



Industrial Loan Companies

Contact: Peter Garuccio, ABA Public Relations (202) 663-5452 or pgaruccio@aba.com

The growth of the ILC industry is a threat to the long-standing U.S. policy of separating banking and non-financial commerce.

- Much of the history of banking in the U.S. revolves around the desire to avoid mixing banking and commerce. Banking is a critical component of our economy and is carefully regulated for safety, soundness and systemic risk.
- If left unchecked, a commercial firm could pressure its bank subsidiary to grant loans with favorable terms to customers of the firm or refuse loans to the firm's competitors or their customers.
- Most recently, Congress specifically prohibited the mixing of banking and commerce as part of the Competitive Equality Banking Act of 1987 and the Gramm-Leach-Bliley Act of 1999.

Charter applications from Wal-Mart, Home Depot and other very large retailers have caused policy makers to question the evolution of the ILC industry.

- Historically, ILCs have been small institutions, causing little concern for policymakers. Since 1999, when the Gramm-Leach-Bliley Act stopped commercial firms from using a unitary thrift charter to engage in bank activities, ILC assets grew from \$43 billion to \$225 billion in 2007.
- Despite the clear intent of Congress, the parent companies of ILCs engage in a wide range of commercial activities. At the same time, many of these institutions operate as full-service banks, making commercial and consumer loans, offering FDIC-insured deposits, and issuing credit and debit cards.
- Congress should review the state of the ILC industry and its regulatory system before any new ILC charters are approved.

BACKGROUND

Wal-Mart and Home Depot's applications to charter ILCs have put a spotlight on ILCs and the overall question of whether commercial firms should be permitted to own a bank. ABA has long opposed the mixing of banking and commerce. The association urged the FDIC to suspend approval of new ILC charters until Congress fully evaluated ILCs and their role in the financial services industry. In May 2007, the House passed ABA-supported legislation proposed by Reps. Paul Gillmor and Barney Frank that would restrict commercial firms – those that derive at least 15 percent of their revenues from non-financial activities – from owning an industrial loan company. ABA has urged the Senate to enact legislation that would maintain the separation of banking and commerce, and several bills have been introduced.