

Statement of Senator Sherrod Brown
Committee on Banking, Housing, and Urban Affairs
Examining the Regulation and Supervision of Industrial Loan Companies
October 4, 2007

Good morning, and thanks to everyone for joining us here today as the committee examines the role that industrial loan companies, or ILCs, play in our banking system.

That system is a continually changing one, as lenders innovate and Congress from time to time responds to the changes in the landscape.

Amidst this change, some principles remain constant. Four times in my lifetime, Congress has acted to separate commercial firms from banks and vice versa.

Time and again, we have seen the real costs when Congress has failed to act, from the Depression to the Savings & Loan crisis. Frankly, we are seeing variations of the problem today. In Japan, the intermingling of commerce and banking has led to disastrous results. And here at home where the sub-prime mortgage meltdown has operated largely outside of federal supervision.

I have been pretty candid all year about what I think has been the failure of the Federal Reserve to act more aggressively to police the sub-prime non-bank lenders. It wouldn't be inaccurate if our witness from the Federal Reserve made the same observation about Congress and ILCs.

We need to act this fall to address this problem, just as we have repeatedly in the past. When commercial firms set up single bank holding companies, Congress amended the law in 1970 to reach them. When commercial firms started buying non-bank banks, Congress in 1987 stepped in again. When commercial firms started to acquire thrifts, Congress responded with Gramm-Leach-Bliley in 1999.

And this spring, in the wake of the tremendous growth in industrial loan company assets since Gramm-Leach-Bliley, almost eightfold, the House adopted Representative Paul Gilmor's bill to prevent further commercial acquisitions of ILCs by a vote of 371 to 16.

The strength of that vote is a small testament to the respect in which Paul was held, and the skill with which he did his job as a legislator.

Congress lost a real expert in these issues with his passing, and Karen and the rest of his family and friends lost a good man. I hope we can pick up where he left off.