

The FDIC's Supervision of Industrial Loan Companies: A Historical Perspective

Introduction

Industrial loan companies and industrial banks (collectively, ILCs) are FDIC-supervised financial institutions whose distinct features include the fact that they can be owned by commercial firms that are not regulated by a federal banking agency.¹ Some observers question whether current arrangements for overseeing the relationship between an ILC and its parent would provide sufficient safeguards if more extensive mixing of banking and commerce were permitted. This article describes the FDIC's approach to supervising ILCs and its historical experience with the ILC charter. Because Utah is home to by far the majority of the commercially owned ILCs, we highlight the supervisory practices Utah and the FDIC have employed with respect to the ILC-parent relationship. Our purpose is not to address the broader banking and commerce debate, but to provide a factual and historical context to policy discussions about how supervisors protect FDIC-insured entities that are part of larger organizations.

Strategies to monitor and control a bank's relationship with affiliated and controlling entities are fundamental to effective bank supervision under any organizational form that banks adopt. This principle is enshrined in U.S. banking legislation, bank regulation, and supervisory practice. Stand-alone banks,

savings associations, bank and thrift holding company subsidiaries, industrial loan companies, and other FDIC-insured entities are subject to Sections 23A and 23B of the Federal Reserve Act, which limits bank transactions with affiliates, including the parent company.² Federal Reserve Regulation O places limitations on loans to bank insiders and applies to all insured banks.³ The Prompt Corrective Action regulations required under the Federal Deposit Insurance Act (FDI Act) mandate progressively severe sanctions against any insured bank whose owners fail to maintain adequate capitalization in that bank.⁴ These and other safeguards described in this article constrain the degree to which a parent company or its subsidiaries can undertake transactions with, or divert capital from, an insured institution.

This array of safeguards reflects the importance Congress and the banking agencies attach to containing the potential cost of bank failures. The bank failures listed in Table 1 were caused by various factors, including weak economic conditions, failed business strategies, insufficient oversight by boards of directors, fraud perpetrated by bank insiders, and the nature of the influence exerted by a holding company or other controlling entity. Table 1 shows that the problems that can cause a bank to fail strike democratically across charter types and

¹ILCs are state-chartered institutions (currently operating in California, Colorado, Hawaii, Indiana, Minnesota, Nevada, and Utah) that under certain circumstances are not "banks" under the Bank Holding Company Act (BHCA). A company controlling an institution that is not a BHCA bank is not required to register as a bank holding company with the Federal Reserve Board and, therefore, is not subject to regulation and supervision by the Federal Reserve Board. Generally, an ILC will not be a BHCA bank as long as it satisfies at least one of the following conditions: (1) the institution does not accept demand deposits, (2) the institution's total assets are less than \$100,000,000, or (3) control of the institution has not been acquired by any company after August 10, 1987.

²Sections 23A and 23B, 12 U.S.C. §§ 371c & 371c-1, by their terms, apply only to state member banks and national banks. However, section 18(j) of the Federal Deposit Insurance Act, 12 U.S.C. § 1828(j) makes Sections 23A and 23B applicable to state nonmember banks, and 12 U.S.C. § 1468 makes sections 23A and 23B applicable to savings associations.

³Regulation O (loans to insiders), 12 C.F.R. Part 215. FDIC regulations (12 C.F.R. § 337.3) make the Regulation O prohibitions and limitations on loans to insiders applicable to all insured nonmember banks.

⁴See, for example, 12 C.F.R. Part 325 (with respect to nonmember banks).

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regulatory structures. More specifically, the table reinforces the observation that appropriate safeguards over inter-affiliate transactions are important under any charter type.

Table 1

Failed Banks and Thrifts 1985–April 2004					
Charter Type	Number of Failures				
Thrift institutions	1,129				
Bank holding company subsidiaries	813				
Stand-alone banks *	579				
CEBA banks	1				
Industrial loan companies	<table border="1"> <tr> <td>All ILCs</td> <td>21</td> </tr> <tr> <td>Utah ILCs</td> <td>0</td> </tr> </table>	All ILCs	21	Utah ILCs	0
All ILCs	21				
Utah ILCs	0				
Total	2,543				

* Figure includes savings banks supervised by the FDIC.
Note: CEBA = Competitive Equality Banking Act.

