Senator Jack Reed
October 4, 2007

Thank you Chairman Brown and Senator Shelby for holding this hearing on industrial loan companies.

Industrial loan companies, started in the early 1900's, were chartered to make uncollateralized loans to industrial workers. More recently, the ILC industry has experienced tremendous growth, while growing more complex. During a 20 year period ending in 2006, ILC assets grew more than 3,900 percent from $3.8 billion to over $155 billion. While the early ILCs were small and helped to fill underserved areas of our economy, today's ILCs closely resemble commercial banks in the products and services offered and are owned by some of the largest U.S. financial companies. They therefore require the same level of oversight as traditional depository institutions.

A July 12, 2006 GAO report on ILCs outlines a critical area of ILC regulatory oversight in need of strengthening. According to this GAO report, "Although FDIC has supervisory authority over an insured ILC, this authority does not explicitly extend to ILC holding companies, and therefore, is less extensive than the authority consolidated supervisors have over bank and thrift holding companies." The report concludes that "…from a regulatory standpoint, these ILCs may pose more risk of loss to the bank insurance fund than other insured depository institutions operating in a holding company." While a history of a healthy and successful ILC industry would indicate that the bank-centric model has worked in the past, the growth in size and complexity of these institutions is reason enough to address this supervisory blind spot. Furthermore, the FDIC's authority has yet to be tested by the parent company of a large, troubled ILC during stressed times.

The mixing of banking and commerce in the United States is a long-standing issue and, while there have been exceptions, there has been an effort to keep the two separate. Critics of the idea of mixing banking with nonfinancial entities express a concern that the risks will far outweigh the benefits. These risks include conflicts of interest; the creation of economic power in banking, which could impair competition; and an expansion of the federal safety net. Given recent changes in the ILC industry, we should assess our position on separating banking from commerce and determine an appropriate tolerance for mixing the two, while not punishing those that have followed the law to date.

From their early history, ILCs have filled a niche, and the industry has operated in a safe and sound manner. I look forward to discussing the issues and coming up with solutions that allow for the ILC industry to continue thriving, while addressing regulatory gaps. I want to thank the regulators for working together on this issue and I look forward to your testimony.