



Highlights of [GAO-12-160](#), a report to congressional committees

Why GAO Did This Study

The Bank Holding Company Act of 1956 (BHC Act) establishes the legal framework under which bank holding companies—that is, companies which own or control banks—operate and restricts the type of activities that these companies may conduct. The BHC Act excludes from these restrictions certain companies because the financial institutions they own are exempt from the BHC Act definition of “bank”. However, these exempt institutions are eligible for FDIC insurance raising questions about continuing to exempt their holding companies from BHC Act requirements.

The Dodd-Frank Wall Street Reform and Consumer Protection Act directs GAO to study the implications of removing the exemptions. This report examines (1) the number and general characteristics of certain institutions in the U.S. banking system that are exempt from the definition of bank in the BHC Act, (2) the federal regulatory system for exempt financial institutions, and (3) potential implications of subjecting the holding companies of exempt institutions to BHC Act requirements. GAO analyzed data and exams from exempt institutions and regulators, and examined regulators’ guidance and policies. GAO also interviewed regulators and officials from 31 exempt financial institutions.

We provided a draft of this report to the relevant agencies. Treasury provided written comments and we received technical comments from other agencies which we incorporated as appropriate.

View [GAO-12-160](#). For more information, contact A. Nicole Clowers 202-512-8678 or clowersa@gao.gov.

January 2012

BANK HOLDING COMPANY ACT

Characteristics and Regulation of Exempt Institutions and the Implications of Removing the Exemptions

What GAO Found

The 1,002 exempt financial institutions make up a small percentage of the assets of the overall banking system—about 7 percent—and include industrial loan corporations (ILC), limited-purpose credit card banks, municipal deposit banks, trust banks with insured deposits, and savings and loans (S&L). Although exempt from the BHC Act, S&L holding companies are regulated by the Federal Reserve System Board of Governors (Federal Reserve) under the Home Owners’ Loan Act as amended. Excluding S&Ls, the number of exempt institutions drops to 57 that comprise less than 1 percent of banking system assets and there is a 3-year moratorium on the approval of federal deposit insurance on select exempt institutions that ends in 2013. These institutions vary by size, activities, and risks. Larger institutions such as ILCs provide banking services similar to those of commercial banks and carry many of the same risks. Other exempt institutions are smaller, provide only a few services such as credit card loans and related services, and thus have lower risk profiles.

Federal regulation of the holding companies of exempt institutions and their affiliates varies. The Federal Deposit Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC) oversee ILCs, credit card banks, and trust banks, and focus their supervision on the institutions, not the parent holding companies. They examine the institutions for safety and soundness and for potential conflicts of interest in transactions with affiliates and the holding company. In contrast, the Federal Reserve oversees bank and, more recently, S&L holding companies using consolidated supervision that allows examiners to look at all entities and affiliates in the structure. OCC officials and representatives of exempt institutions viewed the current oversight as sufficiently robust. FDIC officials indicated that supervision of the exempt institutions themselves was adequate, but noted that consolidated supervision authorities provide important safety and soundness safeguards. Officials from the Federal Reserve and Department of the Treasury (Treasury) stated that the exemptions should be removed, given that exempt institutions have access to FDIC insurance and the holding companies of most types of exempt institutions are not subject to consolidated supervision.

The implications of subjecting exempt institutions and their holding companies to the BHC Act vary. While many officials from the exempt institutions owned by commercial holding companies said that the institutions would be divested, data suggest that removing the exemptions would likely have a limited impact on the overall credit market given the overall market share of exempt institutions is small. Views varied on how removing the exemptions would improve safety and soundness and financial stability. Some officials from exempt institutions said that financial stability could be adversely affected by further concentrating market share. Federal Reserve officials noted that institutions that remain exempt are not subject to consolidated supervision but could grow large enough to pose significant risks to the financial system, an issue they plan to continue to watch.