



JIM DOYLE
GOVERNOR
STATE OF WISCONSIN

May 18, 2010

TO THE HONORABLE MEMBERS OF THE SENATE:

I have approved Senate Bill 530 as 2009 Wisconsin Act 405 and have deposited it in the Office of the Secretary of State. I have exercised the partial veto in a number of areas.

Wisconsin is one of the few states in the nation that had not enacted meaningful payday lending reform. While it has taken several legislative sessions to pass a bill to address this issue, I am pleased to sign Senate Bill 530 into law to protect Wisconsin consumers from the debt cycle of repetitive rollover loans, excessive interest charges and predatory lending practices of the payday lending industry.

Senate Bill 530 caps the maximum loan amount at \$1,500 or 35 percent of a customer's gross monthly income; allows only one loan rollover per customer; establishes a rate cap of 2.75 percent per month on the outstanding balance after the maturity date of the loan; establishes a real-time database to prevent multiple loans at one time; allows customers to repay an outstanding balance in four equal payments coinciding with the customer's pay schedule; allows the customer to rescind a loan until close of business the next day; prohibits wage garnishments; promotes financial literacy; requires lenders to disclose certain information like the annual percentage rate of interest charged; creates a new license specifically for payday lenders and gives the Department of Financial Institutions (DFI) regulatory powers; requires an annual report from DFI to the Legislature regarding payday loan transactions; and prohibits lenders from locating within 1,500 feet of another lender and within 150 feet of certain residential areas.

Senate Bill 530 prohibits auto title lending by a licensed lender unless the loan is no more than 50 percent of the value of the vehicle being used as collateral, as determined by DFI; and the vehicle does not have another security interest. Generally, an auto title loan is defined as a loan of \$25,000 or less with a term of not more than 6 months where the vehicle is used as collateral on the loan. Further, the bill establishes a rate cap of 2.75 percent per month on the outstanding balance after the maturity date of the loan; allows the customer to rescind a loan until close of business the next day; prohibits the licensed lender from requiring the customer to provide a key to the vehicle at the time of the loan; and makes requirements related to repossession of a vehicle used as collateral on an auto title loan.

The provisions of Senate Bill 530 take effect on the first day of the 7th month after publication.

I applaud the Legislature's efforts to protect consumers from unfair lending practices. I also believe the state should go further to protect consumers. Therefore, I have partially vetoed the bill to strengthen consumer protection while retaining short-term borrowing for individuals who need that option.

I am partially vetoing sections 8 and 14, as these sections relate to the exemption of an affiliate of a financial institution from regulation under the payday lending provisions. Any affiliates of financial institutions that engage in payday lending should be licensed and required to follow the provisions of this bill.

I am also partially vetoing section 14, as it relates to the definition of a payday loan, to remove the loan term cap of 90 days or less. The bill may inadvertently create a loophole where, as an example, a lender could offer a payday loan of 91 days and escape the regulations set forth in this legislation. By removing the 90 day loan term cap, my intent is to ensure that all payday lenders are fully covered by this law and I am directing the Secretary of DFI to establish administrative rules that accomplish this objective.

I am further partially vetoing section 14, as it relates to interest that may be charged after the maturity date of a payday loan. I object to allowing a licensed payday lender to charge interest after maturity on loans. Since the bill includes no cap on the interest rate that may be charged on a payday loan, allowing an interest charge on loans after their maturity date is excessive. By partially vetoing this provision, lenders may not charge interest on loans after the maturity date which will protect customers from excessive interest rate charges and help to break the debt cycle.

The bill creates a repayment option if a customer fails to repay a payday loan in full after the term of the loan. Under this option, a lender must give the customer the option to pay the loan balance in four equal installments corresponding with the customer's pay schedule. The bill specifies that a lender is not required to give this option more than one time in a 12-month period. I object to this limitation because consumers should have this right with every payday loan and am therefore partially vetoing section 14, as it relates to repayment after the term of a loan, to require that a lender provide this repayment option with every loan.

Under the bill, a database must be created to track payday loans in order to ensure that customers have only one payday loan outstanding at any one time. The bill would require that the database mark every loan as closed if the lender had not contacted the database administrator within five days following the maturity date. I object to this automatic notation in the database of a closed loan and am therefore partially vetoing section 14, as it relates to the database requirement, to remove the automatic designation of loans as paid five days after the maturity date of the loan. To accomplish the intent of the bill to allow customers to have only one payday loan at a

time, I believe all loans in the statewide database should be considered as open transactions until the payday lender notifies the database provider that the loan is closed.

The bill limits to \$1 the per transaction fee that DFI may charge for establishing and administering the database and requires that the fee be set by administrative rule or order. I am partially vetoing section 14, as it relates to the database transaction fee, to remove the \$1 limit and the requirement to set the fee through administrative rule or order so that DFI has flexibility in managing the database and promoting financial literacy.

I am partially vetoing section 14, as it relates to procedures for issuing payday loans if the database is nonfunctional. The bill provides for a secondary option if the database is nonfunctional and further gives an option if both the database and secondary source are nonfunctional. To help ensure the accuracy of the database and that payday lenders are following the requirements of this bill, I am partially vetoing the provision to remove the option to issue a payday loan if both the database and the secondary system are simultaneously nonfunctional. Removing this option will ensure that there is no confusion regarding a customer's eligibility for a payday loan.

Sections 14m and 23 relate to regulation of auto title lending by licensed lenders in Wisconsin. An auto title loan is generally defined as a loan of \$25,000 or less with a term of not more than 6 months where the vehicle is used as collateral on the loan. The bill prohibits auto title lending by a licensed lender unless the loan is no more than 50 percent of the value of the vehicle being used as collateral, as determined by DFI; and the vehicle does not have another security interest. I object to these exceptions from the bill's prohibitions on auto title lending. Therefore, I am partially vetoing sections 14m and 23, as they relate to auto title lending, to remove exceptions to the prohibitions, to remove the 6 month maximum loan term from the definition of an auto title loan, and to delete subsequently unnecessary references to regulation of these loans since the bill, as vetoed, would prohibit the issuance of auto title loans. The effect of these partial vetoes is to prohibit auto title lending by licensed lenders.

I believe that auto title loans are an example of some of the worst predatory lending practices. Auto title loans can result in individuals losing their vehicles due to failure to make timely payments on relatively small loan amounts, putting at high risk an asset that is essential to the well-being of working families. The intent of this partial veto is to ensure that all auto title loans are covered by this prohibition and I am directing the Secretary of DFI to establish administrative rules that accomplish this objective.

Payday lending is strictly regulated in most states so that citizens are protected from predatory lending practices. I am very grateful to the Legislature for their commitment in adding Wisconsin to the list of states that protects its citizens from these practices. The partial vetoes I have made to Senate Bill 530 are consistent with and build upon

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the Legislature's considerable efforts to provide short-term financing options for individuals while strengthening protections for consumers utilizing those options.

Respectfully submitted,

JIM DOYLE
Governor