Statement of
John C. Dugan
Comptroller of the Currency
Regarding a
Proposed ILC Rule
At the January 31, 2007 Meeting of the
Federal Deposit Insurance Corporation
Board of Directors

I also support issuing for comment the proposed rule establishing the conditions that should generally be applied in approving deposit insurance applications for ILCs affiliated with certain types of financial companies. Here again I commend the Chairman for doing an exceptionally effective job in guiding the Board to a consensus.

While I continue to have significant questions about the proposal that I hope will be answered during the comment period, this compromise version addressed my fundamental concern, which is this: the conditions should focus on the safety and soundness of the ILC itself and direct risks to the ILC; they should not establish the FDIC as a new type of consolidated regulator for holding companies of ILCs. Consistent with my earlier remarks, I believe Congress's express exemption of ILC holding companies from the Bank Holding Company Act was intended to exempt such holding companies not only from restrictions on commercial affiliations, but also from the type of extensive consolidated holding company supervision that the Federal Reserve applies to bank holding companies. Thus, while I will carefully consider responses to the question in the proposal on whether to impose holding company capital requirements, that is the type of holding company regulation that appears fundamentally inconsistent with the ILC exemption from the Bank Holding Company Act.

Cutting in a different direction, I question whether the conditions described in the proposal should be limited to future ILCs that meet the proposal's criteria. While much has been debated about the potential risks of commercial affiliations, the plain fact is that the rapid growth in the assets of ILCs has come not from those that are commercially owned ILCs, but from existing ILCs owned by financial companies that are not subject to consolidated supervision of the type administered by the Federal Reserve. Indeed, the five largest ILCs fall into this category, holding approximately 70 percent of the $180 billion in total assets held by all ILCs, and the largest one holds total assets exceeding $60 billion dollars. These are big numbers. If we believe that future ILCs should be subject to the conditions in the proposed rule to guard against potential risks, shouldn't we consider whether existing ILCs that fall in the same category – especially the largest ones – should be subject to similar conditions? I hope that this issue will be part of the debate with respect to not only this proposed rule, but also the congressional consideration of ILC regulation more generally.