

JAN 23 2025

A BILL FOR AN ACT

RELATING TO INSTALLMENT LOANS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Section 480J-1, Hawaii Revised Statutes, is
2 amended by amending the definition of "installment lender or
3 lender" to read as follows:

4 "Installment lender" or "lender" means any person not
5 exempt under section 480J-32 who is in the business of offering
6 or making [~~a consumer~~] an installment loan, who arranges [a
7 ~~consumer~~] an installment loan for a third party[~~]~~ required by
8 this chapter to be licensed, or who acts as an agent for a third
9 party [~~], regardless of whether the third party is exempt from~~
10 ~~licensure under this chapter or whether approval, acceptance, or~~
11 ~~ratification by the third party is necessary to create a legal~~
12 ~~obligation for the third party,~~] required by this chapter to be
13 licensed with respect to the third party's offering, making, or
14 arranging of installment loans, through any method including
15 mail, telephone, the Internet, or any electronic means."

16 SECTION 2. Section 480J-2, Hawaii Revised Statutes, is
17 amended as follows:

18 1. By amending subsection (a) to read:

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1 "(a) Each installment loan transaction and renewal shall
2 meet the following requirements:

3 (1) Any transaction and renewal shall be documented in a
4 written agreement pursuant to section 480J-3;

5 (2) The total amount of the installment loan shall not be
6 greater than \$1,500 pursuant to section 480J-5(a);

7 (3) The total amount of loan charges an installment lender
8 may charge, collect, or receive in connection with an
9 installment loan shall not exceed fifty per cent of
10 the principal loan amount;

11 (4) Subject to paragraph (3), a monthly maintenance fee
12 may be charged by the lender [~~, not to exceed the~~
13 ~~following~~]; provided that thirty days shall equal to
14 one month and for any fraction of a month the fee
15 shall be prorated on a daily basis not to exceed the
16 following:

17 (A) \$25 monthly fee on a loan of an original
18 principal loan amount up to \$299.99; provided
19 that a fraction of a month shall use a daily
20 factor of .83 cents per day;

21 (B) \$30 monthly fee on a loan of an original
22 principal loan amount of at least \$300.00 and up

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1 to \$699.99; provided that a fraction of a month
2 shall use a daily factor of \$1.00 per day; and
3 (C) \$35 monthly fee on a loan of an original
4 principal loan amount of at least \$700.00 and
5 greater; provided that a fraction of a month
6 shall use a daily factor of \$1.17 per day;
7 provided that the monthly maintenance fee shall not be
8 added to the loan balance upon which the interest is
9 charged; provided further that an installment lender
10 shall not charge, collect, or receive a monthly
11 maintenance fee if the borrower is a person on active
12 duty in the armed forces of the United States or a
13 dependent of that person;
14 (5) The minimum contracted repayment term of the
15 installment loan shall be two months if the contracted
16 loan amount is \$500 or less, or four months if the
17 contracted loan amount is \$500.01 or more; provided
18 that, for purposes of meeting the required minimum
19 contracted repayment term, an installment lender may
20 calculate one month as twenty-eight days or longer;
21 (6) All repayment schedule due dates shall be dates upon
22 which an installment lender is open for business to

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1 the public at the place of business where the
2 installment loan was made;

3 (7) An installment lender shall accept prepayment in full
4 or in part from a consumer prior to the loan due date
5 and shall not charge the consumer a fee or penalty if
6 the consumer opts to prepay the loan; provided that to
7 make a prepayment, all past due interest and fees
8 shall be paid first;

9 (8) The loan amount shall be fully amortized over the term
10 of the loan, and maintenance fees shall be applied in
11 arrears on a monthly basis;

12 (9) A consumer's repayment obligations shall not be
13 secured by a lien on any real or personal property;

14 (10) An installment lender may offer to a consumer the
15 option to make a payment through the consumer's debit
16 card and may charge up to a five-dollar convenience
17 fee; provided that the installment lender shall be
18 prohibited from requiring this form of payment. The
19 form of payment decision shall rest with a consumer.
20 The installment lender shall not charge the consumer a
21 non-sufficient funds fee for rejected payments through
22 the use of a consumer's debit card.

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1 [~~(10)~~] (11) An installment lender shall not charge a
2 consumer any loan charges for an installment loan,
3 other than the fees permitted by this chapter;

4 [~~(11)~~] (12) The written agreement required under section
5 480J-3 shall not require a consumer to purchase add-on
6 products, such as credit insurance; and

7 [~~(12)~~] (13) The maximum contracted repayment term of the
8 installment loan shall be twelve months."

9 2. By amending subsection (c) to read:

10 "(c) For each cash or in-person payment made by a
11 consumer, a lender shall give the consumer a written receipt
12 with the lender's name and address, payment date, amount paid,
13 [~~consumer's name,~~] and sufficient information to identify the
14 account to which the payment is applied."

15 SECTION 3. Section 480J-5, Hawaii Revised Statutes, is
16 amended to read as follows:

17 "[~~§~~] **§480J-5** [~~]~~ **Maximum loan amount; prohibition against**
18 **multiple loans.** (a) A lender shall not lend an amount greater
19 than \$1,500 nor shall the amount financed exceed \$1,500 by any
20 one lender at any time to a consumer.

