ISSUE BRIEF

THE DEPOSITORY INSTITUTIONS DEREGULATION AND MONETARY CONTROL ACT (DIDMCA)

The Depository Institutions Deregulation and Monetary Control Act (DIDMCA) focuses on two areas of concern for the federal government of the late 1970s: improving the control of monetary policy by the Federal Reserve and deregulation of financial institutions that accept deposits.

Title I of the act is known as the Monetary Control Act of 1980. It was instituted because of high inflation and tight monetary controls and encouraged all depository institutions to opt-in to the federal reserve system. Title II of the act, known as the Depository Institutions Deregulation Act of 1980, phased out restrictions on interest rates that state depository institutions could offer to customers. Before the enactment of Title II, the maximum interest rate that state banks could pay on deposits was regulated by the federal government under what was known as Regulation Q. Banks were not allowed to pay more than 5.25 percent at the time of Title II's passage, even though market interest rates were in the double digits. Banks and other traditional types of depository institutions could not compete in attracting customers saving deposits compared with unregulated or less-regulated competitors. Consumers began to avoid state banks and placed their savings in unregulated entities such as mutual funds. The freeing of financial markets so state banks could compete for depositors' funds benefited consumers through new incentives to save and help financial markets function more smoothly.

For the consumer credit industry, the most consequential changes came in Title V—State Usury Laws. With sections related to mortgages, business and agricultural loans, and other loans, Title V preempts state usury laws by allowing FDIC-insured state-chartered banks to contract for the interest rate permitted by the state in which the bank is located and export that interest rate into other states. DIDMCA passed a little over one year following the Supreme Court's decision in Marquette v. First of Omaha Service Corp., which established that the National Bank Act allows national banks to export interest rates across state lines. In enacting Title V of DIDMCA, Congress intended to level the playing field between state and national banks and provide state-chartered banks with the same privileges. In fact, Section 521 of DIDMCA starts: *"In order to prevent discrimination against State-chartered insured banks…with respect to interest rates."*

Importantly, the ability to export interest rates applies across credit products, including small loans, credit cards, and vehicle financing.

AFSA'S POSITION

For more than 40 years, DIDMCA has had a positive impact on lending by maintaining a level playing field and allowing flexibility for lenders. Although seven states opted out of DIDMCA

initially, all but one opted back in, recognizing the importance of the law. AFSA opposes states opting out of DIDMCA as it risks limiting consumers' financial options and competition at a time when it is increasingly crucial for credit to be available to as many consumers as can qualify. This is as important now as it was when it passed.