ILC 101

WHAT IS AN ILC?

NAIB
National Association of Industrial Bankers

A century ago, a new financial industry was created with a purpose provide loans to low and moderate income industrial workers who had stable jobs but little access to bank credit. Because these institutions had industrial workers as their primary customers, they were known ever since as "industrial loan companies" (ILCs) or "industrial banks."

Throughout their existence, ILCs have always been state-chartered or licensed institutions that make loans and offer their customers deposits, investment certificates, or both.

The 1987 Competitive Equality Banking Act (CEBA) specified that ILCs chartered in states with statutes requiring ILCs to be FDIC-insured as of March 5, 1987, were exempt from the definition of "bank" in the Bank Company Holding Act. This was a clear intention by Congress that has remained unchanged for over thirty years, and is not a "loophole".

Industrial Banks are regulated like every other FDIC insured bank: subject to CRA, fair lending, privacy laws, the full array of examinations, taxes, etc. The only difference is that an industrial bank parent or affiliate can engage in non-financial activities.

The FDIC has the authority to examine any affiliate of any ILC, including the parent company. Moreover, state regulatory authorities in California, Nevada, and Utah have the authority to conduct examinations of both the parents and affiliates of ILCs.

ILCs are subject to Sections 23A and 23B of the Federal Reserve Act, which restricts transactions among ILCs, affiliates, and parents. ILCs are prohibited from extending loans of significance to their parent or affiliates or from offering them on preferential non-market terms.

There are 25 ILCs with $160 billion in total assets as compared to 5,831 other banking institutions. ILCs are 0.4 percent of the total number of FDIC-insured institutions or 1 percent of the total assets of institutions.

For decades ILCs have been the consistently safest and soundest financial institutions in the country. The active 25 ILCs performed far better in terms of ROA than all FDIC-insured institutions.

In the last 35 years, only two ILCs failed, both of which were financially owned institutions whose clients suffered the effects of the financial crisis and severe recession.

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