21 (b) Except as otherwise provided in section 480J-8, an
22 installment lender shall take reasonable measures to ensure that

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1 no consumer has more than one installment loan outstanding at a
2 time from any of the following:

3 (1) The installment lender;

4 (2) A person related to the installment lender by common
5 ownership or control;

6 (3) A person in whom the installment lender has any
7 financial interest of ten per cent or more; or

8 (4) Any employee or agent of the installment lender.

9 (c) An installment lender that receives written or
10 electronic confirmation from each consumer that the consumer
11 does not have any outstanding installment loans from the
12 entities listed in subsection (b) as of the date the consumer
13 enters into an installment loan with the installment lender
14 shall be deemed to have met the requirements of this section.

15 (d) If a consumer's spouse obtains an installment loan
16 voluntarily and separately from the consumer, and subsequently
17 the consumer obtains an installment loan voluntarily and
18 separately from the consumer's spouse, where neither the
19 consumer nor the consumer's spouse are coborrowers with each
20 other on either loan, and the consumer's action is documented in
21 writing, either in the written agreement required under section
22 480J-3 or in a subsequent agreement, signed by the consumer, and

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1 retained by the lender, the secondary transaction shall not be
2 considered a violation of this section.

3 ~~[(e) Upon a consumer's payment in full of any installment~~
4 ~~loan, an installment lender shall wait a period of three days~~
5 ~~before the lender may make another installment loan to the same~~
6 ~~consumer.] "~~

7 SECTION 4. Statutory material to be repealed is bracketed
8 and stricken. New statutory material is underscored.

9 SECTION 5. This Act, upon its approval, shall take effect
10 on July 1, 2025.

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INTRODUCED BY:



BY REQUEST

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Report Title:

Department of Commerce and Consumer Affairs; Division of Financial Institutions; Installment Lender; Lender

Description:

Clarifies the intended scope of chapter 480J, HRS, which is the regulation of installment lenders, and that the law does not intend to eliminate the ability of lenders to make low-interest rate loans under existing interest and usury laws. Replaces the term "consumer loan" with the defined term "installment loan" for consistency throughout the statutes. Requires loan maintenance fees to be prorated daily to prevent consumers from incurring fees once the loan is paid off. Allows lenders to charge a convenience fee of up to five dollars for debit card payments, providing consumer more options for repayment. Streamlines the loan repayment process by requiring paper receipts only for in-person or cash payments and increases consumer privacy by removing consumer names from receipts. Repeals the requirement for lenders to wait three days after a consumer fully repays a loan before issuing a new installment loan.

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JUSTIFICATION SHEET

DEPARTMENT: Commerce and Consumer Affairs

TITLE: A BILL FOR AN ACT RELATING TO INSTALLMENT LOANS.

PURPOSE: To focus the Installment Lending Act, chapter 480J, Hawaii Revised Statutes (HRS), on its intended scope, installment lenders, and to clarify that the law is not intended to eliminate the ability of lender to make low-interest rate loans under the interest and usury law. To consistently use the defined term "installment loan" in the statute, prorate the maintenance fee daily to prevent consumers from paying a loan maintenance fee after the loan is paid off, set the convenience fee at five dollars for the use of debit cards to give the consumers more options to repay their loans, streamline the loan repayment process, increase consumer privacy by removing consumer names from receipts and remove the three-day cooling off period to help neighbor island and rural populations that have no other loan options.

MEANS: Amend sections 480J-1, 480J-2(a) and (c), and 480J-5, HRS.

JUSTIFICATION: Currently, the installment loan law includes the term consumer loan in the definition of installment lender. This bill will update the definition of "installment lender", by inserting the defined term "installment loan" in place of the term "consumer loan" for consistency throughout the law. The law as written could result in lenders writing loan contracts to fully capture the maximum in monthly maintenance fees even if they provided service only for a fraction of a month. This bill will require lenders to prorate monthly fees daily. This bill will also increase consumer privacy and streamline the regulatory process by removing unnecessary identifying information

on receipts and clarifying that only in-person/cash payments will require a paper receipt as proof of payment.

The bill also repeals the provision related to the three-day waiting period. The original intent for the three-day waiting period was so that borrowers would not be in a continuous cycle of debt by repaying the payday loan and borrowing again on the same day. Unlike payday loans, installment loans are gradually paid down through a series of payments. The repeal of the requirement will ensure that neighbor island residents, who may only have one or two lenders for the entire island, have more access to financial services.

Impact on the public: The lending and borrowing process will be streamlined and consumer protection will be increased.

Impact on the department and other agencies: The bill will help the Division of Financial Institutions of the Department license, regulate, and supervise installment lenders and provide more clarity to licensees.

GENERAL FUNDS: None.

OTHER FUNDS: None.

PPBS PROGRAM
DESIGNATION: CCA-104.

OTHER AFFECTED
AGENCIES: None.

EFFECTIVE DATE: July 1, 2025.