



ENGROSSED 2009 ASSEMBLY BILL 447

February 19, 2010 – Printed by direction of SENATE CHIEF CLERK.

1 **AN ACT** *to amend* 20.144 (1) (g); and *to create* 20.144 (1) (j), 138.09 (8) (f), 138.09
2 (8) (g), 138.09 (8) (h), 138.14 and 138.15 of the statutes; **relating to:** regulating
3 payday loan providers, requiring reporting of certain loans to credit reporting
4 agencies, prohibiting balloon payments for certain loans, prohibiting certain
5 motor vehicle title loans, providing an exemption from emergency rule
6 procedures, granting rule-making authority, making an appropriation, and
7 providing a penalty.

Analysis by the Legislative Reference Bureau

Engrossment information:

The text of Engrossed 2009 Assembly Bill 447, as passed by the assembly on February 16, 2010, consists of the following documents adopted in the assembly on February 16, 2010: Assembly Substitute Amendment 1 as affected by Assembly Amendment 2. The text also includes the February 10, 2010, chief clerk's correction to the substitute amendment.

Content of Engrossed 2009 Assembly Bill 447:

Under current law, a lender other than a bank, savings bank, savings and loan association, or credit union generally must obtain a license from the Division of Banking (division) in the Department of Financial Institutions (DFI) to assess a

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finance charge greater than 18 percent per year. This type of lender is generally referred to as a “licensed lender.” Current law also contains numerous provisions regulating consumer loans, which are generally loans of \$25,000 or less made to individuals for personal, family, or household purposes.

This bill prohibits a licensed lender from making or offering a motor vehicle title loan. The bill defines “motor vehicle title loan” as a loan of \$25,000 or less to a borrower that is, or is to be, secured by a nonpurchase money security interest in the borrower’s motor vehicle. Under the bill, a “borrower” is an individual who obtains or seeks to obtain a motor vehicle title loan for personal, family, or household purposes.

This bill also creates certain requirements applicable to payday loan transactions. Under the bill, a “payday loan provider” is a licensed lender that makes payday loans. A “payday loan” is a transaction between an individual with an account at a financial establishment and the payday loan provider in which the provider agrees to either: 1) accept from the individual one or more checks, hold the checks for a period of time before negotiating them, and, before negotiating the checks, loan the individual an agreed amount for a term of 90 days or less; or 2) accept the individual’s authorization to initiate one or more electronic fund transfers (EFTs) from the individual’s account, wait for a period of time before initiating the EFTs, and, before initiating the EFTs, loan the individual an agreed amount for a term of 90 days or less. The foregoing definitions apply regardless of whether a payday loan provider is physically located in this state.

The bill imposes certain restrictions on payday loans. The bill prohibits a payday loan provider from making a payday loan that exceeds, in principal amount, interest, and all other fees and charges, \$600 or 35 percent of the applicant’s gross biweekly income, whichever is less. The bill does not otherwise affect the amount of interest that a payday loan provider charges, as long as the provider complies with the foregoing prohibition. In addition, the bill prohibits a payday loan provider from making a payday loan to an applicant who is liable for repayment on a payday loan made by another payday loan provider. A payday loan provider also may not make a payday loan if less than 24 hours have elapsed since the applicant repaid another payday loan in full or, if certain repayment requirements that are described below apply, less than one pay period of an applicant has elapsed since the applicant repaid the loan in full under those requirements. The bill also prohibits a payday loan provider from rolling over a payday loan that it has made to an individual. The bill defines “roll over” as the refinancing, renewal, amendment, or extension of a payday loan beyond its original maturity date, including the consolidation of payday loans and any transaction in which a payday loan is repaid with the proceeds of another payday loan made by the same payday loan provider.