Depending on the organizational form a banking company adopts, federal oversight of the relationship between an insured bank and its affiliates may occur in two ways: bank supervision and holding company supervision. Bank supervision does not involve extensive federal banking agency oversight of controlling entities and their related interests. For example, if the controlling shareholder of a community bank also owns an automobile dealership, that dealership is not supervised by a federal banking agency. The statutory, regulatory, and supervisory safeguards alluded to at the outset of this article are designed to prevent abuse of the bank by the owner, and the owner may be required to produce documents and financial records that detail the bank's relationship with the dealership.

As of year-end 2003, 7,769 insured commercial banks were in operation. Of these, about 1,370 stand-alone commercial insured banks, 56 ILCs, and 40 Competitive Equality Banking Act (CEBA) credit card banks and other non-BHCA banks interacted with the federal banking agencies primarily by virtue of the agencies' bank supervision powers.⁵ Another 6,303 insured institutions were bank holding company subsidiaries. Each of these institutions was directly regulated, as a bank, by the relevant federal banking agency, and the parent companies of these institutions were subject to an additional layer of Federal Reserve supervision.⁶

In addition to supervising bank holding companies, the Federal Reserve, under the Gramm-Leach-Bliley Act of 1999 (GLBA), has umbrella supervision powers with respect to financial holding companies.⁷ Where a subsidiary of a bank holding company or financial holding company is regulated directly by another agency, GLBA directs the Federal Reserve to rely on work performed by that agency (the "functional regulator") to the extent practical for purposes of exercising its umbrella supervision responsibilities.

In the context of this regulatory landscape, an ILC is an insured bank operating under a specific charter whose controlling shareholder may be a non-financial corporation. The ILC is subject to oversight by federal and state bank regulators; however, the controlling company in many cases is not.⁸ Table 2 compares key features of the ILC

⁵The Competitive Equality Banking Act of 1987, Pub. L. No. 100-86, § 101(a)(1), 101 Stat. 554, 562 redefined "bank" for purposes of the Bank Holding Company Act to include any bank insured by the FDIC but specifically excepted certain classes of banks from the BHCA, including CEBA credit card banks and certain ILCs.

⁶By comparison, both federal savings associations and savings and loan holding companies are regulated by the Office of Thrift Supervision.

⁷Gramm-Leach-Bliley Act of 1999 (GLBA), Pub. L. No. 106-102, Title I, 113 Stat. 1338.

⁸Under a proposed rule, broker-dealers who own ILCs may soon be able to choose consolidated supervision by the Securities and Exchange Commission. See "Alternative Net Capital Requirements for Broker-Dealers That Are Part of Consolidated Supervised Entities," 62 Fed. Reg. 62872 (proposed November 6, 2003, to be codified at 17 C.F.R. Part 240). An ILC can be owned by a bank holding company, in which case the parent company is subject to Federal Reserve supervision.

charter with those of a bank charter. The remainder of this article discusses the supervisory approach and framework that have evolved with respect to ILCs and concludes with a brief chronology of ILC failures.

A Historical Perspective on ILC Supervision

Stepping back, industrial loan companies and industrial banks have existed since the turn of the 20th century. In 1910, Arthur J. Morris established the Fidelity Savings and Trust Company of

Table 2

Comparison of Powers Shows Key Differences between Commercial Bank and ILC Charters		
Powers	State Commercial Bank That Is a BHCA Bank	Industrial Loan Company (or Industrial Bank) That Is Not a BHCA Bank
Ability to accept demand deposits	Yes	Varies with the particular state. Where authorized by the state, demand deposits can be offered if either the ILC's assets are less than \$100 million or the ILC has not been acquired after August 10, 1987
Ability to export interest rates	Yes	Yes
Ability to branch interstate	Yes	Yes
Ability to offer full range of deposits and loans	Yes	Yes, including NOW accounts, but see the first entry above regarding demand deposit accounts
Authorized in every state	Yes	No. ILCs currently are chartered in seven states*
Examination, supervision, and regulation by federal banking agency	Yes	Yes
FDIC may conduct limited scope exam of affiliates	Yes	Yes
Golden Parachute restrictions apply	Yes	Yes, to the institution; no, to the parent
Cross Guarantee liability applies	Yes	No
23A & 23B, Reg. O, CRA apply	Yes	Yes
Anti-tying restrictions apply	Yes	Yes
Parent** subject to umbrella federal oversight	Yes	No
Parent*** activities generally limited to banking and financial activities	Yes	No
Parent*** could be prohibited from commencing new activities if a subsidiary depository institution has a CRA rating that falls below satisfactory	Yes	No
Parent*** could be ordered by a federal banking agency to divest of a depository institution subsidiary if the subsidiary becomes less than well capitalized	Yes	No
Full range of enforcement actions can be applied to the subsidiary depository institutions if parent fails to maintain adequate capitalization	Yes	Yes
Control owners who have caused a loss to a failed institution may be subject to personal liability	Yes	Yes

*California, Colorado, Hawaii, Indiana, Minnesota, Nevada, and Utah.

