

# DIDMCA Opt-Out: Ruining Credit Access for Rural Iowa



Iowa operates in a pre-1980s credit market, and rural Iowans are the most disadvantaged when it comes to the availability of credit.

In the late 1970s, the American economy was transformed; unprecedented competition among banks put the convenience of credit cards into the hands of millions of people who previously were ineligible for them and had to rely on more expensive and risky credit options.

Why? Thanks to a unanimous 1978 decision by the U.S. Supreme Court in *Marquette Nat'l Bank of Minneapolis v. First of Omaha Serv. Corp.*, authored by liberal icon Justice William Brennan, banks holding a "national charter" were to be governed by the interest rate caps of the states in which they were based instead of the state in which the consumers lived. Therefore, the nationally chartered banks started offering very attractive terms across state lines.

Moreover, in response to the Supreme Court's decision, the U.S. Congress passed a bill, signed into law by President Jimmy Carter, called the Depository Institutions and Monetary Control Act of 1980 (known as DIDMCA or DIDA), which

allowed banks chartered under state law to have the same right to "export" their home-state interest rates as the national banks had. This enabled state-chartered banks to compete on an equal playing field with massive, nationally chartered banks like Wells Fargo, Citibank, and Capital One.

Unfortunately, in passing DIDMCA, Congress included a provision that would allow state legislatures to opt out of the law. At first, Colorado, Iowa, Maine, Massachusetts, Nebraska, North Carolina, Puerto Rico, and Wisconsin all opted out. Over time, however, all but **Iowa** and Puerto Rico rescinded their opt-out laws after seeing the benefits to consumers in states like Minnesota.

Iowa operates in a pre-1980s market, which puts Iowa consumers at a disadvantage as they are limited to obtaining credit products offered by only national-chartered banks and Iowa-chartered banks. Iowa's aloof stance on DIDMCA has the effect of putting Iowa state banks at a disadvantage compared to nationally chartered banks.

## IOWA – FAST FACTS

**14%**

of America is rural.<sup>1</sup>

**37%**

of Iowa is rural.<sup>2</sup>

**120**

bank branches closed in 10 years.<sup>3</sup>

**9**

potential "banking deserts".<sup>4</sup>

## A Tale of Two States

**Iowa is a tale of two states—a state within a state—one rural, one urban.**

Banking and credit access in Iowa's urban areas is good; banking and credit access in rural Iowa is dismal.

Iowa's DIDMCA opt-out has ruined credit access for rural Iowans.

Lawmakers at the federal<sup>5</sup> and state<sup>6</sup> levels have proposed legislation to alleviate credit access problems in rural Iowa and to provide rural development incentives, which demonstrates the palpable impact of the state's DIDMCA opt-out.

<sup>1</sup> <https://www.ers.usda.gov/webdocs/publications/102576/eib-230.pdf>

<sup>2</sup> <https://indicators.extension.iastate.edu/Indicators/Census/Iowa%20%20counties%20%20rural%20urban%20%202020.pdf>

<sup>3</sup> <https://storystudio.kcci.com/2022/12/06/partners-for-a-better-iowa-credit-unions-work-with-rural-and-urban-communities-to-build-financial-stability/>

<sup>4</sup> <https://www.stlouisfed.org/publications/regional-economist/second-quarter-2017/banking-deserts-become-a-concern-as-branches-dry-up>

<sup>5</sup> <https://www.farmprogress.com/farm-policy/congress-working-to-expand-rural-credit-access>

<sup>6</sup> <https://www.thegazette.com/state-government/capitol-notebook-iowa-house-republicans-introduce-rural-economic-development-bills/>

## Legislative Efforts to Increase Rural Credit Access in Iowa

### ACRE Act

Co-authored by U.S. Rep. Randy Feenstra (R-Iowa), went into effect in 2024 to increase access to agricultural real estate and rural community real estate loans.<sup>7</sup>

### Rural Credit Access Act

Introduced by U.S. Rep. Zach Nunn (R-Iowa) in 2024 to update a federal program that provides capital to financial institutions in rural areas to eliminate delays in access to credit.<sup>8</sup>

### Credit Union Modernization Bill

Overwhelmingly passed by the state legislature in 2024 to make credit more accessible for Iowans.<sup>9</sup>

### The Solution Seems Clear

Iowa could rescind its DIDMCA opt-out and alleviate the credit access crisis in rural Iowa and eliminate the need for remedial legislation.

<sup>7</sup> <https://www.farmprogress.com/farm-policy/congress-working-to-expand-rural-credit-access>

<sup>8</sup> <https://www.radioiowa.com/2024/02/16/170407/>

<sup>9</sup> <https://legiscan.com/IA/bill/HF131/2023>