

September 27, 2021

The Honorable Ed Perlmutter
Chairman
U.S. House Subcommittee on Consumer
Protection and Financial Institutions
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer
Ranking Member
U.S. House Subcommittee on Consumer
Protection and Financial Institutions
Washington, D.C., 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, “The Future of Banking: How Consolidation, Nonbank Competition, and Technology are Reshaping the Banking System.”

Founded in 1916, the American Financial Services Association (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 finance companies, and we are proud to continue to represent those banks. We appreciate the Committee’s interest surrounding the regulatory oversight of industrial banks and hope to provide clarity regarding these types of sound financial institutions.

Industrial banks are Federal Deposit Insurance Corporation (FDIC)-regulated depository institutions chartered under the laws of Colorado, Utah, California, Nevada, Hawaii, Indiana, and Minnesota. Twenty-three industrial banks are currently in operation with over \$140 billion in total assets.

Industrial banks are subject to the same banking laws and are regulated in the *same* manner as other depository institutions. Additionally, they are supervised and examined *both* by the states that charter them and by the 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.

The current discussion draft ignores this longstanding success and would require applicants for new industrial banks charters, who are already state and federal chartered—to require a 2/3 vote by the FDIC directors for approval.

The discussion draft also would subject parent companies of existing industrial banks to supervision by the Federal Reserve Board. Most owners of industrial banks are exempt from Federal Reserve Board supervision as bank holding companies. 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.

Forcing existing parent companies—which include major automobile manufacturers and other diversified companies—under Fed control accomplishes nothing except lead these companies to exit the banking arena.

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. They 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.

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 and predate the formation of both the Federal Reserve Board and the FDIC.

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.

Finally, the discussion draft includes a new GAO study of industrial banks. While we believe this is unnecessary, AFSA notes GAO studies in 2005¹ and 2012² found no reason to change the existing regime for industrial banks.

We appreciate your time and the opportunity to provide insight into the regulatory oversight of industrial banks under your committee’s jurisdiction. Should you need additional information or have any questions, please feel free to contact me at cwinslow@afsamailorg or (202) 776-7300.

Sincerely,



Celia Winslow
Senior Vice President
American Financial Services Association

¹ U.S. Government Accountability Office. 2005. Industrial Loan Corporations: Recent Asset Growth and Commercial Interest Highlight Differences in Regulatory Authority. GAO-05-621. Washington D.C.: Government Accountability Office.

² U.S. Government Accountability Office. 2012. Bank Holding Company Act: Characteristics and Regulation of Exempt Institutions and the Implications of Removing the Exemptions. GAO-12-160. Washington D.C.: Government Accountability Office.