In addition, the bill provides that a payday loan may not accrue interest after the loan maturity date and may not include any penalty arising from the customer’s prepayment, default, or late payment except that a payday loan provider may charge a fee not to exceed \$15 if the customer’s payment method is dishonored for insufficient funds. A payday loan provider may present a customer’s check for payment, or initiate an EFT from the customer’s account, only once. A payday loan

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provider may not accept from a customer a check or authorization to initiate an EFT if the amount of the check or authorization exceeds the limit for principal, interest, and fees and charges described above. In addition, a customer has a right to rescind a payday loan, without incurring any fee, by returning the payday loan proceeds to the payday loan provider by the close of business on the next business day after the payday loan is made or by 5 p.m. on the next business day, if the place of business is open 24 hours. Also, if a customer fails to repay a payday loan in full at the end of the loan term, the payday loan provider must offer the customer the opportunity to repay the outstanding balance in four equal installments with due dates coinciding with the customer's pay period schedule. However, if a payday loan provider makes such an offer to a customer, then, for 12 months following the offer, no payday loan provider, including the payday loan provider making the offer, is required to make another offer to the customer. A payday loan provider may not impose any penalty on a customer who repays a loan in such a manner.

The bill also requires the division to develop and administer a database that provides payday loan providers with real-time access, through an Internet connection, to all payday loan information necessary for payday loan providers to comply with the requirements of the bill. The division is also allowed to contract for the development or administration of the database. The database must assign a unique identification number for each customer that must be used each time the customer enters into a payday loan transaction. Customer identification numbers may not be based on social security numbers. Each time that a payday loan provider enters into a payday loan transaction with a customer, the payday loan provider must submit certain information about the customer and the loan to the database. Also, a payday loan provider must submit information when a repayment offer described above is made or a payday loan is paid in full. The division must, by rule, impose a fee each time a payday loan provider submits data to the database. DFI must use the fees to pay for the development and administration of the database and to promote financial literacy. The bill allows a payday loan provider to rely on the information contained in the database as accurate, and provides that a payday loan provider is not subject to any penalty or liability for relying on inaccurate information contained in the database. In addition, information maintained in the database is not subject to inspection or copying under the open records law. Also, if the division contracts for development or administration of the database, the contract must ensure the confidentiality of information in the database.

The bill also does the following:

1. Requires a payday loan provider, before entering into a payday loan, to disclose to the applicant the total amount of all fees and costs, in dollars, and the annual percentage rate, to be paid by the applicant assuming that the loan is paid in full at the end of the loan term and to make other disclosures regarding the requirements of this bill.

2. Requires the division to develop written materials about payday loans and the payday loan industry. A payday loan provider must provide the materials to an applicant when making the disclosures described above.

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3. Requires payday loan providers to make annual reports about their business to the division.

4. Prohibits a payday loan provider or database contractor from selling or, with certain exceptions, providing to any person information about customers and payday loans made to customers.

5. Allows a customer to bring an action against a payday loan provider who makes a payday loan that violates the bill. In such an action, the customer may obtain an amount equal to twice the interest, fees, and charges charged for the loan, or the actual damages, whichever is greater, as well as costs and attorney fees.

6. Provides that whoever violates the bill is subject to a criminal fine of not less than \$500 nor more than \$1,000, imprisonment for not more than 6 months, or both.

7. Requires any licensed lender, upon making a loan for a term of more than 90 days, to report the loan to a credit reporting agency, which is referred to as a consumer reporting agency under federal law.

8. Prohibits a licensed lender from requiring a schedule of payments by a borrower under which: 1) any one payment is not equal or substantially equal to all other payments; or 2) the intervals between any consecutive payments differ substantially.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

1 **SECTION 1.** 20.144 (1) (g) of the statutes is amended to read:

2 20.144 (1) (g) *General program operations.* The amounts in the schedule for
3 the general program operations of the department of financial institutions. Except
4 as provided in pars. (a), (h), (i), (j), and (u), all moneys received by the department,
5 other than by the office of credit unions and the division of banking, and 88% of all
6 moneys received by the department's division of banking shall be credited to this
7 appropriation, but any balance at the close of a fiscal year under this appropriation
8 shall lapse to the general fund. Annually, \$200,000 of the amounts received under
9 this appropriation account shall be transferred to the appropriation account under
10 s. 20.575 (1) (g).

