

The background of the slide features a blurred image of financial charts and data plots, including candlestick charts and line graphs with various colored lines (red, green, blue, purple) and grid lines. The overall color palette is dominated by shades of purple and blue.

Core Concept #5: Types of Banks & Their Charters

Types of Banks & Their Charters: Key Takeaways

- Key elements to understand:
 - What type of bank is it?
 - Under what law is the bank *chartered* (i.e., incorporated)?
- Understanding the types of banks and their charters is crucial, because this will determine:
 - Who regulates the bank;
 - What laws and regulations apply to the bank; and
 - What activities the bank can engage in

Types of Banks & Their Charters: Visual Overview

	Federal Charter	State Charter
BANK	<i>National Bank</i>	<i>State Member Bank State Non-Member Bank</i>
THRIFT	<i>Federal Savings Association</i>	<i>State Savings Bank State Savings & Loan State Savings Association</i>

Types of Banks & Their Charters: National Banks

- Chartered under Federal law – National Bank Act of 1864
- Regulated and supervised by the Office of the Comptroller of the Currency (“OCC”)
- Typically engage in a variety of deposit-taking, retail lending (e.g., mortgage lending) and commercial lending
- Primary charter choice for larger banks, particularly over the last 25 years
- Must be a member of the Federal Reserve System
- Deposits must be insured by the FDIC

Types of Banks & Their Charters: State Banks

- Chartered under state law – individual state laws vary
- Primarily regulated and supervised by their state banking agency (e.g., the New York Department of Financial Services)
 - But also subject to Federal regulation and supervision (either Fed or FDIC)
- Typically engage in a variety of deposit-taking, retail lending (e.g., mortgage lending), and commercial lending
- More frequently the charter of choice for smaller community banks
- May or may not be a member of the Federal Reserve System:
 - Determines whether the bank is a “state member” or “state non-member” bank
 - Important because it determines which Federal agency provides supplementary regulation and supervision
- Deposits insured by the FDIC

Non-bank Banks

- Definition of bank
 - Section 2(c)(1) of the BHC Act defines bank as: (1) an insured bank or (2) an institution organized in the United States or its territories that both accepts demand deposits and makes commercial loans.
 - Certain entities may be involved in one or more aspects of the business of banking - accepting deposits, making loans or payment services – without technically being banks.
 - Section 2(c)(2) of the BHCA excludes a variety of institutions from the definition of bank, including:
 - Credit unions
 - Credit card banks
 - Industrial loan companies
- Other institutions are not banks because they don't meet the definition in the BHC Act.
- Recent entrants into the banking space that are also not “banks” include:
 - Institutions chartered under the proposed OCC payments charter
 - State-chartered special purpose depository institutions (SPDIs)

Non-bank Banks (cont.)

- Supervision
 - The non-bank bank itself is generally subject to supervision by the licensing authority.
 - Parent companies, which may be commercial/nonfinancial entities, are not subject to consolidated supervision
 - No or limited restrictions on commercial activities
 - No capital or liquidity requirements
 - Not subject to consumer financial and data protection laws on an enterprise-wide basis

Industrial Loan Companies (ILCs) – In General

- State-chartered depository institutions that may engage in a wide range of banking activities, including accepting FDIC-insured deposits (though not demand deposits) and engaging in unlimited payments and lending activities
 - However, not treated as a “bank” under the BHC Act; therefore, may be owned by commercial/nonfinancial companies
 - Are not subject to holding company capital and liquidity rules
 - Are not examined by the Federal Reserve (or any other regulator)
- Seven states offer ILC (or industrial bank) charters, but most larger ILCs are chartered in Utah or Nevada.
- Major issues raised when Walmart applied in 2006 to establish an ILC: led to regulatory and then legislative moratorium

Current 15 Largest ILCs

(USD, in thousands)

Name	State	Deposits	Assets	Owned by a Commercial/Nonfinancial Company?
UBS BANK USA	UT	\$48,516,990	\$56,096,450	No
SALLIE MAE BANK	UT	\$21,557,119	\$29,485,766	No
BMW BANK OF NORTH AMERICA	UT	\$6,471,085	\$10,384,602	Yes
OPTUM BANK, INC.	UT	\$8,370,878	\$10,300,041	Yes
COMENITY CAPITAL BANK	UT	\$7,355,921	\$9,697,956	No
BEAL BANK USA	NV	\$2,607,020	\$5,269,206	No
MERRICK BANK	UT	\$3,060,819	\$3,929,460	No
WEX BANK	UT	\$2,564,453	\$3,191,732	No
ENERBANK USA	UT	\$2,134,349	\$2,416,734	Yes
USAA SAVINGS BANK	NV	\$323,745	\$1,866,188	No
MEDALLION BANK	UT	\$927,758	\$1,109,361	No
TOYOTA FINANCIAL SAVINGS BANK	NV	\$850,976	\$1,032,966	Yes
WEBBANK	UT	\$751,237	\$924,603	No
CELTIC BANK	UT	\$672,695	\$898,493	No
THE PITNEY BOWES BANK, INC.	UT	\$594,128	\$724,925	Yes