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ONB OLMSTED NATIONAL BANK

Member FDIC

September 27, 2006

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

Re: Comments on Industrial Loan Companies (ILCs)
And Industrial Banks

Dear Mr. Feldman:

Thank you for the opportunity to comment on this important issue facing the FDIC and the financial services industry as a whole.

Question 1. asks if developments in the ILC industry in recent years have altered the risk profile of ILCs as compared to other insured depository institutions? In order to answer this question I researched some articles.

During a presentation by G. Edward Leary, Utah Commissioner of Financial Institutions before the Utah Association of Financial Services on September 8, 2000, Commissioner Leary provided a rather rosy picture of ILC industry in Utah and provided the state objectives in chartering ILCs. He stated at this event that the Utah ILC industry is a safe haven for deposits (emphasis added).

He provided a handout that showed the total assets of Utah ILCs grew from $1.0 billion as of year-end 1992 to $41.3 billion on June 30, 2000. What he did not impart is that this equates to a 4,030 percent growth rate, which averages to 537% per year.

Later in his remarks, he told the audience that one of his concerns were "UNCONTROLLED rapid growth has always been a red flag to regulators." "I emphasize that regulators are always concerned with extraordinary growth because of its inherit challenge to management to maintain control."

I submit that a growth rate of over 4,000 percent in seven and one-half years is extraordinary. Such growth in the ILC industry alone must have placed a strain on the human resources of the Utah Department of Financial Institutions, even excluding growth in other financial institutions regulated by this agency. I wonder what Commissioner Leary's definition of uncontrolled growth is.

All regulators need to be impartial judges when performing their duties. It appears that the Commissioner Leary has lost sight of his impartiality and has become a cheerleader for the ILC industry. When this occurs, proper supervision can become muted and ineffective. This can lead to an increased risk profile for the industry as a whole.

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In testimony before the Subcommittee on Financial Institutions and Consumer Credit, Committee on Financial Services, U. S. House of Representatives on July 12, 2006, the GAO stated that "Between 1987 and 2006, ILC assets grew over 3,900 percent from \$3.8 billion to \$155 billion." This averages to 214% per year. Such unbridled growth inherently increases the risk profile for ILCs.

In order to provide a comparison to the banking industry, I obtained the following data from the January 2006 issue of the FDIC Banking Review. "Over the 1984-2003 period, banking industry assets grew from \$3.3 trillion to \$9.1 trillion." This equates to a growth rate of 176 percent, which averages to 8.8% per year. The following is a breakdown of growth rate of bank by asset size:

	Aggregate	Average Per Year
Total assets over \$10 billion	379%	19%
Total assets less than \$1 billion	38%	2%
Total assets less than \$100 million	(31%)	(2%)

Growth rates in the banking industry have been much more manageable for the various regulatory agencies. This fact alone makes the ILC industry risk profile much higher relative to other insured depository institutions.

I believe that the Congress must take action to close the loophole of the ILC charter that current allows the mixing of commercial and banking entities so that the FDIC's insured deposit safety net is not strained beyond its capabilities. The current stance of the federal government and its regulators is that there are institutions that are "too big to fail." This stance could be exacerbated by allowing mega-retailers like Wal-Mart and Home Depot to have an ILC charter.

This leads to your Questions 2. and 3. that asks if the risks to safety and soundness or the Deposit Insurance Fund differ based on whether the owner is a financial entity or a commercial entity. I believe that the risk is different. My belief stems mainly from the aspect of regulatory supervision.

The FDIC's mission from its 2005 – 2010 Strategic Plan is as follows: "The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress that maintains the stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing receiverships."

An ILC formed by a financial entity and its parent by their very nature come under the regulatory supervision of state and/or federal regulators. These regulators are well versed in this industry. In such a situation, the entire organization can be regulated in its entirety.

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An ILC formed by a commercial entity is subject to regulatory supervision, but its parent cannot be regulated by the FDIC. The FDIC would be required to insure the deposits of such ILCs but would have no oversight of the parent organization. This makes absolutely no sense to me. Even if consolidated supervisory requirements for the parents of ILCs were granted to the FDIC, I do not believe the bank examiners would have the expertise and/or time available to properly supervise the activities of mega-retailers because such activities are not in their area of specialty.

Conflicts of interest abound from mega-retailers like Wal-Mart and Home Depot gaining access to the financial services industry via ILC charter. If someone were to bring in a business plan to start a pharmacy or a grocery store or a hardware store or a discount clothing store or a convenience store, what do you think the response would be from a lender of Wal-Mart Bank or Home Depot Bank? These are but a few of the potential conflicts of interest that could occur.

Regarding competitive disadvantages, this area would also have a myriad of potential concerns. The ability to put a branch office of the ILC in every retail outlet is but one unfair advantage. Local community banks are barred from acquiring non-banking retail operations via GLBA and other legislation and regulation.

The parents of commercial entity owned ILCs would also benefit from not having the same regulatory burden and cost of compliance.

In conclusion, I believe that the FDIC should place a permanent moratorium on processing any current or future ILC applications until Congress has acted on this subject.

Sincerely,

Terry L. Sorenson
Vice President