11 **SECTION 2.** 20.144 (1) (j) of the statutes is created to read:

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1 20.144 (1) (j) *Payday loan database and financial literacy.* All moneys received
2 under s. 138.14 (8) (e), for developing and administering, or contracting for the
3 development and administration of, the database under s. 138.14 (8) and for
4 promoting financial literacy.

5 **SECTION 3.** 138.09 (8) (f) of the statutes is created to read:

6 138.09 (8) (f) When making a payday loan, as defined in s. 138.14 (1) (g), comply
7 with s. 138.14 and rules promulgated under s. 138.14.

8 **SECTION 4.** 138.09 (8) (g) of the statutes is created to read:

9 138.09 (8) (g) Upon making a loan for a term of more than 90 days, report the
10 loan to a consumer reporting agency, as defined in 15 USC 1681a (f).

11 **SECTION 5.** 138.09 (8) (h) of the statutes is created to read:

12 138.09 (8) (h) Make no loan which requires a schedule of payments by a
13 borrower under which any one payment is not equal or substantially equal to all
14 other payments, or under which the intervals between any consecutive payments
15 differ substantially.

16 **SECTION 6.** 138.14 of the statutes is created to read:

17 **138.14 Payday loan providers. (1) DEFINITIONS.** In this section:

18 (a) “Applicant” means an individual who seeks to obtain a payday loan.

19 (b) “Check” has the meaning given in s. 403.104 (6).

20 (c) “Customer” means an individual who enters into a payday loan with a
21 payday loan provider.

22 (d) “Division” means the division of banking in the department of financial
23 institutions.

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1 (e) “Financial establishment” means any organization that is authorized to do
2 business under state or federal law and that holds a demand deposit, savings deposit,
3 or other asset account belonging to an individual.

4 (f) “Organization” has the meaning given in s. 19.42 (11).

5 (g) “Payday loan” means any of the following:

6 1. A transaction between an individual with an account at a financial
7 establishment and another person, including a person who is not physically located
8 in this state, in which the person agrees to accept from the individual one or more
9 checks, to hold the check or checks for a period of time before negotiating or
10 presenting the check or checks for payment, and to loan to the individual, for a term
11 of 90 days or less, before negotiating or presenting the check or checks for payment,
12 an amount that is agreed to by the individual.

13 2. A transaction between an individual with an account at a financial
14 establishment and another person, including a person who is not physically located
15 in this state, in which the person agrees to accept the individual’s authorization to
16 initiate one or more electronic fund transfers from the account, to wait a period of
17 time before initiating the electronic fund transfer or transfers, and to loan to the
18 individual, for a term of 90 days or less, before initiating the electronic fund transfer
19 or transfers, an amount that is agreed to by the individual.

20 (h) “Payday loan provider” means a person who is required to be licensed under
21 s. 138.09 and who makes payday loans.

22 (i) “Rollover” or “rolled over” means the refinancing, renewal, amendment, or
23 extension of a payday loan beyond its original date of maturity. “Rollover” or “rolled
24 over” includes the consolidation of payday loans and any transaction in which a

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1 payday loan is repaid with the proceeds of another payday loan made by the same
2 payday loan provider.

3 **(2) DISCLOSURE REQUIREMENTS.** (a) Before any payday loan provider enters into
4 a payday loan with an applicant, the payday loan provider shall do all of the
5 following:

6 1. Disclose to the applicant the total amount of all fees and costs, in dollars, to
7 be paid by the applicant for the loan assuming that the loan is paid in full at the end
8 of the loan term.

9 2. Disclose to the applicant the annual percentage rate to be paid by the
10 applicant on the loan assuming that the loan is paid in full at the end of the loan term.

11 3. Provide to the applicant a copy of the written informational materials
12 specified in sub. (4).

13 4. Disclose to the applicant that he or she has the right to rescind the loan
14 transaction as provided in sub. (6).

15 5. Disclose to the applicant the service charge that may apply under sub. (3)
16 (g).

17 6. Disclose to the applicant the payment requirements that may apply under
18 sub. (7) (a) if the loan is not paid in full at the end of the loan term.

19 (b) A payday loan provider shall retain, for at least 3 years after the origination
20 date of any payday loan, a record of compliance with par. (a) with respect to the loan.

