

Press Releases

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OTS 02-38 - OTS Says California Law Doesn't Apply to Federal Thrifts

Office of Thrift Supervision

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OTS SAYS CALIFORNIA LAW DOESN'T APPLY TO FEDERAL THRIFTS

WASHINGTON – The Office of Thrift Supervision (OTS) today concluded that federal law preempts the application of California's minimum payment law to federal savings associations. The California law requires credit card issuers to provide certain cardholders with warnings and estimates of the length of time necessary to pay off their balances and the total cost of credit among other requirements.

"OTS is authorized by federal law to provide federal savings associations with a uniform national regulatory environment for their lending operations," said OTS Director James E. Gilleran. "This enables federal thrifts to provide low-cost credit safely and soundly. The California law would require federal thrifts to treat customers in California differently, imposing increased costs and an undue regulatory burden on the ability of these institutions to operate nationally."

This preemption is based on the Home Owners' Loan Act and OTS regulations that comprehensively and exclusively regulate lending by federal savings associations. OTS has also determined that the California statute conflicts with particular OTS regulations governing lending operations by imposing substantial requirements concerning disclosures and terms of credit on federal savings associations.

OTS issued a legal opinion in response to a request from State Farm Bank, FSB, an OTS-regulated institution headquartered in Bloomington, Ill., which has credit card customers in California. The Supreme Court and other courts have long recognized OTS's ability to provide a federal regulatory scheme that governs all aspects of the operations of federal savings associations and preempts state laws in that area.

The issue is currently the subject of a lawsuit in U.S. District Court. The suit challenges the California law's application to federally chartered financial institutions.

The OTS legal opinion in this case can be found on OTS's website at www.ots.treas.gov.

Legal Opinion - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-38a.pdf>

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents visit the OTS web page at www.ots.treas.gov.