

INDUSTRIAL BANK FACT BOOK 2011

What's in a name? Whether they are called “industrial banks” as they are in Utah and California, “thrift and loans” as they are called in Nevada, “Morris Plans” as they are called in Indiana or, generally, “industrial loan companies” or “ILCs”--NAIB is pleased to represent these banks and the millions of consumers and businesses they serve.

Quick Facts:

- Industrial banks have a significantly higher Capital to Asset Ratio than the banking industry as a whole, and commercially-owned industrial banks have the highest Capital to Asset Ratio of the group**
- Industrial banks have a significantly lower Troubled Asset Ratio than the banking industry as a whole, and commercially-owned industrial banks have the lowest Troubled Asset Ratio of the group**
- Industrial banks have a significantly higher ROA than the banking industry as a whole, and commercially-owned industrial banks have the highest ROA of the group**
- Industrial banks are safer and sounder institutions than other classes of banks and should be a model for a healthy financial system**

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Executive Summary

The growth of industrial banks over the past twenty years is one of the great success stories in the modern financial services markets. Today, industrial banks are among the best capitalized and safest banks in the nation. While 2010 marked the first time a Utah industrial bank failed, it was not a commercially owned institution. None have contributed to the current economic crisis. Industrial banks provide a broad array of products and services to customers nationwide, including some of the most underserved segments of the U.S. economy.

Industrial Banks serving truckers, taxi drivers, public service organizations and large-scale postage buyers operate alongside some of the largest credit card and commercial finance companies in the nation – all operating under the industrial bank charter.

Parent companies run the gamut from some of the nation’s leading financial services providers to nonprofit community development organizations. Ownership of industrial banks has grown because they enable diverse companies across the nation to provide financial services more efficiently and in many cases offer new products and services in high demand by their customers. CRA programs conducted by industrial banks have provided millions of dollars and countless hours of volunteer time to community development programs and helped transform low to moderate income areas in the communities they serve.

Industrial banks are FDIC-regulated depository institutions chartered under the laws of their home state and are subject to the same banking laws and are regulated in the same manner as other depository institutions. They are supervised and examined both by the states that charter them and by the FDIC. They are subject to the same safety and soundness, consumer protection, deposit insurance, Community Reinvestment Act, and other requirements as other FDIC-insured depository institutions.

Most owners of industrial banks are exempted from Federal Reserve supervision as bank holding companies (similar Bank Holding Company Act exemptions apply to thousands of institutions that are owned by individuals and other kinds of limited purpose and wholesale banks such as credit card banks, Edge Act banks, grandfathered “nonbank banks”, grandfathered “unitary thrifts”, and trust banks).

These exemptions benefit bank customers by introducing additional competition into the marketplace without increased risk to the deposit insurance system.

Though not required to be regulated as bank holding companies, owners of industrial banks are not “unregulated.” They are subject to many of the same requirements as bank holding companies, such as strict restrictions on transactions with their bank affiliates.

They are regulated under federal and state laws and are subject to examination by the FDIC, and to “prompt corrective action” if the banks they control encounter financial difficulties. If supervisory action is needed to protect the bank, the FDIC can take a broad array of actions against any “institution affiliated party” including affiliates and their officers and directors, and third parties such as attorneys, accountants, consultants and appraisers.

These actions include issuing cease and desist orders enforceable in federal court, prohibiting individuals from further participation in the affairs of that bank and all other banks, assessing civil money penalties, and placing the bank in receivership.

In some instances, industrial banks are subject to firewalls and corporate governance restrictions that exceed those applicable to bank holding companies. These tools, in the words of former FDIC Chairman Donald Powell, allow the FDIC to manage the relationships between industrial banks and their owners “with little or no risk to the deposit insurance funds – and no subsidy transferred to the nonbank parent.”¹

Early concerns about allowing companies engaged in non banking activities to own a bank have proved unfounded. Sections 23A and 23B of the Federal Reserve Act, which apply to all banks including industrial banks, effectively control affiliate transactions and prevent a bank from financing its affiliates. The “bank centric” model used to regulate industrial banks has proven more coordinated and effective than the traditional system of separate regulators for the bank and the holding company.

