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# Sound Banking Coalition

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February 8, 2008

The Honorable Christopher J. Dodd  
United States Senate  
Washington, DC 20510

Dear Chairman Dodd:

The members of the Sound Banking Coalition – the Independent Community Bankers of America, the National Association of Convenience Stores, the National Grocers Association, and the United Food and Commercial Workers International Union – urge you and your fellow Senators to move swiftly to consider and adopt legislation to address the industrial bank loophole in the Bank Holding Company Act. Senator Chris Dodd (D-CT) is sponsoring legislation to do just that.

The bill takes a common-sense approach to addressing the huge growth of industrial loan companies (ILCs) and the real threat posed to the safety and soundness of the financial system when these institutions are controlled by commercial entities. As the on-going turmoil in the housing and home lending markets spreads to the broader financial markets, healthy companies can face financial difficulties and even financial ruin. Imagine the heightened vulnerability if Wal-Mart or Home Depot had a bank right now. Home Depot has acknowledged that its profit and revenue has fallen for the first time in a number of years, all because of the housing slump. This downturn would only be exacerbated by an affiliated bank making home improvement loans to customers.

The growing presence of commercial entities in banking is dangerous because the lack of consolidated supervision of ILCs and the mixing of banking and commerce that occurs when a commercial entity owns a bank threaten some of the basic underpinnings of banking regulation in the United States. The fallout could have a significant impact on Coalition members, consumers, and the financial services marketplace as a whole. All bank holding companies are subject to consolidated holding company supervision to ensure that the holding company and its subsidiaries do not create solvency risks for the bank and to ensure that the holding company can be a source of strength for the bank. ILC holding companies are not subject to any such oversight, depriving ILCs of the basic protections afforded other banks and leaving federal deposit insurance funds susceptible to the vagaries of the commercial marketplace.

The other key concept – the mixing of banking and commerce – is also tremendously important here. Banks are supposed to be neutral arbiters of capital. When banks are owned by commercial entities, however, conflicts of interest can skew loan decisions and lead to systemic

problems. This is not just a philosophical exercise. Japan provides an explicit example of the dangers of mixing commerce and banking.

By greatly reducing the threats posed by the banking/commerce mix, and by bolstering the FDIC's supervisory authority over ILC holding companies, the Dodd bill strengthens consumer protections and reduces threats to the financial system.

The FDIC's moratorium on granting new ILC charters expired at the end of January. Without congressional action to provide guidance to the FDIC, we are concerned that we could see more and more commercial entities applying for and obtaining ILC charters, including Wal-Mart and Home Depot. To avoid such an outcome, we urge you to work with your colleagues to enact Senator Dodd's bill as quickly as possible, and look forward to working with you to that end.

Thank you for your consideration of the views of the Coalition.

Sincerely,

Vice President, Congressional Relations  
Independent Community  
Bankers of America

Senior Vice President  
Government Relations  
National Association of Convenience Stores

Senior Vice President  
and General Counsel  
National Grocers Association

International Vice President and Director  
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United Food and Commercial  
Workers International Union