

Statement of Ranking Member Spencer Bachus at the Hearing on H.R. 698, the Industrial Bank Holding Company Act of 2007

April 25, 2007

Thank you Mr. Chairman, for convening this hearing to examine H.R. 698, the Industrial Bank Holding Company Act of 2007. This legislation would enhance the regulatory supervision of Industrial Loan Companies (ILCs), grandfather existing ILCs, and prohibit commercial firms from acquiring ILC charters in the future. At the outset, I want to commend the Chairman and the gentleman from Ohio, Mr. Gillmor, who have both worked tirelessly over the past several years to craft legislation on this very complex issue.

Today's hearing will hopefully help us better understand ILCs and the regulatory framework surrounding the ILC charter. As ILCs have grown in size, number, and complexity, several supervisory and policy questions have arisen, including whether the current regulatory structure for overseeing ILCs is adequate.

Insured ILCs are subject to state banking supervision and FDIC oversight as state non-Member banks. Nonetheless, owners of ILCs do not have to be bank holding companies subject to the Federal Reserve's consolidated supervisory authority. In the absence of Federal Reserve supervision of ILC holding companies, the FDIC has employed what some call a "bank-centric" supervisory approach that primarily focuses on isolating the insured institution from potential risks posed by holding companies and affiliates, rather than assessing these potential risks systematically across the consolidated holding company structure. Some have suggested that this regulatory regime does not provide sufficient protection against the potential risks that parent companies and non-bank affiliates may pose to the safety and soundness of ILCs

Another area of concern about ILCs is the extent to which they can mix banking and commerce through the holding company structure. An exemption in current banking law permits any type of company, including a commercial firm, to acquire an ILC in a handful of states. For some, this is the crux of the issue. Certainly the separation of banking and commerce will be discussed at length in today's hearing. There is also likely to be a debate over the fairness of excluding some commercial firms from owning or controlling ILCs when other very similar situated entities already own them.

Once again, I want to thank Chairman Frank and Ranking Member Gillmor for their work on this important issue, and I look forward to hearing from our witnesses today on their views on H.R. 698.

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