**Parent, with respect to a state commercial bank, refers to a bank holding company or financial holding company subject to supervision by the Federal Reserve. Under a proposed rule, broker-dealers who own ILCs may soon be able to choose consolidated supervision by the Securities and Exchange Commission. See "Alternative Net Capital Requirements for Broker-Dealers That Are Part of Consolidated Supervised Entities," 62 Fed. Reg. 62872 (proposed November 6, 2003, to be codified at 17 C.F.R. Part 240).

Note: NOW = negotiable order of withdrawal; CRA = Community Reinvestment Act

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Norfolk, Virginia. This was the first of the Morris Plan Companies, which were also known as industrials, industrial banks (borrowers were industrial workers), or thrift and loans. In the beginning, these entities were not subject to supervision by any federal banking regulator but rather were state-chartered and supervised by the states. These early industrials operated more or less like finance companies, providing loans (at a high interest rate) to wage earners who could not otherwise obtain credit. The loans were not collateralized but were based on endorsements from two creditworthy individuals who knew the borrower. Some ILCs operating today continue to serve as small financing companies; however, they have expanded their operations to include some commercial and collateralized real estate lending.

State law prevented some of the early Morris Plan banks from receiving deposits. Instead, they issued certificates of investment or indebtedness (thrift certificates) and avoided the use of the term “deposit.” Because some state laws did not permit these entities to accept deposits, the FDIC determined that they were not eligible for federal deposit insurance.⁹ This policy eventually changed, and at least six banks received federal deposit insurance from 1958 through 1979. In addition, as state law permitted industrial banks to include “bank” in their name, these entities applied for and received deposit insurance.

Because thrift certificates were exempt from Regulation Q interest rate restrictions, the ILCs tended to pay higher interest rates on their thrift certificates than insured banks paid on their deposits. Even given the high interest rates, some investors were reluctant to purchase the thrift certificates, as they were not federally insured. In 1975, Utah formed an insurance fund, the Industrial Loan Guaranty Corporation (ILGC), to

help ILCs remain competitive with federally insured banks. California organized a similar state insurance fund. Both insurance funds were financed not as part of the state budgets but rather built up reserves through modest assessments on ILCs. After only two ILC failures in 1978 and 1980, the Utah ILGC fund was depleted. The California fund also was depleted following a large ILC failure. These problems were compounded in 1980 when Regulation Q was repealed, allowing banks to pay higher interest rates and forcing ILCs to accept narrower margins to remain competitive.

This situation posed significant challenges for the onset of federal supervision in the early 1980s. The FDIC’s involvement with industrial loan companies began in earnest in 1982, when the Garn-St Germain Depository Institutions Act authorized federal deposit insurance for thrift certificates, a funding source used by industrial loan companies. Provisions of this legislation allowed ILCs that were regulated in a manner similar to commercial banks to apply for federal deposit insurance. Reinforcing this development, some states changed their laws to require their ILCs to obtain FDIC insurance as a condition of keeping their charters. The determination of eligibility for federal deposit insurance came as ILCs were experiencing significant deterioration in credit quality and the economy was entering a recession. Several ILCs that applied for federal deposit insurance required the infusion of additional capital, and other applications were denied. As a result, those entities had to be sold or liquidated.

The FDIC subsequently amended its *Statement of Policy Concerning Applications for Deposit Insurance* to clarify that ILCs would be eligible for deposit insurance if they met certain requirements. These requirements addressed problems that had characterized the

⁹Where state law permitted the use of “bank” in the name, 45 industrial banks became federally insured before the enactment of the Garn-St Germain Depository Institutions Act of 1982, Pub. L. 97-320, 96 Stat. 1469.

previously uninsured ILCs. If the eligibility requirements were met, the FDIC Board of Directors would then evaluate an applicant based on the factors set forth in Section 6 of the FDI Act: the financial history and condition of the applicant; the adequacy of the applicant's capital structure, future earnings prospects, and character of management; the convenience and needs of the community; and whether the applicant's corporate powers were consistent with the FDI Act.

