



60 S. 600 E. SUITE 150
SALT LAKE CITY, UT 84102
(801) 355-2821
INDUSTRIALBANKERS.ORG

The Honorable Catherine Cortez Masto
United States Senate
Washington DC

September 22, 2020

Re: Industrial Loan Corporations and Their Promise for Nevada

Dear Senator Cortez Masto,

We deeply appreciate the availability of your staff, especially Carol Wayman, to learn more about Industrial Loan Corporations (ILCs) and the positive economic impact and community involvement these banks have on Nevada and other parts of the country. Continued discussions are especially timely as there are efforts by a few bank trade associations to place a moratorium on new ILCs through amendments to legislation.

Such actions will be detrimental to ILCs in the country, especially to the important activities by the Nevada State government to expand and diversify its economic development into safe, sound consumer-friendly financial services. To assist you in responding to these threats, we are providing a brief overview of the history of ILCs, their importance to Nevada, and the tremendous opportunities they could bring to the citizens of your state for generations to come.

Industrial Loan Corporations can grow in Nevada

Senator Harry Reid was a strong champion of ILCs during his public service. He believed such innovative institutions could be a major economic development engine for his state while directing resources to important programs through the Community Reinvestment Act (CRA).

Senator Reid's vision of ILCs in Nevada, when he was Senate Majority Leader, is shared by Congresswoman Dina Titus and Congressman Steven Horsford.

Nevada is currently home to four ILCs - all of which are sound and strong. Nevadans are known as hard-working industrious individuals that would attract organizations hoping to establish financial service operations. Not only does this bring greater economic development, but a massive amount of community investments.

Currently, the four Nevada based ILCs have total assets of \$11.6 Billion and over 100 employees. Growth of future charters will greatly expand this ILC dynamic, including spin-off operations from their parent companies.

The Community Reinvestment Act helps Nevadans

All Nevada chartered ILCs maintain strong CRA programs. For example, Toyota Financial Services has awarded over \$3 million in grants and donations to local community organizations, including Boys & Girls Clubs, Junior Achievement, Nevada HAND, Nevada Partners, Safe Nest, and Three Square to support youth development and education, financial literacy, affordable housing, workforce development, and crisis intervention. These and other supportive programs and services have impacted the well-being of thousands of low- and moderate-income Nevadans by helping them avoid or overcome such issues as homelessness and hunger, to providing them opportunities through education and training.

In addition to grants and donations, the Toyota ILC has invested over \$25 million to promote economic development in Southern Nevada supporting activities such as public projects, acquisition, construction, and/or rehabilitation of affordable housing, and credit building programs for low- to moderate-income consumers. Bank employees have volunteered over 7,000 hours providing their financial expertise and/or technical assistance to community organizations involved in economic development, affordable housing, financial literacy, the provision of education, food and shelter, and other social services to low- and moderate-income individuals and families.

Expansion of Nevada chartered ILCs will significantly increase opportunities for high wage jobs, economic development spinoffs, community investment, and a strong tax base. There is nothing but upside with more ILCs in Nevada.

History of ILCs

ILCs have a long history of serving the unbanked and underbanked who are challenged in accessing credit through traditional means. Over a century ago, larger companies wanted to provide their industrial workers inexpensive loans. (Thus, the origination of the name “industrial loan corporations”.) Varying of structure in different states, ILCs were not banks in the traditional sense but provided very much needed services - explaining why they flourished across the country. While many banks collapsed during the Great Depression, ILCs fared well and became the leading provider of consumer credit to families.

In 1987, Congress passed the Competitive Equality Banking Act (CEBA) and defined FDIC insured ILCs as banks and allowed non-financial (commercial) ownership of them in states with an ILC charter statute in effect (or under consideration) at that time. This is why Nevada is one of the few states available to offer a state bank charter for ILCs.

Subsequently, many entities filed for ILC charters in Utah and Nevada. Several states with the ILC charter implemented restrictions that limited their attractiveness. Recently, the California economic development department is now reexamining the potential of ILCs in the state and legislation has been drafted. Most of these restrictions were fostered by entities seeking to limit the competition they faced from well-managed, strongly capitalized ILCs.

During the Great Recession, every ILC (but one) survived and maintained safe consumer services. This was the safest and soundest banking sector before, during, and after the economic crisis. All Nevada chartered ILCs performed well during this difficult time.

This outstanding result during a major crisis documents ILCs are well-capitalized and highly regulated by state and FDIC agencies.

Where ILCs are located, there is a direct and immediate impact on the economic development of that region. Currently, most of the nation's ILCs are located in the neighboring state of Utah. Thirty-five years ago, Utah's economy was based upon mineral extraction, tourism, agriculture, and other commercial activities. The Governor's Office of Economic Development saw the vast potential for ILCs being headquartered in Utah and targeted the industry for growth. Today, financial services are the largest economic sector in the state, providing almost 90,000 jobs. This is directly attributed to the spin-off of the ILC presence in the state.

Numerous financial service organizations wishing to partner with industrial banks moved operations to Utah. Larger commercial and financial companies found Utah to be a great place to conduct business and transplanted larger elements of their non-ILC operations to the area. These organizations do not seek state incentives to commence operations. Further, they provide pollution-free high-wage jobs with benefits - extending a tremendous opportunity for local talent. ILCs have changed Utah in a very real, dramatic, and positive way. This opportunity exists for Nevada.

Bank Consumer Laws & Regulations and Regulatory Oversight

ILCs are regulated in the same manner as any other state-chartered bank. They comply with all of the consumer, accounting, safety, and privacy requirements of other banks. This also includes fulfilling obligations under the Community Reinvestment Act (CRA). CRA establishes the standards for investments, lending, and volunteer hours from the banks.

A recent report from the Gardner Policy Institute of the University of Utah details that Utah ILCs funded over \$1 billion in loans, investments, and donations to support lower-income communities in Utah especially with regards to affordable housing. Any inquiries to low-income housing advocates organizations in Utah will result in statements regarding significant and important contributions to helping those in need. Further, ILC employees have contributed many thousands of volunteer hours. The grant programs of all the ILCs have seriously improved the nonprofit sector in Utah and services to their low- and moderate-income clients.

Industrial Loan Corporations provide safe and innovative financial services to consumers

One of the reasons why California is considering re-examination of ILCs is because they are now determining that innovation in financial services is unstoppable and necessary. American families and small businesses deserve access to credit that is safe and affordable. If state and federal regulators do not look for ways to promote lending through highly regulated banks, then consumers will continue to resort to unregulated financial services, which can put consumers in serious financial jeopardy. This is a detriment all around.

Promoting innovation through safe and sound institutions - like ILCs - is part of the answer in restoring the nation's economy. Equally important, Nevada can take advantage of this evolving dynamic by providing safe and sound credit through consumer-focused ILCs.

As Chairman and Executive Director of this national organization, we believe it is in the best interest of not just the industry but of the country that financial services become a major economic sector in the Nevada economy and culture.

We look forward to interacting with your office about this. In the meantime, if you have any questions please let us know.

Sincerely,

A handwritten signature in blue ink that reads "Raymond Specht". The signature is fluid and cursive, with the first name being more prominent.

Raymond Specht
Chairman
National Association of Industrial Bankers

A handwritten signature in black ink that reads "Frank R. Pignanelli". The signature is fluid and cursive, with the first name being more prominent.

Frank R. Pignanelli
Executive Director
National Association of Industrial Bankers
60 South 600 East Suite #150
Salt Lake City, Utah 84102
o: (801)-355-2821
m:(801) 558-3826
www.industrialbankers.org