April 14, 2021

The Honorable Ed Perlmutter
Chairman
Subcommittee on Consumer Protection and Financial Institutions
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Subcommittee on Consumer Protection and Financial Institutions
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Perlmutter and Ranking Member Luetkemeyer:

On behalf of the American Financial Services Association (AFSA), I am writing today in advance of your hearing, *"Banking Innovation or Regulation Evasion? Exploring Modern Trends in Financial Institution Charters."*

Founded in 1916, AFSA is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. In 1971, AFSA merged with the American Industrial Bankers Association, an organization of industrial banks, thrift and loan companies, and sales financial companies, and we are proud to continue represent those banks.

Industrial banks are subject to the same banking laws and are regulated in the same manner as other depository institutions. They are supervised and examined both by the states that charter them and by the Federal Deposit Insurance Corporation (FDIC). They are subject to the same safety and soundness, consumer protection, deposit insurance, Community Reinvestment Act, and other requirements as other FDIC-insured depository institutions.

Most parent companies of industrial banks are exempt from Federal Reserve Board supervision as bank holding companies. Instead, the FDIC and the relevant state banking department provide the equivalent supervision, including requiring additional capital and liquidity support. Additionally, unlike most bank holding companies, the carefully vetted non-financial parent companies have the independent financial strength to serve as a source of strength to their banks.

Similar Bank Holding Company Act exemptions apply to thousands of institutions not owned by other companies and to financial institutions that do not offer a full range of banking services, such as credit card banks, Edge Act banks, grandfathered non-bank banks, and trust banks. These exemptions benefit bank customers by introducing additional competition into the marketplace, without increased risk to the deposit insurance system.

Industrial banks, which have existed since 1910, evolved from Morris Plan Banks, consumer lending institutions organized at a time when commercial banks generally did not make consumer loans or offer deposit accounts to individuals.[1] The word "industrial" in their names stems from the original mission of providing credit to industrial workers, not to the industries themselves. Industrial banks engage in consumer and commercial lending on both a secured and unsecured basis. They may accept savings accounts, including Money Market Deposit Accounts, time deposits, and deposits that may be withdrawn through negotiable orders of withdrawal ("NOW") accounts.

During the past five decades, industrial banks have compiled among the best records of capitalization and profitability of any group of banks in the nation, and they represent a sector of the financial services industry that should be encouraged to grow.

Though not required to be regulated as federal bank holding companies, owners of industrial banks are not "unregulated." Indeed, they are subject to many of the same requirements as bank holding companies, such as strict restrictions on transactions with their bank affiliates. Furthermore, industrial banks are regulated under state law, they are subject to examination by the FDIC, and to "prompt corrective action" and capital guarantee requirements if the banks they control encounter financial difficulties.

Should you need additional information or have any questions, please feel free to contact me at cwinslow@afsamailorg or (202) 776-7300. Thank you very much for the opportunity to comment.

Sincerely,

Celia Winslow

Celia Winslow
Senior Vice President
American Financial Services Association

[1] Predating the Federal Reserve System by three years and FDIC by twenty-three years.