In the mid-1980s, commercial firms became increasingly interested in nonbank bank charters (including ILCs) because they were exempt from the Bank Holding Company Act.¹⁰ As a result, more than 40 nonbank banks were organized that were owned by commercial firms, and several hundred more applications were anticipated. These applications were not filed, however, because in 1987 CEBA was enacted. CEBA generally made all banks that were insured by the FDIC "banks" under the BHCA. Therefore, with certain exceptions, all existing nonbank banks that were insured became "banks" under the BHCA. CEBA also grandfathered the exclusion from the BHCA of the parent companies of existing nonbank banks, provided they operated within certain restrictions. Interest increased in the ILC charter, and, in 1988, the first commercially owned ILC applied for FDIC insurance. Once the precedent had been set, more applications followed.

Tasked with supervising the ILCs that had obtained federal deposit insurance, the early FDIC and state examinations of those ILCs with commercial parents proved challenging. Examiners encountered management unaccustomed to regulatory oversight and sometimes unwilling to provide information. For

example, examiners frequently could not identify local officers with decision-making authority or find records, including loan documentation, on site. These entities operated as an extension of the parent, not as autonomous, federally insured and regulated banks. It became apparent that such ILCs needed to be introduced to and helped to understand the specifics of banking regulation and corporate governance of the separate ILC entity.

Specifically, just as for all other insured banks, ILC management (senior officers and directors) must be held accountable for ensuring that all bank operations and business functions are performed in compliance with banking regulations and in a safe and sound manner. To guarantee sufficient autonomy and insulate the bank from the parent, the state authority, the FDIC, or both typically impose certain controls. One example of proactive state supervision is the Utah Department of Financial Institutions, which imposes conditions for approval of new industrial bank charters, giving considerable weight to the following factors:

- The organizers have solid character, reputation, and financial standing.
- The organizers have the resources (source of capital) to support an ILC.
- The selection of a board of directors, the majority of whom must be outside, unaffiliated individuals, and some of whom must be Utah residents.
- The establishment of a Utah organization where autonomous decision-making authority and responsibilities reside with the board and management such that they are in control of the ILC's activities and direction.

¹⁰At that time, the BHCA defined a bank as an entity that both made commercial loans and accepted demand deposits. If an entity performed only one of these tasks, it was not a bank under the BHCA. Such an entity became known as a nonbank bank because it was not a bank for BHCA purposes, yet it was a bank for other purposes, including, for example, deposit insurance. As a result, a company that controlled a nonbank bank was not subject to regulation and supervision as a bank holding company.

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- Management that has a track record and the knowledge, expertise, and experience in operating a depository institution in a regulated environment.
- Management that is independent of the parent; however, the goals and policies of the parent may be carried out if defined in the ILC's business plan.
- A bona fide business plan and purpose for the existence of an ILC, in which deposit-taking is an integral component, including three years' pro forma projections and supporting detail.
- FDIC deposit insurance.
- All ILC lending and activities must comply with Sections 23A and 23B of the Federal Reserve Act (restrictions on transactions with affiliates) and Federal Reserve Regulation O (loans to executive officers, directors, or principal shareholders).¹¹

The FDIC has developed conditions that may be imposed when approving deposit insurance applications for institutions that will be owned by or significantly involved in transactions with commercial or financial companies.¹² Some of the nonstandard conditions that may be imposed include the following:

- The organizers will appoint a board of directors, the majority of whom will be independent of the bank's parent company and its affiliated entities.
- The bank will appoint and retain knowledgeable, experienced, and independent executive officers.
- The bank will develop and maintain a current written business plan, adopted by the bank's board of directors, that is appropriate to the nature and complexity of the activities

conducted by the bank and separate from the business plan of the affiliated companies.

- To the extent management, staff, or other personnel or resources are employed by both the bank and the bank's parent company or any affiliated entities, the bank's board of directors will ensure that such arrangements are governed by written contracts giving the bank authority and control necessary to direct and administer the bank's affairs.

As with any bank-level review of an institution with affiliates, examination procedures include an assessment of the bank's corporate structure and how the bank interacts with the affiliates (including a review of intercompany transactions and interdependencies) as well as an evaluation of any financial risks that may be inherent in the relationship. Examiners review the current written business plan and evaluate any changes. Examiners also review any arrangements involving shared management or employees. In the latter case, referred to as "dual employees," agreements should be in place that define compensation arrangements, specify how to avoid conflicts of interest, establish reporting lines, and assign authority for managing the dual-employee relationship.

