

Embargoed 12.01 am Monday May 16, 2011

TIME TO TAKE THE SHACKLES OFF U.S. INDUSTRIAL BANKS

New study shows U.S. industrial loan companies “safe, sound and well-regulated” but barriers to expansion prevent significant contribution to economic recovery

Salt Lake City, UT (May 16, 2011) --- A new study by the Milken Institute into U.S. Industrial Loan Companies (ILCs) makes a clear case for the easing of regulations that prevent this stable and viable segment of the banking industry from making a full contribution to the nation’s economic recovery, the National Association of Industrial Bankers (NAIB) said today.

The study, *Industrial Loan Companies: Supporting America’s Financial System*, shows that ILCs - banks owned by commercial firms and also known as Industrial Banks - are consistently more profitable than the banking industry as a whole, with significantly higher ratios of capital to assets and significantly lower percentages of troubled assets. They are also safer and resistant to systemic failure, as illustrated by their strong performance as sources of credit during the recent financial crisis and subsequent recession. Despite this, ILCs are subject to regulation expressly intended to prevent expansion of the sector. The study further notes that the US is unique among G20 nations in denying its borrowers access to this source of credit.

The study lays out the current regulatory framework for ILCs, noting that they are subject to all of the regulation and oversight of traditional banks plus a raft of additional laws which apply only to them. Of particular significance is a 2007 moratorium on new ILC charters, recently extended by the Dodd-Frank Wall Street Reform Act. The study questions the need to block the expansion of this “...safe, sound and well capitalized



segment of the banking industry” and notes that doing so “limits the ability of the U.S. banking industry to enlarge its capital base and thereby maintain its role as a major player in the competitive global banking industry”.

The Milken Institute study findings are in line with those of previous investigations into ILC. As far back as 1992 the U.S. Treasury Department, indicated that, “the development of these broadly diversified firms has often proven beneficial to the economy at large and financial markets in particular. Most important has been the ability and willingness of such firms to strengthen the capital positions of their financial services subsidiaries. The stability brought to the financial markets in this way is a net benefit to the economy overall.”

Commenting on the study, Ray Specht, Vice Chairman of Toyota Financial Services, an Industrial Bank owned by the Toyota auto company, said,

“This is a timely study which illustrates the huge benefit commercial companies bring to bank ownership. Viable parent companies not only allow ILCs to access significant capital but they also make them less susceptible to systemic failure. There’s no doubt that the time has come for the U.S. to align its banking sector with those in other developed countries.”

The authors of the Milken Study cautioned legislators, regulators and other policymakers not to put the U.S. financial sector at a further competitive disadvantage by subjecting ILCs to “any additional costly and unnecessary regulation”. Echoing this, Frank Pignanelli, Executive Director of NAIB, said,

“This thorough study puts to bed, once and for all, the myth that the U.S. financial system and economy would be on a sounder footing if commercial companies were prevented from owning ILCs. Its findings lead us to the inescapable conclusion that the U.S. is on



the wrong track. Rather than regulate ILCs to the point of extinction, policymakers should remove barriers to expansion and allow these safe and valuable entities to make a full and worthwhile contribution to U.S. prosperity and global competitiveness.”

The study was commissioned by the Development Corporation of Utah and the Nevada Development Authority. James R. Barth, senior finance fellow at the Milken Institute and Lowder Eminent Scholar in Finance at Auburn University was the lead author of the study. The full study is available online at www.milkeninstitute.org ENDS

About the National Association of Industrial Bankers (NAIB)

NAIB is the national trade group for industrial banks. NAIB champions the innovation of industrial banks to expand access to credit, guarantee consumer choice, and providing unique banking services to Americans (www.industrialbankers.com)

About the Milken Institute

The Milken Institute is a nonprofit, independent economic think tank whose mission is to improve the lives and economic conditions of diverse populations around the world by helping business and public policy leaders identify and implement innovative ideas for creating broad-based prosperity. It is based in Santa Monica, CA.

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Contact:

Simon Keymer (904) 434 3186 or Kristen Potter (904) 755 9722