



October 10, 2006

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20249

Dear Mr. Feldman:

The Minnesota Bankers Association (MBA) is pleased to have the opportunity to comment on the questions posed by the FDIC relating to ILCs. The MBA is a trade group representing 449 Minnesota banks. The MBA membership includes a broad range of banks, from small independent banks to regional banking organizations operating in multiple states.

The MBA is deeply concerned by the mixing of banking and commerce and urges the FDIC to continue its moratorium on ILC applications until Congress has dealt with this issue.

1. Yes, developments in the ILC industry in recent years have altered the risk profile of ILCs compared to other insured depository institutions. When ILCs were first allowed to get into banking, they were mostly smaller, domestic companies with limited powers, presenting little risk to the deposit insurance fund. Today, colossal international ILCs present risk to the deposit insurance fund through the uncontrolled rapid growth of deposits combined with the absence of consolidated supervision.
2. Yes, the risks posed by ILCs differ based on whether the owner is a financial entity or commercial entity. Financial entities that own ILCs are subject to consolidated supervision by banking regulatory agencies or the SEC while commercial entities are not subject to consolidated supervision. The FDIC does not have the authority to examine or impose capital and reporting requirements on commercial entities. Even if the FDIC had such authority, the size and complexity of some commercial companies would necessarily be beyond the agency's expertise.
3. Yes, the risks differ based on whether the owner is subject to consolidated Federal supervision. All financial institution holding companies should be subject to the same federal laws. Not just in the interest of fairness, but also to prevent financial problems in the holding company from affecting the financial institution and consequently, the deposit insurance fund.
4. We believe commercial entities should not be allowed to own ILCs.



5. The FDIC should not approve any applications for ILCs owned by commercial entities because of the risk to the deposit insurance fund, as discussed above. This is within the FDIC's statutory authority in 12 U.S.C. 1816.

6 and 7. We believe Congress should decide whether commercial entities should be allowed to own ILCs and that the FDIC's moratorium should continue until that time. When Congress passed CEBA in 1987, exempting ILCs from the Bank Holding Company Act, the ILCs existing at that time presented little risk due to their relatively small size. Congress needs to decide whether the exemption from Bank Holding Company Act requirements continues to be appropriate in today's ILC environment.

8. Conflicts of interest could exist with every application for a business loan. Wal-Mart could have control over what businesses exist in the community and could deny loans to those that would compete with any of their commercial business lines. If local banks are put out of business by Wal-Mart Bank, there would be fewer places for small business owners to turn to for financing, causing a negative effect on economic development.

9. ILCs owned by commercial entities have a significant competitive advantage over banks because they can mix banking and commerce, giving them access to customers that banks cannot match. Banks are also subject to greater regulatory burden. Community banks have thrived despite competition, even unfair competition, but there is good reason to believe that a Wal-Mart Bank could put banks out of business.

10. FDIC must consider the convenience and needs of the community to be served by a depository institution. The convenience of the community might initially be served by a Wal-Mart Bank, but it would harm a community to have its local bank and other businesses shut down.

We thank the FDIC for the opportunity to comment and urge the FDIC to continue the moratorium until Congress deals with this issue.

Sincerely,

Tess Rice
General Counsel

