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An Economic Analysis of Utah's Industrial Banks

Industrial banks generate substantial economic benefits in Utah, the nationwide center for this banking segment with a 110-year history.

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Table of Contents

Figures

Tables

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Analysis in Brief

Industrial banks generate substantial economic benefits in Utah, the nationwide center for this banking segment with a 110-year history.

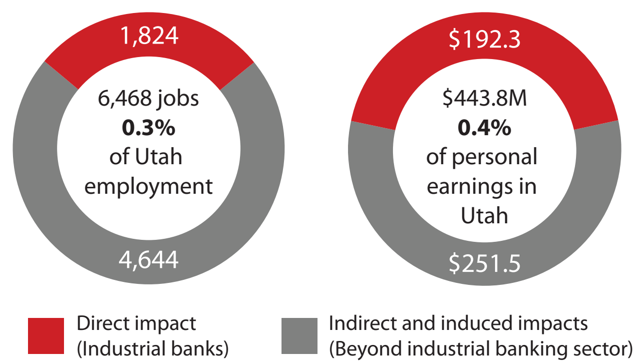
Utah's 14 industrial banks support economic activity in every major sector. In 2019, they directly and indirectly generated 6,468 in-state jobs paying $443.8 million in earnings to workers who produced $722.0 million in state GDP, 0.4% of the total for all industries. The associated state and local fiscal impacts included $32.0 million in sales, property, and state income tax revenue.

What are industrial banks? Also known as industrial loan companies, these state-chartered institutions provide financial services to individuals and organizations, such as making loans and accepting insured deposits. While most bank charters in the U.S. limit bank ownership to financial institutions, nonfinancial companies can also own industrial banks, subject to federal and state laws and regulations.

Key Findings

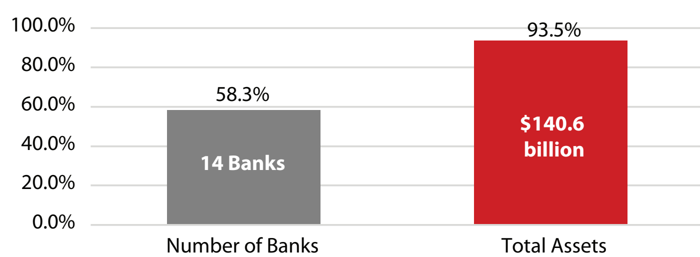
- **Utah anchors industrial banking in the U.S.:** Only six states have active industrial bank charters. Utah-headquartered industrial banks held $140.6 billion in assets in 2019, 93.5% of the U.S. total for industrial banks and 0.8% of the U.S. total for any type of bank insured by the Federal Deposit Insurance Corporation.
- **Industrial banks offer well-paying jobs:** In 2019, industrial banks provided 1,824 Utah jobs. Average employee compensation was $105,400, 67.3% above the state's $63,000 average for all industries.
- **Industrial banks support community development:** During their most recent 12-month reporting periods, Utah industrial banks funded $1.0 billion in investments and donations to lower-income communities, largely for affordable housing in Utah and other states. Bank employees gave 6,500 hours of volunteer service.
- **Several prominent banks began as industrial banks:** Utah is also home to 10 former industrial banks now operating under commercial bank charters. Their successor banks provided 1,332 in-state jobs in 2019. Total economic impacts of former industrial banks included 4,655 jobs and $315.0 million in employee and self-employment earnings.

In-State Economic Impacts of Utah's Industrial Banks, 2019



Note: Impacts of former industrial banks not included. Earnings include wages, salaries, benefits, and self-employment income.
Source: Kem C. Gardner Policy Institute analysis of bank-reported data for in-state work sites from the Utah Department of Workforce Services using the REMI PI+ economic model

Utah Share of U.S. Industrial Bank Sector, 2019



Note: Asset balances as of December 31. The U.S. had 24 industrial banks and $150.4 billion in assets.
Source: Federal Financial Institutions Examination Council

