



May 17, 2022

The Honorable Maxine Waters  
Chairwoman  
Committee on Financial Services  
U.S. House of Representatives  
Washington, D.C. 20515

The Honorable Patrick McHenry  
Ranking Member  
Committee on Financial Services  
U.S. House of Representatives  
Washington, D.C. 20515

Re: Support for H.R. 5912, *The Close the ILC Loophole Act*

Dear Chairwoman Waters and Ranking Member McHenry:

The undersigned organizations, which together represent a broad cross-section of regulated banks, credit unions, and consumer protection organizations, write in support of H.R. 5912, the Close the ILC Loophole Act, sponsored by Congressman Chuy Garcia (D-IL), Stephen Lynch (D-MA), Lance Gooden (R-TX) and Pete Sessions (R-TX).

Industrial Loan Companies (ILCs) operate under a special exemption in federal law that permits any type of organization – including a large technology company or commercial firm – to control a full-service FDIC-insured bank *without* being subject to the same oversight and prudential standards or limitations on the mixing of banking and commerce that Congress has established for the U.S. financial system. Simply put, this regulatory loophole creates safety and soundness risks for the institution, risks to the financial system and additional risks for consumers and taxpayers.

When this exception was initially created, ILCs were typically small financial institutions, and companies used the charter for the limited purpose of providing small loans to industrial workers who could not otherwise obtain credit. However, since that time, large commercial companies have used the ILC charter to gain access to the U.S. financial system and control entities that have essentially all of the powers of a full-service commercial bank, including the ability to accept deposits, make consumer and commercial loans and effectuate payments.

Although ILCs have the powers of a commercial bank, their corporate owners – unlike the owners of commercial banks – are not subject to consolidated supervision and regulation by a federal banking agency, which can allow risks to build up in the organization outside the view of any federal supervisor. Moreover, the loophole provides a way for technology firms offering a wide variety of services to acquire a full-service bank along with all of the privileges of a bank – even though Congress has generally prohibited the mixing of banking and commerce. These technology firms thereby gain access to FDIC-insured deposits and potentially a vast trove of consumer financial information all without being subject to the information security and prudential standards that apply to regulated bank holding companies.

We urge you to support H.R. 5912 in committee to close the ILC loophole and look forward to working to move this legislation forward to be considered by the full House of Representatives.

Respectfully,

Americans for Financial Reform  
Bank Policy Institute  
Center for Responsible Lending  
Credit Union National Association  
Consumer Federation of America  
Independent Community Bankers of America  
Mid-Size Bank Coalition of America  
National Association of Federally-Insured Credit Unions  
National Consumer Law Center (on behalf of its low-income clients)  
National Community Reinvestment Coalition  
U.S. PIRG

cc: Members of the House Financial Services Committee