WOODSTOCK INSTITUTE

Advancing Economic Justice and Racial Equity

September 19, 2025

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Via email: comments@fdic.gov

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

Woodstock Institute appreciates that the FDIC is taking the "renewed interest" in the industrial loan company (ILC) and industrial bank charters as an opportunity to solicit feedback. However, we want to caution the FDIC against taking that renewed interest as a wholly positive sign when it comes to responsible lending – in fact, there are serious risks to consider in this sector. It is of paramount importance that an ILC charter not be abused as an avenue for financial companies to skirt regulations.

At Woodstock, our north star is consumer financial protection, particularly for low- and moderate-income communities and communities of color, which have been preyed upon by high-cost providers. Any new ILC charter and associated FDIC insurance should provide a demonstrable benefit to consumers, not just the parent company's shareholders. Robust Community Reinvestment Act (CRA) obligations and the integrity of state consumer financial protection laws can help ensure that ILCs add value for consumers to the financial system, and in turn protect the Deposit Insurance Fund (DIF).

Many states, including Illinois, have enacted consumer protection laws and consumer loan rate caps to protect their residents from predatory loans that trap consumers in a cycle of debt. In large part, these bipartisan-supported laws are specific to non-depository financial service providers – the sector where most financial predators lurk. Already, nonbanks have tried to evade state protections, either via legislative carveouts or rent-a-bank arrangements. It's worth noting that the Illinois Predatory Loan Prevention Act (PLPA) recognizes the value and opportunity of bank-fintech partnerships, so long as they are responsible. For any loans exceeding the 36% APR cap, the PLPA applies a predominant economic interest test to determine whether a bank partner is being used just to evade the protections of the PLPA, making it a predatory rent-a-bank arrangement. But for loans below the cap, respecting the integrity of the PLPA's protections, the law is agnostic as to what role the bank and nonbank partners should play.

But who even needs an external bank partner when you have an ILC bank affiliate? Woodstock is gravely concerned that nonbank lenders will apply for and abuse ILC charters to evade state rate caps and make high-cost consumer loans that the nonbank could not issue on its own under that state's law. Beyond risks to consumers, this would also present serious risk to the institution and the DIF. Regulatory treatment of high-cost consumer lending is subject to change; if regulators look at high-cost loans unfavorably, the business model of an ILC bank making such loans through their affiliate would be undermined and the stability of the ILC bank would be endangered. We urge FDIC to approach any ILC application from a company that is already a financial service provider with extreme caution.

This concern is not speculative. Earlier this year, OneMain Financial applied to form an ILC bank with FDIC insurance. Prior to the PLPA, OneMain made loans in Illinois over 36% MAPR (Military Annual Percentage Rate as defined by the Military Lending Act, which is the foundation for the PLPA). They were part of a group of consumer lenders that have attempted to amend the PLPA's rate calculation to be more favorable to their high-cost lending business model and less favorable to consumers; consumer advocates opposed these attempts and the PLPA remains intact. An ILC application would achieve through a regulatory avenue what they failed to do legislatively, and OneMain could be the canary in the coal mine on this issue, warning of more ILC applications from existing consumer lenders.

On the other hand, ILCs are subject to the CRA, but the scope of their exams is typically much more limited and not reflective of where they do business. In our experience, ILCs generally elect to be examined either as limited purpose banks or under a strategic plan. Both options leave much to be desired from a consumer advocate perspective and are even more inadequate in relation to a financial company doing business nationally that applies for an ILC. The CRA rules are unfortunately still tied to the physical deposit-taking locations of a given bank, but we are seeing more fintechs and online lenders applying for an ILC charter in Utah while doing business nationwide. They have a national reach by way of the existing entity's business but would only be subject to CRA obligations around their headquarters in Utah.

For example, when Square applied for an ILC charter, Woodstock participated in a coalition of groups led by the California Reinvestment Coalition (now known as Rise Economy) to try to convince Square to voluntarily adopt a robust strategic plan that included meaningful CRA commitments to the markets it serves – businesses large and small across the country. Square refused. Instead, Square moved forward – with the FDIC's blessing – with a plan to invest in Salt Lake City and to provide financial education nationwide focused on small business. While Woodstock Institute recognizes that this problem falls under the jurisdiction of CRA, this frequent mismatch between an ILC's CRA obligations and its market speaks to whether the ILC is truly meeting the convenience and needs of its community as required by the FDI Act.

In this RFI, the FDIC also asks how the convenience and needs assessment should consider an ILC's potential to bring low-cost financial services to market. While it's true that there are opportunities for responsible fintechs to bring lower-cost products to consumers that aren't well served by the financial mainstream, it is dangerous to assume that an ILC's offerings will be lower cost by default. In the case of existing consumer lenders, a bank charter would exempt them from many state rate cap laws, allowing them to increase the cost of their products to consumers in those states. When it comes to cost, a convenience and needs assessment must take into account the effect of evading state rate cap laws.

Finally, we urge the FDIC to consider the impact of the current administration's broad deregulatory agenda, and to exercise additional caution when considering ILC applications from companies that are financial in nature. FDIC will not have visibility into the activities and stability of an ILC's parent company; normally, the Consumer Financial Protection Bureau (CFPB) would. But the CFPB has announced and begun implementing its plan to retreat from supervision and enforcement activities over nonbanks. In fact, the CFPB has proposed rules to restrict the definition of "risks to consumers" that would trigger supervision over a nonbank company, and the proposal itself acknowledges that this may lead companies to engage in activities that put consumers at risk and increase consumer costs. The lack of CFPB oversight exponentially increases the risk posed by FDIC's lack of jurisdiction over an ILC's parent company.

Woodstock Institute appreciates the opportunity to provide input on what factors the FDIC should consider in relation to ILC bank applications. Should you have any further questions, please contact Jane Doyle [redacted]