21 **(3) LOAN RESTRICTIONS.** (a) No payday loan provider may make a payday loan
22 that exceeds, in principal amount, interest, and all other fees and charges, \$600 or
23 35 percent of the applicant's gross biweekly income, whichever is less.

24 (b) No payday loan provider may make a payday loan to individual who is liable
25 for repayment of any amount on a payday loan made by another payday loan

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1 provider. No payday loan provider may make a payday loan to an individual if less
2 than 24 hours have elapsed since the individual repaid another payday loan in full
3 or, if repayment is subject to sub. (7) (a), if less than a time period equal to the
4 applicant's pay period has elapsed since the individual repaid the loan in full under
5 sub. (7) (a).

6 (c) No payday loan provider may require the payment of any interest on a
7 payday loan that accrues after the original maturity date of the payday loan.

8 (d) Except as provided in par. (g), no payday loan provider may impose any
9 penalty on a customer arising from the customer's prepayment of or default or late
10 payment on a payday loan, including any payment under sub. (7) (a).

11 (e) No payday loan provider may accept from a customer a check or
12 authorization to initiate an electronic fund transfer if the amount of the check or
13 authorization exceeds the amount specified in par. (a).

14 (f) A payday loan provider may not rollover a payday loan.

15 (g) A payday loan provider may present a customer's check for payment no
16 more than once. For each customer authorization to initiate an electronic fund
17 transfer from the customer's account, a payday loan provider may initiate an
18 electronic fund transfer no more than once. The only charge that a payday loan
19 provider may impose for dishonor of a customer's check or denial of the payday loan
20 provider's instruction to execute an electronic fund transfer is a service charge that
21 does not exceed \$15.

22 **(4) INFORMATIONAL MATERIALS.** (a) The division shall develop written
23 informational materials on payday loans and the payday loan industry. These
24 informational materials shall be designed to educate individuals regarding the

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1 operation and potential costs of payday loans and of other options for borrowing
2 funds that may be available.

3 (b) The informational materials under par. (a) shall include a clear and
4 conspicuous notice that a payday loan is not intended to meet long-term financial
5 needs and that a payday loan applicant should use a payday loan only to provide
6 funds in a financial emergency.

7 (c) The informational materials under par. (a) shall include all of the following
8 information, based upon aggregated information from reports submitted under sub.
9 (5) for the most recent reporting period:

10 1. The average annual percentage rate for payday loans.

11 2. The percentage of customers originating payday loans who defaulted on the
12 loan.

13 3. The percentage of customers originating payday loans whose payment
14 method was dishonored or denied for insufficient funds.

15 4. The percentage of customers originating payday loans that resulted in
16 repayment under sub. (7) (a).

17 (d) The informational materials under par. (a) shall include a summary of all
18 actions that the payday loan provider may take against a payday loan customer if
19 the customer defaults on the payday loan or if the customer's check or electronic fund
20 transfer is dishonored or denied for insufficient funds.

21 (e) The division shall annually update the informational materials under par.
22 (a), based upon the division's analysis of reports received under sub. (5).

23 (f) The division shall make copies of the informational materials under par. (a)
24 available, upon request, to payday loan providers and to the public, including
25 making these informational materials available on the Internet site of the

ENGROSSED ASSEMBLY BILL 447**SECTION 6**

1 department of financial institutions. The division may charge payday loan providers
2 a reasonable fee for printed copies of informational materials supplied under this
3 paragraph.

4 **(5) REPORTING AND RECORD KEEPING.** (a) On or before March 15 of each year,
5 every payday loan provider shall make an annual report to the division. The report
6 shall cover business relating to payday loans made by the payday loan provider
7 during the preceding calendar year and shall include any relevant information
8 required by the division. The report shall be made upon forms prescribed by the
9 division and shall be signed and verified by the oath or affirmation of the payday loan
10 provider if an individual, one of the partners if a partnership, a member or manager
11 if a limited liability company, or an officer of the corporation or association if a
12 corporation or association. A payday loan provider may include the information
13 required to be reported under this subsection in the payday loan provider's report
14 under s. 138.09 (3) (f), if the information required under this subsection is stated
15 separately in the report from information relating to the payday loan provider's other
16 business.

