

Joint Statement
By
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The Office of the Comptroller of the Currency and the Office of Thrift Supervision today are releasing supervisory guidance to national banks and federal thrifts relating to so-called “title loans” and “payday loans.” Title loans are short term, small denomination loans, made at extremely high interest rates and secured by liens on borrowers’ titles to their automobiles. Payday loans also are short term, small denomination, loans that borrowers promise to repay out of their next paycheck or deposit of funds.

These types of lending appear to be responsive to a demand for short-term, low-balance credit. But many times, particularly when loans are rolled over repeatedly, the cost of such credit can become extremely high. We urge banks and thrifts to give serious consideration to how they can serve this market in a safe and sound manner that responsibly meets consumers’ needs.

The OCC’s and OTS’s supervisory concerns are not limited to these particular products, however. Title loans and payday loans are examples of types of products being developed by non-bank vendors who have targeted national banks and federal thrifts as delivery vehicles. These include check cashing services and “secured” credit cards.

Many vendors of such products engage in practices that may be viewed as abusive to consumers. They seek out national banks and thrifts as participants in the marketing of their products in an effort to avoid the application of state and local consumer protection laws that would restrict the ways in which these products are offered. In many cases, the national bank or thrift is not significantly involved in the marketing of the product and may have a relatively insignificant economic interest in the business generated by the vendor. The OCC and OTS are concerned that such situations may represent an abusive use of the benefits of the national bank and federal thrift charters.

We urge national banks and federal thrifts to think carefully about the risks involved in such relationships, which can pose not only safety and soundness threats, but also compliance and reputation risks. We intend to scrutinize carefully any such arrangements and to use our supervisory authority to examine the operations of vendors who act as service providers to national banks and federal thrifts that are sought out to deliver such products. Under a regulation being issued for comment today, the OCC will clarify that it may assess the costs of any such examination against the bank entering into such an arrangement. The OTS has the authority to assess these costs already.

Finally, vendors who have targeted national banks and federal thrifts as a means of marketing such products free from state and local consumer protection laws should not automatically assume that the benefits of the bank or thrift charter will accrue to them by virtue of such relationships, or that the OCC or OTS will support such a position if challenges are raised.