Utah's Five Largest Current and Former Industrial Banks

Current	Former
UBS Bank USA	Merrill Lynch
Sallie Mae Bank	American Express
Optum Bank	Morgan Stanley
BMW Bank of North America	GMAC Bank
Comenity Capital Bank	GE Capital Bank

Note: Banks with Utah headquarters ranked by December 31 total assets, as of 2019 for current industrial banks and as of the peak year from 2001 to 2019 for former industrial banks. Current banks not affiliated with former banks listed. GMAC Bank is now Ally Bank.
Source: Utah Department of Financial Institutions

Section 1. Introduction: Industrial Banking 101

The Utah Center for Financial Services at the University of Utah requested an analysis of industrial banks in Utah's economy from the Kem C. Gardner Policy Institute. The Gardner Institute estimated statewide economic and fiscal impacts of current and former industrial banks. This report also provides historical context and comparisons with other states through 2019.

An industrial bank is a state-chartered, federally insured financial institution commonly referred to as an industrial loan company. Industrial banks can offer a wide range of financial services to individuals and organizations, similar to commercial banks.[1] These services include accepting federally insured deposits and making personal and commercial loans online and in person. The staff at many industrial banks serve customers nationwide from their headquarters, without brick and mortar branch offices. Some industrial banks focus on single product lines, such as auto loans or credit card payment processing.

Industrial banks and their precursors, industrial loan companies (ILCs), have operated in the U.S. for more than a century. In March 2020, the Federal Deposit Insurance Corporation (FDIC) approved plans to establish two new industrial banks in Utah, the first ones federal regulators had authorized in 12 years. As of December 31, 2019, 24 industrial banks, each at least 14 years old, had headquarters in one of six states, most of them in Utah. Collectively, industrial banks held 0.8% of the total $18.6 trillion in banking assets managed by all 5,177 FDIC-insured banks.[2]

1.1 Industrial Banking Has a Long History in the U.S. and Utah

The U.S. industrial banking sector traces its origins to the establishment of ILCs beginning in 1910.[3] Since then, at least 40 states have licensed or chartered ILCs.[4] Originally, their purpose was to extend banking services to industrial workers with limited access to credit, usually employees of the company that owned the ILC. Over the next two decades, ILCs became the largest source of uncollateralized credit for this underserved consumer lending segment.[5] Many states allowed ILCs to accept deposits, in some cases with the stipulation that ILCs obtain private deposit insurance.

By 1966, the U.S. banking sector had reached its highest ever number of ILCs, 254, carrying assets worth over 5% of the total for all financial institutions.[6] A gradual expansion of consumer lending activity at commercial banks since the 1930s reduced ILCs' market share among their original customer base. By 1983, a smaller number (155) of larger ILCs had adapted by providing additional services to a broader customer base.[7]

Utah established a state insurance fund for ILCs in 1975. Two ILC failures in 1978 and 1980 required an estimated $45 million to satisfy depositor claims, which depleted the fund.[8] Beginning in 1986, the Utah Department of Financial Institutions (DFI) maintained a 10-year moratorium on new ILC charters, while it continued to oversee existing ILCs in the state. During the moratorium, companies could still establish ILCs by acquiring charters from failed or dormant ILCs. The Utah Legislature lifted the moratorium in 1997.

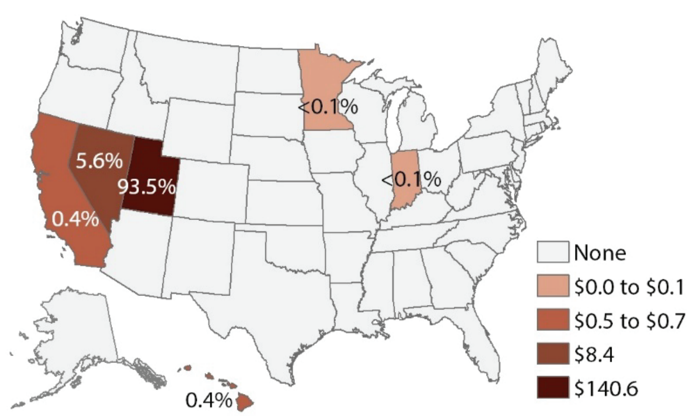
In 1982, ILCs nationwide gained consistent access to federal deposit insurance.[9] They and their parent companies also came under federal supervision. These developments marked the beginning of the modern era of industrial banking, although the use of "industrial loan company" and related terms continued in Utah and other states into the 21st century. Because ILCs since the 1980s have commonly received FDIC insurance for deposits they hold, thereby becoming full-fledged banks, the remainder of this report refers to the family of financial institutions that includes ILCs as "industrial banks." Utah-chartered Citicorp Person-to-Person was the first industrial bank in the country to obtain FDIC insurance in the new regulatory environment.