17 (b) The division shall require that the report under par. (a) include, for the
18 applicable reporting period, all of the following aggregated information:

- 19 1. The number of payday loans originated by the payday loan provider.
- 20 2. The average of the total amount of all fees and costs, in dollars, and the
21 average loan term, for all payday loans of the payday loan provider.
- 22 3. Based upon the information specified in subd. 2., the average annual
23 percentage rate for all payday loans of the payday loan provider.
- 24 4. The number of payday loans originated by the payday loan provider that
25 resulted in repayment under sub. (7) (a).

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1 5. The number of payday loans originated by the payday loan provider that
2 resulted in default on the loan by the customer.

3 6. The number of payday loans originated by the payday loan provider on which
4 the customer's payment method was dishonored or denied because the customer's
5 check was drawn on, or the customer's authorization to initiate an electronic fund
6 transfer was from, an account at a financial establishment containing insufficient
7 funds when the check was presented for payment or the electronic fund transfer was
8 initiated.

9 **(6) RESCISSION.** A customer may rescind a payday loan, before the close of
10 business on the next day of business after the loan is made, or, if the place of business
11 where the loan is made is open 24 hours, before 5 p.m. on the next day of business
12 after the loan is made, by returning to the payday loan provider the proceeds of the
13 payday loan. The payday loan provider may not charge the customer any fee for
14 rescinding the payday loan as provided in this subsection.

15 **(7) REPAYMENT AFTER TERM OF LOAN.** (a) Except as provided in par. (b), if a
16 customer fails to repay a payday loan in full at the end of the loan term, the payday
17 loan provider shall offer the customer the opportunity to repay the outstanding
18 balance of the loan in four equal installments with due dates coinciding with the
19 customer's pay period schedule.

20 (b) If a payday loan provider offers a customer the opportunity to make
21 repayment under par. (a), then, during the 12-month period following the offer, no
22 payday loan provider, including the payday loan provider making the offer, is
23 required to offer the customer another opportunity to repay a payday loan under par.
24 (a).

ENGROSSED ASSEMBLY BILL 447**SECTION 6**

1 **(8) DATABASE.** (a) The division shall develop and administer, or contract for the
2 development and administration of, a database that provides payday loan providers
3 with real-time access, through an Internet connection, to all payday loan
4 information necessary for payday loan providers to comply with this section. The
5 database shall assign a unique identification number for each customer that shall
6 be used each time the customer enters into a payday loan transaction. A customer
7 identification number may not be based on a customer's social security number. The
8 database shall also assign a unique identifying transaction number for each payday
9 loan transaction that is entered into the database by a payday loan provider under
10 par. (b).

11 (b) At the time a payday loan provider enters into a payday loan transaction
12 with a customer, the payday loan provider shall submit to the database under par.
13 (a), in the form and manner prescribed by the division, information relating to the
14 payday loan, including all of the following:

- 15 1. The customer's name and address.
- 16 2. The customer's identification number that is assigned by the database.
- 17 3. The principal amount, interest, and all other fees and charges for the payday
18 loan.
- 19 4. The date on which the payday loan agreement is signed.
- 20 5. The date of maturity of the payday loan.
- 21 6. The customer's pay period.
- 22 7. Any other information required by the division by rule, except that the
23 division may not require the submission of, and a payday loan provider may not
24 submit, a customer's financial establishment account or routing numbers.

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1 (c) At any time a payday loan provider offers a customer the opportunity to
2 agree to repay a payday loan under sub. (7) (a), the payday loan provider shall submit
3 the date of the offer to the database under par. (a).

4 (d) At the time the outstanding balance of a payday loan is repaid in full, the
5 payday loan provider shall submit to the database under par. (a), in the form and
6 manner prescribed by the division, information specifying that the payday loan has
7 terminated, including the date and time that the payday loan terminated.

8 (e) The division shall impose on a payday loan provider a fee in an amount
9 specified by rule each time the payday loan provider submits data required under
10 pars. (b), (c), and (d).

