WEX Bank
111 East Sego Lily Drive
Suite 250
Sandy, Utah 84070

Jennifer Jones
Deputy Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington DC 20429

Re: Request for Information on Industrial Banks and Industrial Loan Companies and Their Parent Companies (RIN 3064-ZA48)

Dear Ms. Jones,

Thank you for the opportunity to respond to the Request for Information (RIN 3064-ZA48) on Industrial Banks(“IB(s)”) and Industrial Loan Companies (“ILC(s)”) and their Parent Companies (the “Parent(s)”) issued by the Federal Deposit Insurance Corporation (“FDIC”) to collect information on the FDIC’s approach to evaluating the statutory factors applicable to filings related to industrial banks.

WEX Bank (the “Bank”) is an FDIC insured ILC that is licensed and regulated by the state of Utah. WEX Bank is a wholly-owned subsidiary of WEX Inc. The Bank’s current business model focuses on providing payment processing services, loans and short-term credit specifically designed for the vehicle fleet needs of small businesses (which comprise 75% of the Bank’s fleet customers), large fleets, government fleets and over-the-road carriers. The Fleet business is the dominant line of business. In addition, the Bank provides innovative corporate purchasing and payment capabilities that can be integrated with our customers’ internal systems to streamline their corporate payments, accounts payable and reconciliation processes. WEX’s financial products are innovative and unique to simplify the business of running a business.

WEX Inc. was founded in 1983 as a fuel payments provider to manage fleet expenses and grew through acquisitions that enabled the Company to diversify services and broaden its markets, eventually becoming a publicly traded company in 2005. WEX Bank was chartered as an ILC in 1997 and began operations in 1998 in Salt Lake City, Utah. The Bank is part of the Risk & Compliance organization within WEX Inc. but has its own management, leadership and oversight, including a diverse board of directors composed of 2 directors from the parent company, 4 independent directors and 1 director from the Bank. WEX Bank is regulated by the Utah Department of Financial Institutions (“UDFI”) and the FDIC. Pursuant to UDFI requirements, WEX Bank is registered as a bank holding company in Utah and complies with all applicable rules, regulations and reporting requirements.

The relationship between WEX Inc. and the Bank requires the Bank to pay a servicing fee to WEX Inc. for critical services provided to the Bank such as human resources, payroll and legal services. Therefore, WEX Inc. is considered a significant service provider and evaluated regularly in accordance with the Significant Service Provider Examination Program, a framework used by the FDIC. WEX Bank is not a “full-service bank”, as it is not permitted to accept demand deposits under Utah charter terms. WEX Bank performs credit underwriting, maintenance and risk management for the majority of the WEX Inc. portfolio. WEX Inc. is a mature parent company with a history of stability and effective risk management with a strong business model and case warranting the operation of its own ILC.

WEX Bank adheres to all FDIC regulations required of FDIC-insured institutions, in addition to fulfilling UDFI regulations and requirements. Both WEX Inc. and WEX Bank are confident that the existing FDIC regulatory and supervisory framework and the application of 12 CFR Part 354, effectively fosters a secure, stable and transparent operating environment for industrial banks. WEX supports the FDIC’s recent withdrawal of Proposed Rule RIN 3064-AF88, which would have foreclosed the ability of most new ILC applicants to successfully apply for federal deposit insurance.

This letter aims to provide information on WEX Bank and WEX Inc. specifically as well as the industrial banking category as a whole, including the relationship between the parent and bank, in order to demonstrate the history of safety and soundness regarding industrial banks and the efficacy of the FDIC’s current approach and regulatory framework. We also provide suggestions for clarification, transparency and efficiency related to the processing of ILC filings.

Record of Safety and Soundness

Since the FDIC began insuring ILCs in 1987, they have consistently been some of the safest and soundest financial institutions in the country with a low failure rate, high levels of liquidity and high levels of return on equity (“ROE”), guided by sufficient oversight from the FDIC and state regulatory authorities. Like all other banks, ILCs are subject to the Community Reinvestment Act, fair lending, privacy laws, the full array of examinations, taxes and other regulations. The only difference is that an ILC parent or affiliate can engage in non-financial activities and are typically not subject to Federal Reserve Board (“FRB”) supervision. Instead, parents and ILCs operate in accordance to unique FDIC agreements designed to promote a strong, functional relationship between the ILC and its parent company while also fostering independence and risk mitigation for the ILC. WEX Inc. is not subject to FRB regulation but complies with its own unique FDIC agreements like many other non-financial parent companies of ILCs. WEX Inc. is subject to additional oversight outside of those agreements due to its status as a Significant Service Provider.

WEX Inc.’s written FDIC agreement includes all required elements. In order to be in good standing, we annually update a record of all parent company subsidiaries, consent to examination of WEX Inc. and each of its subsidiaries to assess compliance with the written commitments, submit an annual report on financial condition, risk management systems, data protection measures and a summary of compliance with applicable laws. WEX Bank maintains records in accordance with the Bank Secrecy Act and Anti-Money Laundering rules. WEX Bank also expects and facilitates an annual independent audit. WEX Bank consistently maintains capital and liquidity levels beyond the agreed upon thresholds. WEX Bank's contingency plan covers recovery actions to address significant financial or operational stress that might threaten the safety and soundness of the Bank. As required by the FDIC of all ILCs, WEX Bank's contingency plan includes strategies for orderly disposition of the Bank without the need for a receiver or conservator.

