



May 12, 2023

Dear Members of Congress:

We, the undersigned companies, are writing to ask you to oppose any action that would eliminate or unduly weaken a historically strong, safe avenue for innovation and growth in the financial services industry: industrial loan corporations (ILC), also described as industrial banks.

Our organizations have made the strategic decision to charter or acquire these financial institutions in order to make a broader range of financial services more readily available to our customers, often in cases where access to those services had been difficult or impossible. Industrial banks do not compete with traditional community banks for deposits or for loans; our affiliates are specialized, branchless lenders chartered to meet our customers' needs.

Today, 24 ILCs with \$248 billion in total assets are supervised by the FDIC and by regulators in California, Nevada, and Utah. They are exceptionally well capitalized. Our regulators have the authority to conduct examinations of our financial institutions, their parent companies, and any of our affiliates. Industrial banks are subject to statutory restrictions on transactions with their affiliates and the parent companies, under Sections 23A and 23B of the Federal Reserve Act. They may not extend significant loans to their parents or affiliates, nor offer them credit on preferential terms.

Through the two major financial crises over the last 35 years, Industrial Banks have proven strong and resilient. Only two ILCs have failed, both owned by financial institutions suffering the effects of the crisis.

Some have proposed limiting or eliminating industrial banks, but these bills would be changes for change's sake, not to address any policy or risk concerns. The attacks, however, are unwarranted given that the FDIC, and the state regulatory agencies that oversee industrial banks, have frequently affirmed they have no policy concerns around these institutions. As you pursue objectives to make more banking services available to more consumers, and to increase competition, limiting the ability for industrial banks to meet the needs of their customers would be contrary to that aim.

We would be happy to provide additional information about our operations, and answer any questions you may have about our robust industrial banks. Thank you for your thoughtful work on improving financial services for all Americans.

# INDUSTRIAL BANKS

## ILC 101: What is an ILC?



National Association of Industrial Bankers

**Over a century ago,** a new financial industry was created with a purpose to provide loans to low and moderate income Americans who had stable jobs, but little access to bank credit. Because these institutions had industrial workers as their primary customers, they were known ever since as “industrial loan companies” (ILCs) or “industrial banks.” Today, ILCs provide critical lending to small businesses and families that have limited credit.

**Throughout their existence, ILCs have always been state-chartered or licensed institutions that make loans and offer their customers deposits, investment certificates, or both.**

The 1987 Competitive Equality Banking Act (CEBA) specified that ILCs chartered in states with statutes requiring ILCs to be FDIC-insured as of March 5, 1987, were exempt from the definition of “bank” in the Bank Company Holding Act. This was a clear intention by Congress that has remained unchanged for over thirty years, and is not a “loophole.”

**Industrial Banks are regulated like every other FDIC insured bank: subject to CRA, fair lending, privacy laws, the full array of examinations, taxes, etc. The only difference is that an industrial bank parent or affiliate can engage in non-financial activities and are typically not subject to Federal Reserve supervision.**

The FDIC has the authority to examine any affiliate of any ILC, including the parent company. Moreover, state regulatory authorities in California, Nevada, and Utah have the authority to conduct examinations of both the parents and affiliates of ILCs.

ILCs are subject to Sections 23A and 23B of the Federal Reserve Act, which restricts transactions between ILCs and their parents and affiliates. ILCs are prohibited from extending loans of significance to their parent or affiliates or from offering them any preferential non-market terms.

There are 24 ILCs with \$248 billion in total assets as compared to 4,706 other banking institutions. ILCs are 0.5 percent of the total number of FDIC-insured institutions with 1 percent of the total assets of all institutions.

**For decades ILCs have been consistently the safest and soundest financial institutions in the country. The active 24 ILCs performed far better in terms of ROA than all FDIC-insured institutions.**

In the last 35 years, only two ILCs failed, both of which were financially owned institutions whose clients suffered the effects of the financial crisis and severe recession.

ILCs fill a role in the marketplace by providing tailored financial services where traditional banks have not. These innovative credit solutions target specific niche audiences that are only served through an affiliate or parent company relationship.

