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November 26, 2019

Kathy Moe
Regional Director
FDIC San Francisco Regional Office
25 Jessie Street at Ecker Square
San Francisco, California 94105

Re: FDIC Deposit Insurance Application of Interactive Bank

Dear Ms. Moe:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to comment on the federal deposit insurance application of Interactive Bank. According to its application, Interactive Bank will be an online-only bank with no branches, headquartered in Salt Lake City, Utah and will be chartered as an Utah industrial bank or corporation (ILC).

Interactive Bank will be a digital bank primarily marketing products and services to established customers of its parent company, IBG LLC (IBG). Based in Connecticut, IBG provides brokerage services principally through its subsidiary, Interactive Brokers, Inc., the largest electronic brokerage firm in the U.S. by number of daily average revenue trades.

Interactive Bank plans to offer competitively priced transaction and non-transaction accounts, with accompanying deposit-related services that include checks, bill payment and debit cards to eligible customers. Lending products will be limited to variable- and fixed-rate loans secured by time deposits and/or marketable securities.

In addition to collateralized loans, the Bank's assets will primarily consist of investment grade securities. Assets will be funded by deposits obtained through cross-marketing activities to existing IBG brokerage customers and from independent bank customers seeking to broaden

¹ The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ nearly 750,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than \$5 trillion in assets, nearly \$4 trillion in deposits, and more than \$3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

their financial capabilities. In the first three years of operation, deposits from existing IBG brokerage customers are projected to represent the majority of total deposits. The Bank will be 100% owned by IBG, which will provide sufficient initial equity capital to maintain a leverage ratio that exceeds 10% throughout the first three years of its operation.

According to Interactive Bank's application, existing U.S.-resident customers of IBG and its subsidiaries will have the benefit of having their bank and brokerage accounts linked for an integrated financial offering. Interactive Bank will compete with other brokers and banks in the collateralized lending market and, similar to offerings of private bank wealth management platforms, Interactive Bank will accept collateral in the form of both time deposits and marketable securities.

ICBA's Comments

If IBG desires to engage in both bank and brokerage services through its subsidiaries, it could seek to charter a bank, register as a bank holding company with the Federal Reserve and elect to be a financial holding company under the Bank Holding Company Act (BHCA). In that case, either IBG or its subsidiaries could engage in a wide range of brokerage activities including securities underwriting and dealing, investment advisory services, as well as merchant banking activities. In fact, IBG as a registered financial service holding company under the BHCA could engage in all of the brokerage and banking activities that many of the Wall Street banks are engaged in, including Goldman Sachs, Bank of America or J.P Morgan Chase.

The fact that IBG is not seeking a bank charter and applying to become a financial holding company under the BHCA, but instead is taking advantage of the ILC loophole is because IBG intentionally wants to avoid consolidated supervision and regulation by the Federal Reserve under the BHCA.² Regulation under the BHCA entails consolidated supervision of the holding company by the Federal Reserve and restricts the activities of the holding company and its affiliates to those that are closely related to banking. Although IBG's brokerage subsidiaries are subject to regulation from the SEC, FINRA, and the New York Stock Exchange, the parent company—IBG—is not subject to the same consolidated regulation that bank holding companies are subject to.

If brokerage companies want to engage in the business of banking, they should be required to register as bank holding companies or financial holding companies under the BHCA and be subject to the same supervision and regulation that banks are subject to. Allowing brokerage firms to engage in banking through an ILC creates an uneven playing field for community banks and threatens the financial system.

Consolidated supervision of a bank holding company and its subsidiaries allows the Federal Reserve to understand the organization's structure, activities, resources, and risks and to address financial, managerial, operational, or other deficiencies before they pose a danger to the bank

² Section 2 of the BHCA (12 U.S.C. 1841(c)(2)(H)) exempts from the definition of a "bank" an ILC. Therefore, ILCs are not subject to the restrictions and prohibitions of the BHCA.

holding company's subsidiary depository institutions. Consolidated entities are also subject to the Federal Reserve's risk-based and leverage capital requirements on a consolidated basis and the holding company must serve as a source of strength to the subsidiary bank. IBG is avoiding significant and important supervision and regulation at not only the holding company level but at the subsidiary level by having its subsidiary engage in banking services and apply for deposit insurance as an ILC.

As we pointed out in our comment letters regarding the Square and Rakuten ILC applications, for safety and soundness reasons, the FDIC should deny Interactive Bank's application and impose a temporary moratorium on future ILC deposit insurance applications. IBG should be subject to the same restrictions and supervision that any other bank holding company of a full-service bank is subject to. **Furthermore, Congress should close the ILC loophole because it not only threatens the financial system but creates an uneven playing field for community banks.**

ICBA notes that the number of ILC applications is growing, not only from companies that are trying to avoid consolidated supervision from the Federal Reserve but also from companies such as Rakuten and Square that want to engage in both commerce and banking. ICBA is concerned that if the ILC loophole is not closed soon, it will be too late for our economy and banking system. For the good of our economy, consumers and businesses alike, Congress should close the ILC loophole and avoid the mixing of commerce and banking.

ICBA appreciates the opportunity to comment on Interactive Bank's deposit insurance application. If you have any questions or would like additional information, please do not hesitate to contact me by email at Chris.Cole@icba.org.

Sincerely,
/s/ Christopher Cole

Christopher Cole
Executive Vice President and Senior Regulatory Counsel