

NEW JERSEY CITIZEN ACTION
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October 10, 2006

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Industrial Loan Companies

Dear Mr. Feldman:

As a member of the National Community Reinvestment Coalition (NCRC), we request that the FDIC strengthen several of its regulations regarding industrial loan companies (ILCs) in effort to maintain safety and soundness and to continue to meet the needs of communities.

ILCs should not be owned by commercial companies. Banking and commerce should not be mixed. Mixing banking and commerce imperils safety and soundness as it eliminates the impartiality of the bank. A bank with a commercial affiliate will not base its lending decisions on sound underwriting criteria. Instead, the bank will favor its commercial affiliate and cut-off credit for its competitors. The bank may also be tempted to finance speculative and risky ventures by its commercial affiliate. For very large banks, the end result is significant reduction in credit for independent small businesses in favor of financing for its commercial affiliate, regardless of the riskiness of its activities.

The FDIC must have consolidated supervision to regulate parent companies as well as the industrialized loan bank. By approving applications for ILCs, federal regulators allow commercial companies to have the same privileges of a regular bank without the rigorous regulatory oversight required of them. Unlike other banks, industrial loan companies fly under the radar of federal regulating agencies. ILCs are exempt from the Bank Holding Company Act (BHCA), which requires safety and soundness examinations of banks and their parent company. Without these protections in place, the U.S. banking system and American taxpayers who fund the federal safety net for banks and ILCs are put at serious risk. Major corporate scandals, such as at Enron and Worldcom, highlight the potential financial failures future commercial companies could similarly engender. By continuing to approve commercial companies' ILC applications, regulators significantly magnify an already flawed loophole in the banking system and expose American taxpayers to great risk.

ILCs should be held to the same standards as other banks—The Community Reinvestment Act (CRA) should be diligently upheld and enforced. ILCs are exempt from the comprehensive CRA exam given to most banks. Even though many ILCs issue

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large volumes of retail loans, ILCs are only given a lax test which does not separately examine various areas of lending. ILCs must be graded on the same criteria other banks are graded on for their CRA exams. For example: the type and number of small business and home purchase loans; the number of credit card and consumer loans; the number of loans in low- and moderate-income communities; the location of branches; and the types of products and services offered to the community. CRA exams for ILCs must be strengthened so that these rapidly growing institutions can be held accountable to the communities in which they serve.

Since ILCs are considered to be wholesale or limited purpose banks, their assessment areas only include the metropolitan area in which they are headquartered and do not account for the surrounding areas in which a bank has made a substantial portion of its loans. For example large ILCs that offer credit cards nationwide are only responsible for meeting the needs of the city in which they are headquartered. By limiting the assessment area, ILCs are not held accountable to the many communities outside the headquartered region to which they make loans, but still can greatly impact these areas through their unchecked lending practices.

Recent applications for massive ILCs, requests for special exemptions, and the growing industry of ILCs as a whole highlight the need to reinforce existing regulations instead of allowing them to continue to bend. We call upon the FDIC to take this opportunity to strengthen its regulations on industrial loan companies (ILCs) in effort to maintain safety and soundness and to continue to meet the needs of communities.

Sincerely,

Mary Ellen Marino
CRA Organizer
New Jersey Citizen Action
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Cc: National Community Reinvestment Coalition