**Innovative and Enduring**

Industrial Loan Companies (ILCs) or Industrial Banks have been an integral part of the US financial system for over a century, providing credit and financial innovation during good times and bad. ILCs were originally created to service workers without access to traditional banks. ILCs continue to provide niche financing, especially to Americans without access to credit from larger banks. Perhaps one of the most compelling facts about ILCs is that during the worst years of the financial crisis, when most banks and credit unions were contracting their balance sheets and dramatically reducing lending, ILCs continued to lend and actually grew their assets (loans) year over year, providing needed capital for the US economy.

**A Safe and Regulated Industry**

ILCs are regulated as any other state-chartered commercial bank. The FDIC serves as the primary federal regulator, with the authority to examine the depository, and as necessary, the parent organization. All federal and state banking and consumer protection laws apply to ILCs. In addition, parent companies are governed by affiliate and source of strength obligations.

**Well Performing Insured Depositories**

ILCs have consistently outperformed all other FDIC insured institutions for over 20 years.

**113 YEARS**

Industrial banks have been chartered since 1910. The word “industrial” in the name stems from the original mission of providing credit to industrial workers overlooked by conventional banks.<sup>1</sup>

**21 YEARS**

For the past 21 years ILCs have lowered ratios of troubled assets more than all other insured depositories.<sup>1</sup>

**32 PERCENT**

32% of industrial bank deposits are insured certificates of deposit, which are less susceptible to short-term withdrawals.<sup>2</sup>

<b>Equity to Assets:</b>	<b>INDUSTRIAL LOAN COMPANIES</b>	<b>ALL NATIONAL BANKS</b>
	<b>9.9%</b>	<b>9.4%</b>
<b>Annual Return on Equity (ROE):</b>	<b>INDUSTRIAL LOAN COMPANIES</b>	<b>ALL NATIONAL BANKS</b>
	<b>20.9%</b>	<b>11.9%</b>
<b>Annual Return on Assets (ROA):</b>	<b>INDUSTRIAL LOAN COMPANIES</b>	<b>ALL NATIONAL BANKS</b>
	<b>2.08%</b>	<b>1.11%</b>

Aggregate statistics drawn from call reports as of December 31, 2022, from the FDIC website.

1. Source: A New Look at the Performance of Industrial Loan Corporations.

2. [eccles.utah.edu/utah-center-for-financial-services/](https://eccles.utah.edu/utah-center-for-financial-services/)

## Industrial banks – safe & sound institutions providing innovative financial services to millions of Americans

State-chartered industrial banks are the strongest financial institutions in America. They will never experience the challenges facing other banks, especially those that recently failed. The facts are indisputable. America's Industrial Banks serve and protect consumers and are among the strongest and safest banks insured by the FDIC.

### **Lowest** percentage of uninsured deposits

One cause of recent bank failures was large percentages of uninsured deposits, typically more than 90%. In comparison, industrial banks have the lowest overall percentage of uninsured deposits (15.9%).

[eccles.utah.edu/utah-center-for-financial-services/](http://eccles.utah.edu/utah-center-for-financial-services/)

### **Higher** level of collateral

Most deposits exceeding insurance coverage in industrial banks are collateral for loan programs and cannot be withdrawn before all program loans are repaid. That avoids runs, loan losses and provides cash to pay withdrawals.

[eccles.utah.edu/utah-center-for-financial-services/](http://eccles.utah.edu/utah-center-for-financial-services/)

### **Greater** number of insured certificates of deposits

Recent bank failures were all caused by mass deposit withdrawals by panicked depositors. Industrial banks primarily use insured certificates of deposits which cannot be withdrawn before maturity.

[eccles.utah.edu/utah-center-for-financial-services/](http://eccles.utah.edu/utah-center-for-financial-services/)

### **Exceeds** liquid assets to uninsured deposits

Aggregate liquid assets (Cash, deposits at other banks, federal funds sold etc.) for industrial banks consistently exceeded aggregate uninsured deposits.

[eccles.utah.edu/utah-center-for-financial-services/](http://eccles.utah.edu/utah-center-for-financial-services/)

### **Safest** in the Country

Quarterly FDIC call reports consistently document that industrial banks hold more capital and are more profitable than other banks and have consistently been the safest and strongest financial institutions in the country.