Industrial bank holding companies have proven to be strong sources of support, capital and strength for the bank, typically much stronger than any bank holding company. In an industry in which “capital is king”, industrial banks rarely have any difficulty obtaining all the capital they need while most traditional banks struggle to maintain sufficient capital even in the best of times, and usually find there is no source of capital in bad times.

Even when an industrial bank’s parent company has financial difficulties (which has happened in several instances) the bank has been largely unaffected. In most cases, the worst that has happened to an industrial bank in Utah and Nevada to date is that its parent company filed for protection in bankruptcy and the bank lost its source of business so the bank conducted a controlled liquidation, paid all of its depositors and creditors, and then paid a substantial liquidating dividend to its parent. In these cases, there was no loss to the FDIC Fund.

In 2010, one Utah industrial bank failed.² One other industrial bank failed in California in the past five years, but unlike the industrial banks in Utah and Nevada, which are specialized institutions serving national markets, the California bank that failed operated like a community bank and was primarily involved in real estate lending in its local market.

The development of industrial banks is driven entirely by market demand for financial services. *If allowed to develop as they did prior to regulatory moratoriums begun in 2005, many new and very safe banks would be formed that would help resolve the credit crunch that caused, and now prolongs, the current economic downturn.*

¹ Remarks of FDIC Chairman Donald E. Powell before American Bankers Association Annual Meeting, October 8, 2002.

² Advanta Bank Corp. failed with an estimated loss to the deposit insurance fund of \$459.1 million. Advanta was an atypical industrial bank in that its parent company did not engage in commercial activities. Unlike the bulk of the industrial banks which have diversified parent companies, it was operationally configured in the same manner as a traditional bank.

At a time when new sources of credit are desperately needed and large amounts of capital are available but cannot be invested in traditional banks (except the largest), industrial banks have the capability to access capital without any limitation other than the integrity and competence of a controlling investor and could bring large amounts of new credit into the economy quicker than any other institution except the federal government. Once established, these banks would provide a safe and reliable source of credit to help sustain the economy in the future.

NAIB hopes that this paper will help highlight the facts for policymakers considering legislation to restructure the nation's bank regulatory system.

2010 in Review

The Dodd-Frank Act & Limited Purpose Banks

The Dodd-Frank Wall Street Reform & Consumer Protection Act impacted banks in several key ways. First, industrial banks are subject to a three year moratorium on new charters or acquisitions by a commercial firm. A company is a "commercial firm" if the annual gross revenues derived by the company and all of its affiliates from activities that are "financial" in nature (as defined in section 4(k) of the BHCA) represent less than 15% of the consolidated annual gross revenues of the company.

Financial activities are defined in Section 4(k) of the Bank Holding Company Act and include securities, insurance and all activities a bank could engage in (separate finance companies would be included in the calculation).

Next, the Government Accountability Office (GAO) is charged with conducting a study of limited purpose banks (industrial banks, independent trust companies and credit card banks) and report back the results within 18 months from the date of enactment.

Federal Reserve will regulate affiliates engaged in activities permitted for the bank by the Federal Reserve (the extent and standards for such regulation yet to be defined but will likely include threat to safety and soundness of bank, compliance with law and adequacy of risk controls and other systems).

On a positive note, national *de novo* branching is now permitted for all banks--including industrial banks.

The Federal Reserve is now permitted to assess the capacity of a parent of an insured institution to provide a source of strength to subsidiaries. Thus, all holding companies of insured institutions, of all types, must provide a source of strength to bank subsidiary

The largest nonbanks are subject to a new Financial Stability Oversight Council (FSOC) which will monitor economy and can designate a nonbank financial company as posing systemic risk and therefore subject to regulation by the Federal Reserve. For these purposes, a nonbank financial company is one engaged "predominately" in financial activities.

