Morgan Stanley Bank

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October 10, 2006

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

Re: Industrial Loan Companies and Industrial Banks

These comments are submitted in response to the FDIC's August 23, 2006 Notice and Request for Comments about industrial loan banks (71 Fed. Reg. 49456).

Morgan Stanley Bank is an industrial bank chartered in the state of Utah and supervised by the FDIC and the Utah Department of Financial Institutions. Its holding company, Morgan Stanley, is supervised as a "consolidated supervised entity" by the Securities and Exchange Commission and as a "unitary thrift holding company" by the Office of Thrift Supervision. Morgan Stanley and its nonbank affiliates are also subject to examination by the FDIC (pursuant to Section 10(b) of the FDI Act) and the Utah Department of Financial Institutions (pursuant to Utah Code Annotated, Section 7-1-510).

We are pleased to respond to the FDIC's questions about the regulation of industrial banks and their holding companies. We fully expect that the request will generate a number of negative responses cloaked as "concerns" about bank safety and soundness or Deposit Insurance Fund risk from competitor banks and their trade associations who see this review as an opportunity to hobble if not eliminate industrial bank competition.[1] But

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[1] One former FDIC Board member recently observed that there is "a virtual total lack of evidence in the U.S. that affiliations between banks and nonbank firms present serious threats to the banking system. [Critics] are very frequently motivated less by philosophy than by a desire to segment markets in order to

we are confident that the FDIC's objective review will demonstrate that these institutions operate in a safe and sound manner and that the existing supervisory regime for industrial banks and their owners continues to be more than adequate to protect depositors and the insurance system.

Although a number of the questions on which the FDIC seeks comment explore issues not directly pertinent to Morgan Stanley Bank, we think that all of them raise important issues and will respond to all.

> *Q. 1. Have developments in the ILC industry in recent years altered the relative risk profile of ILCs compared to other insured depository institutions? What specific effects have there been on the ILC industry, safety and soundness, risks to the Deposit Insurance Fund, and other insured depository institutions? What modifications, if any, to its supervisory programs or regulations should the FDIC consider in light of the evolution of the ILC industry?*

Changes in the deposits or assets of the industrial bank industry, the entities that control industrial banks, and the lending activities of these banks have not negatively altered the risk profile of these institutions relative to that of other banks. If anything, these changes, coupled with the supervisory regime that has evolved in response to them, have strengthened the industry and reduced risk. Testifying at a recent Congressional hearing on industrial banks, an industry expert observed that industrial banks today are "the safest and soundest group of banks that has ever existed."[2] We are aware of no evidence to the contrary.

True, the deposits and assets of the industrial bank industry have increased over the past two decades. But because of growth of the banking industry as a whole, the industrial bank sector today holds under 2% of U.S. bank deposits.[3] The banking industry is dominated increasingly by a handful of trillion-dollar bank holding companies that hold a significant percentage of the nation's deposits and assets, and operate a large percentage of its branches. A number of these large institutions hold deposits that are many times larger than the deposit base of the entire industrial bank sector (and the Deposit Insurance Fund). Just as these developments have not triggered a call for a re-evaluation of the supervisory or regulatory structure applicable to the largest institutions, growth of the

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diminish competition." (John D. Hawke, former Comptroller of the Currency, quoted in *American Banker*, November 17, 2005).

[2] Statement of George Sutton before House Subcommittee on Financial Institutions and Consumer Credit, July 12, 2006. Mr. Sutton is the former Utah Commissioner of Financial Institutions.

[3] Industrial banks "comprise a relatively small share of the banking industry – numbering less than one percent of the total 8,700 insured depository institutions and 1.4 percent of the assets." Statement of Douglas H. Jones, Acting FDIC General Counsel , before House Subcommittee on Financial Institutions and Consumer Credit, July 12, 2006.