[industrialbankers.org/resources-2?category=Reports%20and%20Studies](http://industrialbankers.org/resources-2?category=Reports%20and%20Studies)

### **Same** FDIC and State Regulations

Industrial banks are regulated by the FDIC and state regulators, using the same supervisory tools and standards applied to other banks..

[eccles.utah.edu/utah-center-for-financial-services/source-of-strength-and-consolidated-supervision-a-comparative-assessment-of-industrial-banks-and-commercial-banks/](http://eccles.utah.edu/utah-center-for-financial-services/source-of-strength-and-consolidated-supervision-a-comparative-assessment-of-industrial-banks-and-commercial-banks/)

### **Source** of Strength

Industrial bank parents are required to serve as a "source of strength" and contribute additional capital to ensure their bank's solvency whenever needed. Industrial bank parents are better able to provide this support because, unlike most commercial bank holding companies, industrial bank parents typically hold many assets apart from the bank.

[fdic.gov/news/fact-sheets/ilc-12-15-20.pdf](http://fdic.gov/news/fact-sheets/ilc-12-15-20.pdf)

### ILCs 101

For over a century, ILCs have provided reliable and safe financial services to consumers and businesses. They are heavily regulated state-chartered banks and have demonstrated a unique ability to be innovative and perform well.

#### QUICK FACTS:

- Started in **1910** by Arthur J. Morris.
- Weathered the great depression and **recent financial crises** well.

*More info at Barth Report on ILCs*

### Strength and Stability

ILCs have been at the forefront of banking innovation while operating within the traditional rules of banking and have managed to outperform all other FDIC insured institutions.

#### QUICK FACTS:

- ILCs consistently enjoy a **better annual Return on Equity** than non-ILCs.
- ILCs have a **higher annual Return on Assets** than non-ILCs.
- ILCs are subject to **traditional banking regulations**.

*More info at [eccles.utah.edu/utah-center-for-financial-services/](http://eccles.utah.edu/utah-center-for-financial-services/)*

### Superior Supervision

James Barth of Auburn University compared the supervision provided by the FDIC on industrial banks and that provided by the federal reserve on commercial banks. This exhaustive study determined that the FDIC and state regulators provide superior supervision.

#### QUICK FACTS:

- Industrial banks are **stronger** than banks supervised by the Federal Reserve because they enjoy substantial assets and greater capital.
- FDIC and state regulators use the **same supervisory tools** as the Federal Reserve to regulate a bank holding company.

*More info at Barth Analysis on Strength and Consolidated Supervision*

### No Mixing of Banking and Commerce

Potential conflicts of interest that may exist by diverse holding companies owning a bank are prevented by Sections 23A and 23B of the Federal Reserve Act, which applies to all banks including industrial banks.

#### QUICK FACTS:

- Industrial banks are subject to requirements, which apply to all banks, **designed to ensure competence and safety**.
- These **laws afford protections** and restrict ILC funding, affiliate activities, and, in limited cases permitted, ensure strict arm's length requirements.

*Section 23A and 23B of the Federal Reserve Act, 12 U.S.C. 371c*

### The Barth CIBFS Report

James R. Barth of Auburn University conducted a study for CIBFS on how ILCs have performed compared to other FDIC insured institutions. ILCs perform better than all other FDIC institutions.

#### QUICK FACTS:

- ILCs have **outpaced non-ILCs for 15 years** in key performance indicators.
- ILCs **actually grew** during the recent financial crisis.

*More info: Industrial Bank Performance: A Summary of the Barth CIBFS Report*

### Provide Services to Niche Audiences

ILCs target specific niche audiences that are only served through an affiliate or parent company relationship. Industrial banks have a history of providing safe, innovative credit solutions that expand access to credit.

#### QUICK FACTS:

- Serve a **wide range** of individuals and industries.
- Provide **reliable financial services** to consumers and businesses.

*More info at [industrialbankers.org/stories](http://industrialbankers.org/stories)*

*All reports available at [industrialbankers.org/resources](http://industrialbankers.org/resources)*