There are currently 24 industrial banks with approximately $246 billion dollars in assets, accounting for about 1% of the entire banking industry. Yet, industrial banks have fared better than most financial institutions throughout the past several decades, outperforming non-ILCs in key performance indicators. In 2018, James Barth and Yanfei Sun of Auburn University published an extensive review of the history of industrial banks and their financial performance compared to other commercial banks. The study found that since 2000, industrial banks have fared better than commercial banks based on consistently higher capital ratios, return on equity, and return on assets ("ROA"). A Utah Center for Financial Services Study on Comparative Safety and Soundness published at the end of 2024 found that industrial banks' ROE was 19.56% in 2024 compared to 11.12% for all banks and ROA was 2.14% compared to 1.11% for other banks. ILCs have a long history of safety and soundness which supports continuity of the current regulatory framework and approach to statutory factors.

WEX Bank provides commentary below in relation to the statutory factors as well as providing suggestions related to the processing of ILC filings.

Statutory Factors

1. Financial history and condition of the depository institution

WEX Bank believes the FDIC should continue to assess the general character and management fitness of ILCs according to the same standards and statutory requirements as any other insured depository institution. The current collaborative application process, involving the applicant, the state chartering authority and the FDIC works well to inform the applicant of requirements for chartering and deposit insurance. WEX Bank makes the following suggestions that the FDIC consider implementing as part of its assessment of new ILC applications:

- The FDIC standardize response times to help in moving applications through the process within a reasonable time and consider restoring delegation of authority to the regional offices for decisions regarding ILCs.

- Currently, Part 354 recognizes the FDIC's need to address the unique nature of each applicant and their parent company - in order to fulfill this need, the FDIC needs sufficient information to go beyond the statutory factors and clearly evaluate the unique relationship between the parent and the ILC subsidiary. We suggest the FDIC tailor requirements for an ILC and its parent company based on the proposed business model of the ILC and the size, complexity and nature of the parent company and its affiliates.

- The requirements for ILCs should be consistent regardless of the primary business of the parent company and there should be a legitimate business case for operating a bank subsidiary, as evidenced in an application for deposit insurance. For example: Operating an ILC for the purposes of data aggregation should not qualify as a legitimate business case. While a parent company's financial or nonfinancial nature should be considered when evaluating its character and fitness to own an ILC, being a nonfinancial company should not be a disqualifying factor. Historically, various nonfinancial entities, including retailers, manufacturers, and technology companies, have successfully operated ILCs. The FDIC and state chartering authorities possess the flexibility to tailor operational limitations for ILCs based on the nature and scale of the parent company's financial and nonfinancial operations. Furthermore, the application of Sections 23A and 23B of the Federal Reserve Act effectively limit affiliate transactions between ILCs, their parents, and affiliates. A parent's prior experience in operating financial services affiliates should also be considered when assessing its capability to successfully operate an ILC, and parent companies should demonstrate an ability to successfully and profitably operate their core business and affiliates as an indicator of their potential to operate an ILC successfully.

2. Capital Adequacy

WEX Bank maintains capital levels beyond sufficient means to execute its business plan and to operate without additional support from the parent company outside of the service agreement. This is a consistent trend amongst ILCs - The recent Utah Center for Financial Services Study on Comparative Safety and Soundness reported an equity-to-assets ratio of 10.9% for industrial banks compared to 10% for all banks, a troubled-assets-to-loans ratio of 0.96% versus 1.04%, and an allowance-to-loans ratio of 2.73% compared to 1.75%, reflecting stronger capitalization and more conservative provisioning than the broader banking industry.

WEX Inc. understands and recognizes the requirement that it be in a position to support the ILC with additional capital and liquidity if necessary. WEX Bank supports the logic that the initial capital requirements for new ILCs are necessarily higher than those of established and successful insured depository institutions but believe those requirements should not be higher in perpetuity. Once an ILC has established its ability to successfully execute its business plan, the capital requirements should realign with other insured depository institutions with similar risk profiles.