The Federal Reserve only has oversight of financial activities in systemic risk companies but can require all financial activities to be conducted in an intermediate holding company regulated like a Bank Holding Company; while the FSOC may set or recommend many standards for systemic risk companies.

Milken Institute Study of Industrial banks

The Utah Governor's Office of Economic Development, through the Economic Development Corporation of Utah and the Nevada Economic Development Authority have commissioned a study of industrial banks. The study will be conducted by Dr. James R. Barth, the Lowder Eminent Scholar in Finance at Auburn University and a Senior Fellow at the Milken Institute. Dr. Barth was the former chief economist of the Office of Thrift Supervision and has been a visiting scholar at the U.S. Congressional Budget Office, Federal Reserve Bank of Atlanta, Office of the Comptroller of the Currency, and the World Bank.

Origin of Industrial Bank

Industrial banks, which have existed for over one hundred years, evolved from Morris Plan Banks, consumer lending institutions organized at a time when commercial banks generally did not make consumer loans. The word "industrial" in their titles stems from the original mission of providing credit to industrial workers, not to the industries themselves. Once located in 16 states, industrial banks are chartered in five states today (although other institutions exist in 7 states). They operate under a number of titles: industrial banks, industrial loan banks, industrial loan corporations, thrift and loan companies, and Morris Plan Banks.³

Industrial banks engage in consumer and commercial lending on both a secured and unsecured basis. They do not offer demand deposit accounts but do accept time deposits, savings deposits, money market accounts and deposits that may be withdrawn through negotiable orders of withdrawal ("NOW" accounts).

Ownership of Industrial Banks

Industrial banks are owned by a wide range of companies from retailers to insurers to automobile companies to conventional financial services firms such as bank holding companies. All were required to demonstrate their competence, resources, honesty and integrity before being allowed to acquire control of a bank.

Permissible Activities of Industrial Banks

Both state and federal laws govern activities permissible for industrial banks. Generally, federal law does not allow an industrial bank, or any other kind of state chartered bank, to

³ Utah industrial banks operate pursuant to the Utah Financial Institutions Act (7 Utah Code Annotated); California industrial banks operate pursuant to Division 7 (Section 1800 et seq.) of the California Financial Code; Colorado industrial banks operate pursuant to the Industrial Bank Act, 22 Colorado Revised Statutes 11; Nevada industrial banks operate pursuant to Nevada's thrift company statute, Section 677 of the Nevada Code; Minnesota industrial and thrift companies operate pursuant to Minnesota Statutes, Chapter 53.

engage in activities not authorized for national banks. No states permit industrial banks to engage in activities that are not permissible for other state-chartered banks.

Industrial banks cannot offer demand deposits accounts if they qualify for the exemption from the Bank Holding Company Act. That precludes offering traditional checking accounts. Not offering checking accounts effectively limits the ability of an industrial bank to operate like community and commercial banks offering a full range of products and services to customers.

Structurally, industrial banks are well suited to a limited menu of products and services and most specialize in specific areas like credit cards, health savings accounts and equipment leasing, or serve distinct customer groups such as truckers, taxi drivers, community service organizations, small businesses or mid size commercial borrowers. Although industrial banks can branch to the same extent as a commercial bank, no industrial banks operate a retail branch today and most have no publicly accessible offices.

“I have never believed in the sanctity of a wall between banking and commerce -I think that that's been overplayed over the years...There 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 diminish competition.” -- *Former Comptroller of the Currency Jerry Hawke*

Federal Restrictions on Industrial Banks

Section 24 of the Federal Deposit Insurance Act limits the authority of states to approve activities for industrial banks. It allows an insured depository institution to engage in any activity as principal only if the activity is permissible for a national bank or has been specifically approved by the FDIC. This provision restricts state legislatures and regulators from authorizing insured depository institutions to engage in activities that pose unacceptable risks to the federal deposit insurance fund.

