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October 6, 2006

The Honorable Gibson Armstrong
Chairman
Senate Banking & Insurance Committee
Room 281 Main Capitol
Harrisburg, PA 17120

RE: PACB Opposition to Industrial Loan Corporations/Follow up to Meeting

Dear Gib:

Thank you for the opportunity to meet with you and Chris recently to discuss the proliferation of Industrial Loan Corporations (ILCs) and the effect they will have on our economy and banking system.

As we discussed, there are 14 pending ILC applications before the FDIC for deposit insurance including applications from Wal-Mart and Home Depot. While the FDIC wisely imposed a six-month moratorium on these applications, primarily at the request of Congress and in reaction to over 4,000 comment letters including from PACB against these applications, the reality is that since the FDIC has already granted previous ILC applications they will be forced, by precedent, to grant these pending applications.

We have several serious concerns with the explosion of ILCs into banking and the real threat of Wal-Mart and Home Depot being granted deposit insurance. In the last twenty years, this loophole in law has seen assets in ILCs grow from \$4.2 billion in 1987 to \$155.1 billion this year. If the 14 current applications are granted, including to the two previously named conglomerates, we believe our banking system's very foundation and the overall economy will be seriously threatened. Main Street banking as we know it would cease to exist and institutions that have proudly served their communities and served as an anchor and economic engine for their communities would not be able to compete. The clear long-term effect would be that consumers would not be well served by the monopolies that would be created nor would communities have the leadership and service currently provided by our community banks.

Our financial system has had a core principle since the 1930's that banking and commerce should be separated and Congress has continued to center public policy on this core principle with the exception of the ILC loophole. While the U.S. House of Representatives has indicated a willingness and desire to tackle this issue, the U.S. Senate is far more uncertain, primarily due to the influence of Utah's senators where the ILC gambit began.

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As a result, PACB along with the Independent Community Bankers of America, is seeking a state response to this issue. Six states have already adopted laws in response to the Wal-Mart/ILC issue and eight states have pending legislation, including Pennsylvania.

As the Chairman of the Banking and Insurance Committee, we have always appreciated your strong support for community banking. We also appreciate your willingness to consider holding public hearing(s) to have this issue aired and to allow the facts to be put on the public record. We are confident that with facts on the table, the Pennsylvania General Assembly will realize the wisdom of adopting legislation to stop Wal-Mart and the other ILCs from destroying our banking system and leaving consumers with little or no choices in the long run.

Please let us know if you need additional information beyond what we have currently provided you. We recognize that timing for hearing(s) is an issue given the current legislative calendar and the end of the session fast approaching on November 30. As we discussed, perhaps this is an issue that could be scheduled for hearings early in the new session beginning in January.

Again, thanks for making time on your busy schedule for PACB. We stand ready to vigorously pursue this issue but want to do so in concert with your leadership.

Sincerely,

Frank A. Pinto

Cc: All PACB Members