COMPARISON OF HOLDING COMPANY REGULATION

NAIB
National Association of Industrial Bankers

Bank Holding Company regulated by Federal Reserve (BHC) compared to parent of an industrial bank regulated by the bank's state and federal regulators (IBHC)

	BHC	IBHC
Examine holding company and affiliates	Yes	Yes
Obtain information and reports	Yes	Yes
Issue cease and desist orders	Yes	Yes
Assess civil money penalties against organization and individuals	Yes	Yes
Issue order of prohibition banning individuals from control of bank	Yes	Yes
Force divestiture of bank Bank can be put into receivership at any time	Yes	Yes
Require holding company to serve as a source of strength for bank However, all but the largest BHCs are shells with no ability to hold substantial assets other than bank stock or to raise new capital if the bank is failing. All of the 530 banks that failed in the U.S. between 2008 and 2015 had a BHC that failed to support the bank in any way. In contrast, most IBHCs hold additional assets and can provide new capital to the bank whenever needed.	Yes	Yes
Restrict activities of holding company and affiliates BHC activities are restricted by law to activities "closely related to banking." IBHCs can engage in any legal activity that does not pose a risk to the bank.	Yes	No
Specify minimum capital levels for holding company and affiliates	Yes	No
Coordinate regulation of holding company and bank	No	Yes
History of bank failures	Yes	No

STRUCTURAL COMPARISON

- Federal Reserve comprehensively regulates all activities of a BHC independently from the bank. Banks are regulated by other regulators and the two independent regulatory systems are not coordinated even though the holding company is essentially an extension of the bank. This type of regulation is only feasible if the BHC only engages in financial activities. The Federal Reserve is not qualified to regulate other business activities such as retailing and manufacturing.
- IBHCs are regulated by the bank's state and federal regulators in a coordinated manner. This type of regulation is called "bank centric" and is designed to
  * Regulate the relationship and transactions between the bank and its parent and affiliates to ensure that bank benefits but is never disadvantaged
  * Ensure that the bank is independently controlled
  * Isolate the bank from risks or problems that may develop at the parent

  To facilitate these protections, industrial banks are required to have a majority of outside directors and independent management. In contrast, the boards and directors of most BHCs are fully interlocked.
- Regulation of the subsidiary banks is the same regardless of the type of holding company. Industrial banks are subject to all of the laws, regulations and standards applicable to other banks along with additional restrictions such as a prohibition on commercial checking accounts.

HISTORY

- Industrial banks insured by the FDIC have consistently been the best capitalized and most profitable group of banks in the nation. Currently in Utah, ROA for industrial banks is about 2.75% compared to 2% for banks owned by a BHC. ROAE is 20% for industrial banks compared to about 14% for other banks. Efficiency ratios for industrial banks is about 32% compared to 50% for other banks.
- Between 2008 and the present, one industrial bank failed and required FDIC assistance. During that same period there were several instances where an IBHC contributed new capital to the bank, often to enable the bank to expand by acquiring business shed by other banks shrinking their balance sheets to increase capital ratios.
- Four IBHCs have filed for bankruptcy. In two cases the bank lost its source of business and self liquidated at no cost to the FDIC. In one case the parent reorganized and the bank continued operating normally. In the fourth case both the holding company and bank failed.
- Between 2008 and 2015 530 banks failed in the U.S. Each one had a BHC regulated by the Federal Reserve. Obviously, BHC regulation did not prevent failures and results in weak holding companies that usually only hold the bank's stock and are incapable of raising new capital if the bank is failing.
- Industrial banks do not compete with community banks. Industrial banks tend to be specialized branchless lenders to a national market relying on brokered and internet deposits. For example, in Utah, community banks currently hold CRE concentrations of about 210% of total risk based capital. Commercial banks, which are generally regional banks, hold about 140% CRE concentration. Industrial banks hold zero CRE loans.

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