All services provided to or purchased from an affiliate must be on the same terms and conditions as would be applied to nonaffiliated entities. All service relationships must be governed by a written agreement, and the bank should have a contingency plan for all critical business functions performed by affiliated companies.

In examining any insured depository institution, the FDIC has the authority

¹¹These requirements are outlined in Utah's Department of Financial Institutions website at www.dfi.utah.gov/FinInst.htm.

¹²Regional Director memo, transmittal number 2004-011, "Imposition of Prudential Conditions in Approvals of Applications for Deposit Insurance."

(under Section 10(b) of the FDI Act) to examine any affiliate of the institution, including the parent company, for purposes of determining (i) the relationship between the ILC and its parent and (ii) the effect of such a relationship on the ILC.¹³ Further, Section 10(c) of the FDI Act empowers the FDIC, in the course of its supervisory activities, to issue subpoenas and to take and preserve testimony under oath, so long as the documentation or information sought relates to the affairs or ownership of the insured institution.¹⁴ Accordingly, individuals, corporations, partnerships, or other entities that in any way affect the institution's affairs or ownership may be subpoenaed and required to produce documents. In addition, the states of Utah, California, and Nevada have direct authority to conduct examinations of parents and affiliates.¹⁵

ILC Failures: A Brief Chronology

The narrative above indicates that ILCs' entry into the federal regulatory arena and FDIC insurance was precipitated by financial difficulties the ILCs were experiencing. Recollections of FDIC examination staff are that a number of the newly insured ILCs were essentially small

finance company operations that paid high rates to thrift certificate holders and made higher-risk loans. The post-1985 history of ILC failures is dominated by these smaller ILCs.

From 1985 through year-end 2003, 21 ILCs failed (Table 3). Of those, 19 were operated as finance companies, and the average total assets of these 19 failed ILCs were \$23 million. Most of the failures were small California Thrift and Loans that did not fare well in the banking crisis of the late 1980s and early 1990s.¹⁶ Eight of the 21 ILC failures occurred within five years of the institutions' receiving FDIC insurance. Another ten failures occurred within six to eight years of receiving insurance.

The two largest ILC failures are also the most recent—Pacific Thrift and Loan and Southern Pacific Bank (SPB). Both were part of a holding company structure when they failed; one, SPB, was a vestige of the old system of uninsured ILCs. SPB, the largest failure, was originally chartered in 1982 as Southern Pacific Thrift and Loan and was insured in 1987 with a name change to Southern Pacific Bank. Pacific Thrift and Loan was chartered and received federal deposit insurance in 1988. Both failures were the result of ineffective risk management and poor credit quality.

¹³12 U.S.C. § 1820(b).

¹⁴12 U.S.C. § 1820(c).

¹⁵The Utah Department of Financial Institutions ("DFI") requires all parent companies to register with the state under Section 7-8-16 of the Utah Code and has authority to examine such companies under Section 7-1-510. The California DFI has authority to examine parent organizations through Chapter 21, Section 3700 (specifically Section 3704) of the California Financial Code and to require reports and information through Section 3703. In the state of Nevada, holding companies are required to register with the Secretary of State. The Financial Institutions Department for the State of Nevada has the authority to conduct examinations of parent organizations under Section 658.185.

¹⁶As the operations of industrial banks based in California grew larger and more complex, the California Department of Financial Institutions reorganized and enhanced its oversight of ILCs. In October 2000, California state laws and regulations governing the oversight of ILCs (specific to capital standards, lending authority, loan limits, permissible investments, branching requirements, transactions with affiliates, dividend restriction, and holding company examinations) were revised to parallel those of other charter types.

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It is difficult to make definitive, “all other things equal” comparisons of historical failure rates of ILCs with failure rates for other charter types. Failed ILCs generally were small Thrift and Loan companies (except for Southern Pacific and Pacific Thrift and Loan) and, during a significant part of the period we are considering, were relative newcomers to federal supervision. Also, as noted above, a number of

them may have entered the insured arena with an above-average risk profile and, soon after their entry, experienced deteriorating local economic conditions and a severe real estate downturn. These factors contributed to a relatively high incidence of failure.¹⁷

A review of Table 3 raises an interesting question: Why have no Utah-based

¹⁷For more general information on the regional banking crises of the 1980s and early 1990s, see FDIC, *History of the Eighties—Lessons for the Future*.

