Industrial Loan Company Conference

Los Angeles, California

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Department of Financial Institutions

Commissioner

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Speech

Good afternoon, ladies and gentlemen. DFI's basic goals of protecting the safety and soundness of financial institutions for the convenience and needs of the public are often carried out by initiatives to enhance value of a charter to benefit the California economy. It gives me great pleasure to welcome the twenty-two members and friends of the California industrial banking community here today to discuss SB 2148 and its ramifications on the industry. When Governor Davis signed this bill into law on September 29, 2000, it marked a milestone in the history of industrial banking since it first came into existence eighty-three years ago.

There are many similarities between 1917 and today. Then as now, the economy was expanding. A two-term Democrat was in the White House. To be sure, there were dark clouds on the horizon—the descent of Russia into the long night of communism, the Great War raging in Europe that would draw in the United States, but at home peace and prosperity were the rule. The United States had just become first in industrial production. Each day, trains brought hundreds of transplanted Midwesterners to Southern California seeking their place in the sun. In Los Angeles, tract homes and oil wells were starting to replace the bean fields along Wilshire.

Buoyed by the booming economy, the labor force swelled. Soon, the men and women who came to California to find work in factories, construction and skilled labor wanted to buy homes and cars and settle down to make lives for themselves, but commercial banks generally didn’t make consumer loans or offer deposit accounts. It became apparent to farsighted people that there was a niche to be filled by helping blue collar workers realize their financial dreams. Other lenders began to step forward. Labor unions formed banks to secure credit for their union brothers and sisters. Building and loan associations were organized to help members finance home purchases. Into this environment, a new concept was introduced by Arthur J. Morris, founder of the Morris Plan, the first industrial loan company licensed in California.

California is one of twelve states that have this charter option in addition to Utah, Colorado, Nevada and Indiana. There is no equivalent national charter. Over time, industrial loan companies have grown to be more bank like, starting with optional FDIC insurance of industrial loan accounts in 1984. FDIC insurance became mandatory by 1990. Ten years later, with the passage of SB 2148, industrial banks will be able to operate even more like other deposit-taking institutions.

Commercial banks eventually grew to recognize the value of the consumer loan market, while industrial banks continued seeking out niches to serve. Some industrial banks have expertise in loan products that other financial institutions wouldn't make. Some companies specialize in higher risk automobile lending or what is known as "B&C" paper. By knowing the various automobile dealers in the community, they are able to make a profit while providing a valuable service to underserved areas. Others are involved in real estate lending and sell real estate loan pools to the secondary markets. Industrial banks have gotten more sophisticated and like other financial institutions are going more into fee-based products. Over the years, industrial banks have served a unique purpose for both depositors and borrowers, a purpose I am confident they will continue to serve into the 21st century and beyond.

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