From: Wylie Cavin [mailto:wcavin@RedRiverBank.net]
Sent: Tuesday, September 05, 2006 6:51 PM
To: Comments
Subject: Comment - Industrial Loan Companies and Industrial Banks

Via E-Mail to comments@fdic.gov

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

RE: Solicitation of Comments Regarding Industrial Loan Companies and Industrial Banks, 71 FR 49456, August 23, 2006 (the "Notice")

Dear Mr. Feldman:

The following are the comments of Red River Bank, Alexandria, Louisiana, with respect to the above-titled Notice. Our comments are in the order of the questions posed by the FDIC in the Notice.

1. Yes, developments in the ILC industry in recent years have altered the risk profile of ILCs compared to other depository institutions. The entry of large multi-national industrial concerns into the ILC industry has created the ability of ILCs owned by large multi-national concerns to grow FDIC insured deposits at a very high rate. Moreover, this ability to grow deposits so fast is usually the result of the industrial firm utilizing the inherent conflicts of interests between commercial firms and banks that was sought to be prohibited by the Bank Holding Company Act of 1956, which severed the ownership of banks by industrial concerns. In our opinion, the ownership of ILCs should be limited to financial companies that fall within the definition of Gramm-Leach-Bliley. We simply do not believe that the FDIC or any other bank regulatory agency in the United States has the expertise or capability to appropriately analyze or examine the industrial company operations of large, multi-national, non-financial parent companies of ILCs, such as BMW, even if it was given the authority to do so.

2. Yes, the risks posed to the Deposit Insurance Fund differ based upon whether the ILC owner is a financial firm or an industrial company for the reasons outlined in the comment to Question 1, above. If the agency does not truly have the expertise to analyze the parent company, then that necessarily does increase the risk to the insurance fund. The unitary thrift holding company structure is a similar example. Gramm-Leach-Bliley closed what was known in the industry as "the unitary thrift holding company *loophole*." The use of the term "loophole" implies that it was a way to evade appropriate supervision of the parent company. It is noteworthy that the rise of ILCs began to occur as that "loophole" was closed.

3. The risks to the Deposit Insurance Fund would be lessened by supervision of the parent company, but only if the banking agency charged with such supervision actually has the capability to analyze those risks, and then has the authority to take action to mitigate undue risks to the insurance fund. We doubt that any existing banking regulatory agency has the internal capability to analyze the operations of large multi-national industrial concerns.

4. For the reasons discussed in our comments above, we do not believe that non-financial firms should be allowed to own ILCs.

5. We believe that the FDIC has the statutory authority to protect the Deposit Insurance Fund by not approving applications to own ILCs by non-financial firms for the reasons noted above. If the FDIC does not believe that its authority is clear in this area, it should ask Congress to clarify its authority along these lines.

6. No comment at this time.

7. No comment at this time.

8. Yes, there is a greater risk of conflicts of interests between commercial firms and ILCs. This is because the very business plans of these firms contemplate that the FDIC insured deposits of the ILC will be utilized to facilitate transactions that will benefit the sales of the commercial firm. The specific type of conflict that is most troublesome and of great concern is the transaction with affiliate issues. For example, if the ILC parent is a retail firm, should FDIC insured deposits be able to be utilized to make loans the proceeds of which will be used to purchase goods and services from the commercial parent? Isn't this benefiting the shareholders of the commercial firm more than the public at large? This type of inherent conflict of interest between the commercial parent and the ILC should be considered an unsafe and unsound activity. In addition, it raises the question of how the commercial firm would address consumer protections in the face of such conflicts. As a practical matter, we do not see how any restrictions or limitations could be put into place that would adequately prevent this type of activity from taking place.

9. If the ILC is operated a "loss leader" designed to facilitate sales at the commercial parent thorough the transactions with affiliate type of conflicts noted in the comment to Question 8, then it will have a debilitating impact on the traditional banking industry, and by extension, the Deposit Insurance Fund.

10. We believe that the risks posed to the insurance fund resulting from the ownership of ILCs by non-financial firms far outweigh any potential benefits to the public.

11. No comment at this time.

12. No comment at this time.

Thank you for allowing us to provide our comments on this important matter of public policy and regulation.

Very truly yours,

Wylie D. Cavin III
Vice Chairman and Chief Operating Officer
Red River Bank
Alexandria, Louisiana.