11 (f) A payday loan provider may rely on the information contained in the
12 database under par. (a) as accurate and is not subject to any penalty or liability due
13 to its reliance on inaccurate information contained in the database.

14 (g) Information maintained in the database under par. (a) is not subject to
15 inspection or copying under s. 19.35 (1) and shall remain confidential except as
16 needed by payday loan providers to satisfy the requirements of this section and by
17 the division to enforce this section.

18 (h) If the division contracts with a person for the development or
19 administration of the database under par. (a), the division shall ensure that the
20 contract requires the person to maintain the confidentiality of information contained
21 in the database.

22 (i) The division shall establish procedures monitoring use of the database by
23 payday loan providers, including procedures for determining compliance with par.

24 (b) 2.

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1 **(9) CUSTOMER INFORMATION.** No payday loan provider or person with whom the
2 division contracts for development or administration of the database under sub. (8)
3 (a) may sell or provide to another person any information regarding a customer or
4 a payday loan made to a customer, except that the prohibition on providing
5 information does not apply to information that is provided to satisfy the
6 requirements of this section or to enforce this section.

7 **(10) PRIVATE CAUSE OF ACTION.** If a payday loan provider makes a payday loan
8 to a customer that violates this section, the customer may bring an action against the
9 payday loan provider for an amount equal to twice the interest and all other fees and
10 charges charged for the loan, or the actual damages, including any incidental and
11 consequential damages, sustained by the customer by reason of the violation,
12 whichever is greater, and, notwithstanding s. 814.04 (1), the costs of the action,
13 including reasonable attorney fees.

14 **(11) PENALTY.** Whoever violates this section may be fined not less than \$500 nor
15 more than \$1,000, imprisoned for not more than 6 months, or both.

16 **(12) RULES.** The division shall promulgate rules necessary to implement,
17 administer, and enforce this section, including prescribing the form and content of
18 any report required under sub. (5) and the method of filing such a report.

19 **SECTION 7.** 138.15 of the statutes is created to read:

20 **138.15 Motor vehicle title loans. (1) DEFINITIONS.** In this section:

21 (a) “Borrower” means an individual who obtains or seeks to obtain a motor
22 vehicle title loan for personal, family, or household purposes.

23 (b) “Motor vehicle title loan” means a loan of \$25,000 or less to a borrower that
24 is, or is to be, secured by an interest, other than a purchase money security interest,
25 in the borrower’s motor vehicle.

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1 **(2)** TITLE LOANS PROHIBITED. No person required to be licensed under s. 138.09
2 may make or offer any motor vehicle title loan.

3 **SECTION 8. Nonstatutory provisions.**

4 (1) In this SECTION, “division” means the division of banking in the department
5 of financial institutions.

6 (2) The division shall submit in proposed form the rules required under section
7 138.14 (8) (b) 7. and (e) and (12) of the statutes, as created by this act, to the
8 legislative council staff under section 227.15 (1) of the statutes no later than the first
9 day of the 6th month beginning after the effective date of this subsection.

10 (3) Using the emergency rules procedure under section 227.24 of the statutes,
11 the division shall promulgate the rules required under section 138.14 (8) (b) 7. and
12 (e) and (12) of the statutes, as created by this act, for purposes of implementing this
13 act, for the period before the effective date of the rules submitted under subsection
14 (2). The division shall promulgate these emergency rules no later than the first day
15 of the 6th month beginning after the effective date of this subsection.
16 Notwithstanding section 227.24 (1) (c) and (2) of the statutes, these emergency rules
17 may remain in effect until July 1, 2011, or the date on which permanent rules take
18 effect, whichever is sooner. Notwithstanding section 227.24 (1) (a) and (3) of the
19 statutes, the division is not required to provide evidence that promulgating a rule
20 under this subsection as an emergency rule is necessary for the preservation of the
21 public peace, health, safety, or welfare and is not required to provide a finding of
22 emergency for a rule promulgated under this subsection.

23 **SECTION 9. Initial applicability.**

24 (1) The treatment of section 138.09 (8) (g) and (h) of the statutes first applies
25 to loans made on the effective date of this subsection.