Industrial banks operate under an express exemption from the Bank Holding Company Act adopted in the Competitive Equality Banking Act of 1987 now found in 12 USC Section 1841(c) (2). This exclusion applies only if the bank meets the following conditions:

1. It is organized under the laws of a state which, in March, 1987, had enacted or was considering enacting a requirement that an industrial bank obtain federal deposit insurance,⁴

⁴ This restriction effectively prohibits states that did not have laws authorizing industrial banks in 1987 from authorizing the chartering of them today since the owner of an institution organized under such a law would not qualify for the exemption from the Bank Holding Company Act.

2. It does not incur overdrafts (other than inadvertent overdrafts) at a Federal Reserve Bank on behalf of affiliates engaged in non-financial activities,⁵ and

3. It meets one of the following requirements:

(a) It does not accept demand deposits,

(b) It does not have assets in excess of \$100,000,000, or

(c) It was acquired by a company prior to August 10, 1987.

(Also excluded from the “bank” definition are industrial banks that do not engage directly or through affiliates in any activities in which they were not lawfully engaged as of March 5, 1987).

What this means in plain language is that an industrial bank can only be chartered in certain states and cannot offer checking accounts unless it has less than \$100 million in assets. Otherwise, the bank’s parent company, unless it is an individual, must register as a bank holding company and cease engaging directly or indirectly in any activities “unrelated to banking”.

The Gramm Leach Bliley Act made the most recent change to the law governing industrial banks when it liberalized this limitation. Formerly the Bank Holding Company Act prohibited all overdrafts on behalf of affiliates. Section 107 of GLBA excluded from the BHC restriction overdrafts incurred on behalf of affiliates “in connection with activities that are financial in nature or incidental to a financial activity.”

The Bank Holding Company Act also imposes anti-tying restrictions on industrial banks, their owners and affiliates. Section 4(h) (2) of the Act provides that, for purposes of the tying provisions of the Act and Section 22(h) of the Federal Reserve Act, an industrial bank is treated as a “bank” and its affiliates are treated no differently than in any other bank structure.

Federal & State Regulation of Industrial Bank Holding Companies

Federal Reserve Authority

The Bank Holding Company Act generally requires a company that controls a bank to register with the Board of Governors of the Federal Reserve as a bank holding company and to comply with regulatory requirements set forth in the Act or in regulations promulgated by the Board. These include, most importantly, a prohibition on engaging in any activity other than banking. This restricts a controlling investor in a bank from holding diversified investments in other entities and effectively limits access to capital.

⁵ The Gramm-Leach-Bliley Act liberalized this limitation. Formerly, the Bank holding Company Act prohibited all overdrafts made on behalf of affiliates. Section 107 of GLBA excluded, from the Bank Holding Company restriction, overdrafts incurred “in connection with activities that are financial in nature or incidental to a financial activity.”

As noted above, industrial bank owners are not subject to this requirement, and that is the principal difference between an industrial bank and a bank whose owner is not exempt from the Bank Holding Company Act. Because so few investors are willing to forego the benefits of diversifying their investments to concentrate everything on banks, the primary legacy of the Bank Holding Company Act is limiting access to capital.

As a result, the growth of banks has been restricted over the past nearly sixty years, dropping from 60% of the nation's credit markets at the end of WWII to 20% in 2008. This has also resulted in unusually high proportions of investments by entities not restricted under the Bank Holding Company Act such as foreign investors not engaged in commercial activities in the U.S.

Because the Bank Holding Company Act was originally intended only to limit the growth of financial conglomerates, the exemption for industrial banks is not unique. Individuals and owners of a number of other financial institutions are also excluded from the Act's requirements.

These exemptions were provided to enable businesses to offer banking services even though they might not be eligible for bank holding company status (e.g., because they do not engage exclusively in activities that are "financial in nature").