3. Risks to the Deposit Insurance Fund

ILCs should demonstrate the ability to operate independently, without relying on their parent company and have contingency plans in place for the ILC's continued operation or liquidation, ensuring no impact to the Deposit Insurance Fund (DIF). Barth and Sun updated their review of industrial bank performance compared to all banks in 2021 and found in the period from 1986 through 2020 there were 23 industrial bank failures, of which 17 were in California and most were structured as traditional commercial banks. The total cost to the FDIC for these industrial bank failures was $780 million. During the same period, 2,605 non-industrial banks failed and cost the FDIC $178 billion. During the Great Recession of 2007-2010, only one industrial bank failed compared to 529 non-industrial banks insured by the FDIC. Many industrial banks were chartered and approved for federal deposit insurance prior to 2007. A significant number of these institutions were either converted to a commercial bank, merged with a commercial bank, or closed or self-liquidated due to changing market conditions or the parent companies' business operations. None of these conversions, mergers or liquidations resulted in a loss to the FDIC. Existing laws and regulations have proven effective in regulating affiliate relationships and innovative business plans to minimize risk to the DIF. 2023 saw two major bank failures which caused significant impact to the Deposit Insurance Fund due to the large portion of deposits above the $250,000 FDIC insured limit. The 2023 publication from the Utah Center for Financial Services Study on Comparative Safety and Soundness of the Industrial Bank Industry, "estimated that 83% of aggregate deposits were within deposit insurance limits, compared to 59% for all banks". Industrial banks pose lower risks not only to the DIF but to the entire economic system.

4. Convenience and Needs of the Community

The concept of "community" for ILCs should refer to the customers they serve, not just their geographic location. In WEX Bank's scenario, this is the customers of WEX Inc., which include businesses of all sizes, government customers, travel providers, transportation companies and fleet managers, all with specific payment needs that WEX Bank is intentionally designed to fulfill in the most secure, efficient way possible. This community is niche and WEX is able to provide critical lines of credit, particularly for small businesses with specific fleet needs. The products and services offered by ILCs are comparable to those of other insured depository institutions but designed specifically for the unique demands of the parent company's community of customers. The FDIC should thoroughly evaluate an applicant's strategy for attracting a sustainable customer base. Furthermore, ILC applicants that acquire existing financial services operations from a parent or affiliate can expect greater business plan success due to an established customer base and historical data, reducing uncertainty about the scale and quality of their operations.

5. Characteristics of Industrial Bank Parent Companies

The size and market share of an ILC applicant's parent company are crucial considerations in meeting the requirements of the FDI Act, with general requirements for an ILC applicant mirroring those for any other deposit insurance applicant. The FDIC should specifically tailor parent company requirements to mitigate risks to the DIF and ensure the parent's capacity to support the ILC's capital and liquidity. ILCs must be capable of independent operation, even if the parent company faces significant impairment, with the parent's size and market share assessed for potential business or financial disruptions. Statutory limitations prevent ILCs from operating as "full-service banks," and requirements for independent boards, management and financials ensure ILCs are not "captives" of their parent companies. A key advantage of non-financial company ownership of an ILC is the ability to serve market segments traditionally underserved by conventional banks. WEX, for example, serves the unique needs of the independent contracting community of truckers, with a product called 10-4, a fuel payment app designed to help truckers make fuel transactions and save money to support their independently owned trucking operations. WEX Bank enables WEX Inc. to better serve its customers but does not create a significant competitive advantage within our industry. Competition remains and the advantages created by operating our own bank subsidiary are primarily experienced in terms of customer service, corporate debt-ratio maintenance and other internal financial operations. WEX Inc., like other ILC parent companies, has a unique business model that creates a legitimate case for operating an industrial bank and does not eliminate competition in our relevant markets.

The FDIC should consider the size, scope and intentions of any company submitting an application for an ILC charter and deposit insurance. Business models involving the sale or sharing of consumer data with a parent company or its affiliates are deemed inappropriate for insured depository institutions and should lead to rejection by the FDIC and state regulators.

6. Other Statutory Factors

The FDIC should consider funding sources and degree of leverage of the parent company in determining the ability of the parent to serve as a source of strength. The ability of most ILC parents to serve as a real source of strength for the bank is one of their unique advantages. The FDIC should understand the Parent's ability to support the bank in detail and confirm the obligation to provide support when needed within a Capital and Liquidity Maintenance Agreement and perhaps in other ways if necessary. This type of analysis is not usually performed when a bank will be owned by a BHC that has little or no real ability to support its bank.

The FDIC and states currently have an effective process for evaluating the unique strengths of each proposed Industrial Loan Company (ILC) and ensuring the enforceability of commitments made by ILCs and their parent companies. The FDIC's current approach to evaluating other non-standard conditions for approval appears effective, especially considering the broad diversity of current ILC parent industries and business models.

Conclusion

In conclusion, industrial banks' long history of stability, safety, soundness and positive performance during economic highs and lows throughout the decades since they became FDIC insured in 1987 prove the success of the ILC model. WEX's operation of an industrial bank is built upon a mission to serve the unique needs of our customer community through safe, secure banking products and services designed for them. WEX Inc. will continue to serve as a source of strength for the bank in accordance with our capital and liquidity agreements. To further mitigate risk, WEX Bank will continue to be managed independently, with its own board of directors and executive management team. We hope this letter has provided insight and clarity as to the relationship between a parent company and ILC, the stability of the industrial banking sector and the efficacy of the current regulatory framework and FDIC approach to evaluating key statutory factors consistent with all other depository institutions.

WEX Bank appreciates the opportunity to offer insight to the FDIC on this important issue. If you have questions or need additional information, please contact me at jason.price@wexinc.com.

Sincerely,

Signed by:
Jason Price
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Jason Price
President & Chief Executive Officer
WEX Bank