

HOUSE BILL ANALYSIS

HB 2310

Title: An act relating to credit cards.

Brief Description: Regulating credit cards.

Sponsors: Representative L. Thomas.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Meeting Date: January 15, 1998

Bill Analysis Prepared by: Charlie Gavigan, Counsel (786-7340)

Background: Credit is regulated by both state and federal law. Except for the Retail Sales Installment Act, there are few state statutes that specifically regulate credit cards. State statutes that regulate credit in general may apply to credit cards, such as consumer protection provisions.

There are several federal provisions that regulate credit cards. For instance, federal law requires that credit card lenders provide certain disclosures to consumers and follow certain requirements when changing contract terms, and provides protection for consumers whose cards are lost or stolen. The federal statutes on credit cards generally do not preempt state laws on credit cards unless the state laws provide less consumer protection or unless they specifically contradict federal law.

Some federal laws regulating financial institutions can preempt state laws on credit, including credit cards. The primary example, the most favored lender doctrine, preempts state usury laws for credit transactions by federally-chartered banks and, by court interpretation, any federally insured financial institution. It is this law that allows out-of-state banks to use the usury limits of the state they are headquartered in for credit cards, rather than Washington law. The most favored lender doctrine applies to interest rates and possibly some fees. Recent federal legislation reaffirmed Congresses' intent to limit preemption of state consumer protection laws applying to federally-chartered financial institutions.

Summary of Bill: Beginning July 1, 1998, credit card companies, including retailers, cannot cancel the credit card of a Washington resident solely because the cardholder failed to use the card enough. Each improper cancellation is subject to a \$500 penalty and is a violation of the state Consumer Protection Act. A credit card company is defined as any financial institution or other entity that issues credit cards to or services credit cards for Washington residents.

Appropriation: None

Fiscal Note: Not Requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Rulemaking Authority: None specified.