This provides optional sources of services and product innovation to individuals and businesses and in some cases addresses banking needs that might not otherwise be met. The availability of the industrial bank charter serves as a competitive force in the marketplace, encouraging traditional banks to remain innovative in the services they offer and competitive in their pricing of bank products and services.⁶

While not subject to regulation as bank holding companies, industrial bank owners are subject to many of the same requirements as bank holding companies. As a result, safeguards exist to protect these depository institutions against abuses by the companies that control them or activities of affiliates that might jeopardize the safety and soundness of the institutions or endanger the deposit insurance system. For example, restrictions on transactions with affiliates in Sections 23A and 23B of the Federal Reserve Act apply to industrial banks and their owners. These provisions, enforced by the Federal Reserve Board and the bank's regulators are designed to prevent any bank, including an industrial bank, from extending significant amounts of credit to its holding company or affiliates or offering credit to them on preferential or non-market terms. All loans to affiliates must be fully collateralized in accordance with Section 23A of the Act.

The Federal Reserve and the banks' regulators also insure that owners of industrial banks comply with to the limitations imposed under the Bank Holding Company Act, i.e., the prohibition against offering demand deposits, the anti-tying restrictions, and the limitation against allowing intra-day overdrafts on behalf of affiliates.⁷

⁶ "The power inherent in an institution's freedom to choose is at the very heart of our free market system; institutions must have the ability to choose the charter that best meets their business needs and their customer's needs." Diane M. Casey, then President and CEO of America's Community Bankers (*American Banker*, January 18, 2002, p. 5) (writing on the thrift and national bank charters).

⁷ The Federal Reserve Board's regulations generally governing overdrafts may be found at 12 CFR 225.52.

These measures have proven sufficient to protect the safety and soundness of the bank including in several instances where a bank owner exempt from the Bank Holding Company Act had financial difficulties. In the more than twenty-year history of the industry, no industrial bank has failed as a result of insider abuse.

FDIC Authority Over Industrial Bank Holding Companies

The FDIC enjoys the same authority over an industrial bank holding company as the Federal Reserve has over a bank holding company except for prohibiting non-banking activities. For example, Section 10(b) of the Federal Deposit Insurance Act (12 U.S.C. Section 1820 (B)) specifically authorizes the FDIC to examine bank affiliates and their holding companies.

The purpose of this authority is to allow the FDIC to determine the relationship of a depository institution to its holding company and affiliates and the effect of such relationships on the depository institution. The FDIC routinely uses this authority to examine both the holding companies and the affiliates of industrial banks. The FDIC's examiners are periodically reminded of their authority to examine bank affiliates and have been specifically instructed to review pertinent transactions between industrial banks and owners that are not bank holding companies as part of the examination process.⁸ Most state regulators have similar authority over holding companies and affiliates.⁹

In addition, both the FDIC and most state regulators can require a holding company to produce any information they deem relevant to their supervision of the bank and its relationship with the parent, impose supervisory orders including cease and desist orders, assess civil money penalties, and remove officers and directors. In all of these respects, the authority of the FDIC and state regulators are comparable to the Federal Reserve's authority over bank holding companies. Parent companies can engage in any lawful activity that presents no risk to the bank and industrial bank regulators do not oversee affiliate activities that are irrelevant to the bank.

FDIC officials have reiterated that regulation of industrial bank holding companies is rigorous and sufficient and noted "the ILC charter, per se, poses no greater safety and soundness risk than other charters."¹⁰

The "prompt corrective action" provisions of the Federal Deposit Insurance Act subject industrial bank owners to regulatory oversight to prevent deteriorations in the depository institution's capital adequacy. For example, they prohibit insured institutions from making capital distributions (or paying management fees) to their holding companies if such payments would cause the institution to become undercapitalized. They require depository institutions (including industrial banks) that become undercapitalized to prepare capital restoration plans that include a guarantee from the institution's holding company of the bank's compliance with the plan. And, in the event an insured institution (including an industrial bank) becomes significantly

⁸ See FDIC Office of Inspector General Audit report No. 00-022 (June 7, 2000), p. 36.

⁹ See, for example, Section 7-1-510 of the Utah Financial Institutions Act.

¹⁰ Remarks of then FDIC Chairman Donald Powell to the Conference of State Bank Supervisors, May 30, 2003.

undercapitalized, they authorize regulators to order the bank's holding company to divest non-depository affiliates that pose a significant risk to the institution, or to divest the institution itself.

