking.

Short-term lenders would be prohibited from making a loan that exceeds the lesser of \$1,000 or 25% of the consumer's gross monthly income. A consumer shall be entitled to an extended payment plan agreement at least once per year if at any time on or before the loan's due date the consumer declares an inability to repay.

A person who engages in unfair or deceptive acts, practices, or advertising in conjunction with short-term lending would commit a violation section 4107 of Title 18, which relates to unfair or deceptive practices. In addition, Title 18 is mended to state that a person who operates without a license in violation of this legislation would commit a felony of the third degree.

The Department of Banking would be required to report to the General Assembly one year after the effective date of the chapter and annually thereafter on the status of the short-term loan industry.

Provisions of the legislation relating to the compliance system reporting shall take effect 30 days after publication by the department of a notice in the Pennsylvania Bulletin that the Compliance System is operational. The remainder of this legislation would take effect in 60days.

FISCAL IMPACT: A 2002 State of Florida Department of Banking and Finance annual report to the Florida legislature estimated that there were 2,831,390 cash advance transactions in that state similar to the short-term loan provided in this legislation and that these transactions took place at 898 different locations.

For purposes of this analysis it is assumed that 3 million short-term loan transactions will take place in a year in Pennsylvania and that there will be 500 locations where short-term loan transactions occur. The \$0.50 loan transaction fee will generate \$1.5 million for the Consumer Credit Counseling Account and \$1.5 million for the compliance system provider. The \$1.50 loan transaction fee will generate \$4.5 million for the Department of Banking. The licensing fees for short-term lenders of \$3,000 for the principal place of business and \$1,000 for each additional branch office are anticipated to generate \$500,000 annually for the department.

PREPARED BY: Ritchie LaFaver
House Appropriations Committee (R)

DATE: June 5, 2012

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.