Model Legislation

State Power to Regulate Lending Act

Summary

The State Power to Regulate Lending Act preempts local ordinances enacted by a political subdivision of this state that govern the originating, granting, servicing or collecting of loans. It prohibits political subdivisions from enacting lending ordinances or rules that would disqualify persons from doing business with a city, county or other political subdivision based on restrictions on lending practices.

Model Legislation

Section 1. {Short Title.} This act shall be known as the State Power to Regulate Lending Act.

Section 2. {Legislative Declarations.} This General Assembly finds and declares:

(A) All citizens are entitled to have fair access to financial services and credit, especially the ability to share in the American dream of homeownership. The national credit markets, with lenders from both the prime and sub-prime credit risk segments, have provided increasingly wider access to loans for American borrowers. The growth in home lending is based on the stable and long-established state-federal regulatory scheme that governs the lending activities of financial institutions. Local lending ordinances threaten access to credit, raise the cost of borrowing, and violate the longstanding state-federal regulatory scheme.

(B) Local lending ordinances would create a confusing patchwork of inconsistent regulation across the state. At a minimum, enactment of a myriad of local lending ordinances will raise the cost of compliance and the risk of inadvertent violations because these ordinances will vary from state and federal law and from each other. Where ordinances are too restrictive or complex, financial institutions will curtail lending, drying up credit in that market and making it difficult for many citizens to realize homeownership.

(C) In order to foster the safe and free flow of capital among the states, the Congress has continually enacted comprehensive laws to assure uniform consumer protections as well as examination and supervision of lending activities across this nation. In addition, the Congress has delegated authority to numerous federal agencies, such as the Federal Reserve Board, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the National Credit Union Administration and Federal Deposit Insurance Administration, to carry out this national regulatory scheme.

(D) The General Assembly also has continuously filled any regulatory gaps that existed between federal and state chartered institutions by enacting uniform, comprehensive and pervasive laws that provide a second level of consumer protections and govern lending activities in this state. The General Assembly has delegated authority to the department of financial institutions so that it may establish regulations to interpret and locally enforce these lending statutes.

Section 3. {Definitions.} For the purposes of this Act, the following terms shall have the following meaning:

(A) “Department” means the state Department of Financial Institutions (or the equivalent in this state).

(B) “Municipality” means a [city, borough, incorporated town or township].

Section 4. {State preemption.} (A) The state solely shall regulate the business of originating, granting, servicing, and collecting loans and other forms of credit in the state and the manner in which any such business is conducted, and this regulation shall be in lieu of all other regulation of such activities by any municipality or other political subdivision.

(B) Political subdivisions of this state are prohibited from enacting, issuing and enforcing ordinances, resolutions, regulations, orders, requests for proposals, or requests for bids

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pertaining to the financial or lending activities, including ordinances, resolutions, and rules disqualifying persons from doing business with a municipality that are based upon lending terms or practices, including interest rates and fees, or from imposing reporting requirements or any other obligations upon persons regarding financial services or lending practices and upon subsidiaries or affiliates thereof, who:

1. Are subject to the jurisdiction of the department; or

2. Are subject to the jurisdiction or regulatory supervision of the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the National Credit Union Administration, the Federal Deposit Insurance Corporation, the Federal Trade Commission or the United States Department of Housing and Urban Development; or

3. Originate, purchase, sell, assign, securitize or service property interests or obligations created by financial transactions or loans made, executed or originated by persons referred to in paragraph (1) or (2); or

4. Are chartered by the United States Congress to engage in secondary market mortgage transactions; or

5. Are created by the state housing finance corporation.

Section 5. {Effective Date.}