The FDIC exercises its authority in the course of visitations to industrial bank holding companies and affiliates (often in conjunction with examinations by the banks' state regulators). The financial strength of the holding company, and its ability to serve as a source of strength for the financial institution, is initially assessed through a review of the holding company's financial reports and financial statements, and of other documentation furnished at the request of FDIC or state examiners. Examiners' on-site visits include reviews of the adequacy of holding company internal controls, and treasury, cash management, audit, credit, information technology and other functions. These examinations include an examination of transactions, a review of hedging activities, and an analysis of functions that holding company affiliates may perform for the bank.

The FDIC's authority over industrial bank owners allows it to address concerns about conflicts of interest, concentrations of power, or expansion of the federal safety-net that are sometimes voiced (most often by competitors) about the relationship of industrial banks to their holding companies. Former FDIC Chairman Donald Powell summarized the FDIC's oversight of holding companies this way when he addressed the American Bankers Association:

“In our view, Congress has given us good tools to manage the relationship between parents and insured subsidiaries. These are a great help in preventing the problems that have been identified with this sort of business arrangement – indeed the FDIC manages these relationships every day in the industrial company model with little or no risk to the deposit insurance funds – and no subsidy transferred to the nonbank parent.”

State Regulation of Industrial Banks

Industrial bank owners, like the banks they control, are subject to state regulation. For example, the Utah Financial Institutions Act requires owners of industrial banks to register with the Utah Department of Financial Institutions and provide statements of financial condition. Utah conducts regular and in depth examinations of holding companies. These are usually joint examinations with the FDIC.

The Utah Commissioner has many of the same enforcement powers over holding companies and affiliates as over the bank itself including the authority to issue cease and desist orders and orders removing officers and directors. If control presents any threat to the bank, the commissioner in Utah can take possession of the bank by simply posting a notice in the bank. Utah and the FDIC require a majority of the members of the board of directors of industrial banks to be outside directors unaffiliated with the bank's parent company. Nevada has a similar regime.

Examinations of Industrial Banks & FDIC Regulatory Oversight

The FDIC examination process for industrial banks is the same as that for other banks: it utilizes the Examination Documentation program developed jointly by the federal bank regulatory agencies. This examination module utilizes questions and points of consideration to assist examiners in evaluating a bank's risk management strategies for each of its major business

activities. The modules direct examiners to consider areas of potential risk and associated risk control practices.

As part of a routine examination of an industrial bank, the FDIC and state banking supervisors check for compliance with Federal Reserve regulations; other banking laws and regulations; FDIC rules, regulations, and statements of policy; Interagency Policy Statements; and applicable state laws. These are the same requirements that apply to other federally insured banks. Thus, an industrial bank:

1. Is required to maintain the same amounts of capital.
2. Is subject to full examinations by the same examiners applying the same standards.
3. Is rated for capital, asset quality, liquidity, earnings, management competence, rate sensitivity and technology in the same manner as other banks.
4. Is subject to the same review for quality and safety and soundness.
5. Is subject to the same requirements and limitations regarding permitted investments and activities in a subsidiary.
6. Is subject to the same Community Reinvestment Act compliance review.
7. Is subject to full scope legal and regulatory compliance review.

In addition, industrial banks must comply with the substance of the Federal Reserve regulations that have been made applicable to FDIC-insured institutions. These include:

- The Interagency Policy Statement on the Allowance for Loan and Lease Losses
- The Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations. (Encourages institutions to adopt an annual external auditing program, preferably by an independent public accountant, and to establish an audit committee composed entirely of outside directors).
- The Federal Reserve Act Sections 23A and 23B. (Limits amount of loans to affiliates and requires transactions with affiliates be done at “arms-length”.)
- Regulation O, Subpart A. (Governs any extension of credit by a bank to an executive officer, director, or principal shareholder of the bank, its holding company or any holding company affiliate).
- Regulation D. (Sets reserves a depository institution must hold against deposits).
- Regulation F. (Requires that banks establish policies and procedures to prevent excessive exposure to any individual correspondent bank).
- Regulation P. (Protects privacy and security of customers’ financial information).

