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OTS 97-21 - OTS Updates Credit Card and Small Business Lending Rule

Office of Thrift Supervision

NEWS

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For further information
Contact: William Fulwider
202/906-6913

OTS UPDATES CREDIT CARD AND SMALL BUSINESS LENDING RULE

WASHINGTON, D.C., April 3, 1997 -- The nation's federally chartered thrift institutions today got revised rules on implementing the expanded small business and credit card lending authority granted last year by Congress.

The Office of Thrift Supervision (OTS) issued a final rule implementing the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). The rule, published in today's Federal Register, is effective immediately.

"One of the benefits of EGRPRA is that federal thrifts may expand their small business lending, which is an important service to their communities," said OTS Director Nicolas Retsinas. "Both the thrift industry and OTS must strive to ensure that any increase in such lending is done prudently," he added.

EGRPRA directed OTS to define key terms in the legislation. After passage of EGRPRA on Sept. 30, 1996, OTS moved quickly to put an interim rule in place on Nov. 27, 1996. After reviewing public comments, OTS has made some modifications in the final regulation published today.

The definition of "credit card" has been changed. The final rule uses the definition in the Federal Reserve Board's Truth in Lending Regulation (Regulation Z), which defines credit cards as "any card, plate, coupon book, or other single credit device that may be used from time to time to obtain credit." The interim rule's definition had been based on the similar entry in Black's Law Dictionary.

A companion definition of "credit card account" includes credit card debt consolidation loans and securities backed by credit card accounts and receivables. That definition did not change from the interim rule. OTS said it reserves the right to establish investment limits on a case-by-case basis if there is a safety and soundness concern.

EGRPRA allows federal thrifts to expand their commercial lending from 10 to 20 percent of assets provided amounts over 10 percent are solely for small business loans. OTS defines "small business" as it is defined in the regulations of the Small Business Administration. In addition, OTS added a "safe harbor" alternative by saying any business loan of \$1 million or less is generally deemed a small business loan so long as the total amount of business loans to one borrower does not exceed \$1 million. This is consistent with the definition used by the OTS and other banking agencies for reports to Congress and for purposes of the Community Reinvestment Act.

Thrifts may now count education loans, small business loans, credit card loans and credit card account loans (for example, loans made to consolidate credit card debt) without restriction in meeting their Qualified Thrift Lender (QTL) test. OTS also deleted its QTL regulations because they simply reiterate provisions in the Home Owners' Loan Act. The removal is part of OTS' program to streamline its regulations and remove duplicative requirements.

In addition, OTS has amended its acquisition of control and holding company regulations to conform to changes made by the new legislation. OTS no longer examines bank holding companies with thrift subsidiaries, a function that has passed to the Federal Reserve Board.

Finally, the rule permits savings associations, savings and loan holding companies and their affiliates to offer discounts to customers who maintain a combined minimum balance in certain deposit and nondeposit accounts. This regulatory exception reflects OTS' new authority under the anti-tying statute to make exceptions that conform to those granted to banks by the Federal Reserve Board.

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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' 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.

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