Table 3

Most Failing ILCs Operated as Small Finance Companies: ILC Failures 1985–2003						
Institution	Location	Year of Failure	Resolution Assets (\$000)	Loss to the Bank	Loss Ratio % Insurance Fund (\$000)	Comments
Orange Coast Thrift & Loan	Los Alamitos, CA	1986	13,966	5,352	38.3	Insured 1985
Whittier Thrift & Loan	Whittier, CA	1987	15,206	3,263	21.5	Insured 1985
Colonial Thrift & Loan	Culver City, CA	1988	26,761	4,600	17.2	Insured 1986
First Industrial Bank	Rocky Ford, CO	1988	12,489	6,696	53.6	Insured 1987
Metropolitan Industrial Bank	Denver, CO	1988	12,434	4,729	38.0	Denied 1972 & 1982; insured 1984
Westlake Thrift & Loan	Westlake Village, CA	1988	55,152	7,745	14.0	Insured 1985
Lewis County Savings & Loan	Weston, WV	1989	3,986	405	10.2	Insured 1986
Federal Finance & Mortgage	Honolulu, HI	1991	7,732	878	11.4	Insured 1985
Landmark Thrift & Loan	San Diego, CA	1991	16,638	2,208	13.3	Insured 1984
Assured Thrift & Loan	San Juan Capistrano, CA	1992	48,226	21,028	43.6	Insured 1985
Huntington Pacific Thrift & Loan	Huntington Beach, CA	1992	40,476	17,368	42.9	Insured 1985
North American Thrift & Loan	Corona Del Mar, CA	1992	21,276	0	0	Insured 1989
Statewide Thrift & Loan	Redwood City, CA	1992	9,636	2,341	24.3	Insured 1986
Brentwood Thrift & Loan	Los Angeles, CA	1993	12,920	3,323	25.7	Insured 1987
Century Thrift & Loan	Los Angeles, CA	1993	31,876	9,553	30.0	Insured 1985
City Thrift & Loan	Los Angeles, CA	1993	39,383	17,697	44.9	Insured 1986
Regent Thrift & Loan	San Francisco, CA	1993	35,751	1,450	4.1	Insured 1987
Los Angeles Thrift & Loan	Los Angeles, CA	1995	23,388	6,067	25.9	Insured 1990
Commonwealth Thrift & Loan	Torrance, CA	1996	11,547	5,640	48.8	Insured 1987
Pacific Thrift & Loan	Woodland Hills, CA	1999	127,342	42,049	33.0	Insured 1988
Southern Pacific Bank	Torrance, CA	2003	904,294	90,000	10.0	Estimated figures. Denied 1985; insured 1987
Total ILC Failures 21; by state: CA 17; CO 2; HI 1; WV 1			\$1.5 billion	\$252 million	17%*	

*Weighted average

insured ILCs failed? One plausible answer is that only eight of the original Utah state-insured ILCs were subsequently insured by the FDIC. The state of Utah tried to either sell or liquidate the poorer-performing ILCs. Recently, an essentially new ILC industry has been born in Utah, with commercial companies either buying ILC charters or organizing de novo institutions. The supervisory strategies and standards the FDIC and the state of Utah applied to this new breed of ILCs, outlined in the preceding section of this article, have been tailored to fit the profiles of individual institutions. While details of supervisory approaches may differ across institutions, the approaches share one overriding principle that permeates both state and federal bank supervision: protection of the insured entity.

Conclusion

Monitoring and controlling the relationship between an insured entity and its parent company is an important part of the banking agencies' approach to supervision. This is true under any organizational form banks adopt, including the limited number of banks now operating as subsidiaries of a commercial firm or other nonbank entity. Because Utah is home to a number of commercially owned ILCs, the evolving supervisory strategies developed by that state and the FDIC provide a window into the processes and procedures that are important to consider in any discussion of insulating an insured entity from potential abuses and conflicts of interest by a nonfederally supervised parent. Cooperation between regulators from the state authorities and the FDIC's San Francisco Region and ILC management has resulted in critical controls, including requirements for local management, boards of directors, and files, as well as

definitive business plans for the ILCs. More broadly, experience with the ILC charter reinforces the conclusion derived from other charter types that effective bank-level supervision is a key ingredient in safeguarding insured institutions from risks posed by parent companies.

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