- Regulation Q. (Prohibits the payment of interest on corporate demand deposits).
- Regulation L. (Restriction on interlocks).

Industrial banks are also subject to Federal statutes addressing terrorism, money laundering and other criminal activities by bank customers. These include the USA Patriot Act, the Bank Secrecy Act of 1970, the Financial Recordkeeping and Reporting Act of 1978, the Money Laundering and Control Act of 1986, and related U.S. Treasury regulations.

Industrial banks are also subject to the full range of consumer protection laws that safeguard bank customers. Compliance with these is reviewed at an examination that is separate from the bank safety and soundness examination. Examples include:

- Regulation B. (Implements Equal Credit Opportunity Act anti-discrimination provisions in the granting of consumer credit.)
- Regulation E. (Implements Electronic Fund Transfer Act.)
- Regulation Z. (Implements Truth in Lending Act requirements relating to disclosures and other consumer protections for consumer credit transactions.)
- Regulation BB. (Implements Community Reinvestment Act. Section 345 of the FDIC Rules and Regulations substantially mirrors Regulation BB.)
- Regulation CC. (Implements Expedited Funds Availability Act, which limits the length of time check “holds” may be placed on negotiable instruments.)
- Regulation DD. (Implements Truth in Savings Act.)

Industrial Banks and the Payments System

In past congressional sessions, opponents of industrial banks raised misleading and unfounded concerns about industrial banks’ participation in the payments system.

The payments system today consists mostly of cash, checks, debit cards and credit cards. The Federal Reserve primarily administers the payments system involving cash and checks. It has nothing to do with debit and credit cards. The card systems are administered mostly by Visa, MasterCard, American Express, Discover and other proprietary systems.

The primary risk to the payment system by any type of bank, is that a bank will not settle the debts owed by its depositors at the end of each day. Industrial banks do not deal in cash and checking accounts so they cannot pose any risk in that regard. They cannot offer demand accounts such as checking accounts and rarely offer any other kind of transaction account. The vast majority of deposits held by industrial banks are time deposits, savings deposits and money market accounts.

Since industrial banks do not offer checking accounts, they cannot pose any threat to the check clearing system. Some industrial banks issue credit cards and credit cards are used today to

pay for more transactions than cash and checks combined. However, in those instances the safety and soundness standards are set by the card systems and all participants must adhere to those standards, including industrial banks. Industrial banks are no more likely to default on daily settlements on card accounts than any other kind of institution, and no industrial bank has ever failed to make its daily settlements.



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¹¹ The last Colorado industrial bank ceased operation in 2009.

INDUSTRIAL BANKS (BY STATE)

ADB Bank UT
American Express Centurion Bank UT
Balboa Thrift and Loan Association CA
Beal Bank Nevada NV
BMW Bank of North America UT
CapitalSource Bank CA
Capmark Bank UT
Celtic Bank UT
Centennial Bank CA
Circle Bank CA
Community Commerce Bank CA
Eaglemark Savings Bank NV
EnerBank USA UT
Finance & Thrift Company CA
Finance Factors, Ltd. HI
Fireside Bank CA
First Electronic Bank UT
First Security Business Bank CA
Franklin Templeton Credit Corp UT
GE Capital Financial Inc. UT
Golden Security Bank CA
LCA Bank Corporation UT
Medallion Bank UT
Merrick Bank UT
Minnesota First Credit & Savings, Inc. MN
Morris Plan Company of Terre Haute IN
OptumHealth Bank, Inc. UT
Pitney Bowes Bank, Inc. UT
Rancho Santa Fe Thrift & Loan Association CA
Sallie Mae Bank UT
Target Bank UT
Toyota Financial Savings Bank NV
Transportation Alliance Bank, Inc. UT
UBS Bank USA UT
USAA Savings Bank NV
Valley Loan Corporation
WebBank UT
Western Thrift & Loan NV
Woodlands Commercial Bank UT
World Financial Capital Bank UT
Wright Express Financial Services UT