In the 1980s, the industrial bank segment of Utah's financial sector matured in an evolving regulatory framework, with improved stability. Between 1985 and 2019, only one industrial bank in the state failed.[10] Even with higher rates of failure among industrial banks outside Utah, asset losses at failed industrial banks receiving FDIC assistance were only 0.4% of total U.S. losses from bank failure from 1986 to 2017.[11]

Since the 1980s, Utah's DFI has accepted applications for new or acquired charters. Prospective FDIC-insured industrial banks' applications must demonstrate acceptable practices for business planning, capitalization, staffing, and information security. With supportive policies in Utah, industrial bank growth increased from the late 1990s through the mid-2000s.

Figure 1.1: Industrial Bank Assets, 2019

(Share of U.S. Industrial Bank Total; Billions of Dollars)



Note: December 31 total asset balances reported by headquarters state.
Source: Federal Financial Institutions Examination Council

Banks like GE Capital, Merrill Lynch, American Express, and Goldman Sachs innovated and thrived during this period.

From 2008 to early 2020, FDIC practices and the Dodd Frank Act effectively paused new charters for insured industrial banks nationwide. Among the factors limiting the number of industrial banks established during these years, political and regulatory issues specific to industrial banks coincided with market forces. In the aftermath of the 2007 financial crisis, Utah and the U.S. alike experienced an extended disruption in new bank creation of any kind.[12] During the subsequent economic recovery, Utah's industrial banking sector experienced 10 years of marked growth as existing banks became larger.

By December 31, 2019, industrial banks owned $150.4 billion in banking assets, 93.5% of them held by Utah-chartered banks (see Figure 1.1). Year-end industrial bank assets for Utah totaled $140.6 billion, followed by Nevada with $8.4 billion, 5.6%. Banks with California, Hawaii, Indiana, and Minnesota headquarters managed the remaining $1.4 billion, 0.9% of U.S. industrial bank assets. On average, industrial banks were larger than other federally insured banks in the U.S., with 74.0% more assets per bank.

In March 2020, the FDIC issued guidance for extending federal insurance to new industrial banks, not just grandfathered ones.[13] In doing so, the FDIC formalized practices it had followed since the 1980s. Non-bank parent companies seeking to establish an industrial bank must enter formal agreements with the FDIC stipulating enhanced capital, liquidity, and reporting requirements tailored to each application. These agreements establish some federal requirements of parent companies, in addition to state oversight, which continues unaffected.

Also in March 2020, the Utah Department of Financial Institutions approved state industrial bank charter applications from Square and Nelnet.[14] The FDIC approved both banks' applications for federal insurance.[15] They planned to open by March 2021 with a collective $156.0 million in capital, which could support up to $1.1 billion in additional industrial bank assets.

1.2 Are Industrial Banks Regulated Like Other Banks?

The evolving regulatory space that industrial banks occupy offers them ownership flexibility and regulatory simplicity. As with traditional banks, qualifying deposits at industrial banks are FDIC-insured. The FDIC, as well as state governments that charter industrial banks, supervise them under the same federal banking standards that apply to other insured banks. The Utah Department of Financial Institutions regulates industrial banks headquartered in Utah.[16]

A unique feature of industrial banks is ownership flexibility, the type of parent company they can have. While only financial institutions can own most banks in the U.S., financial, nonfinancial, or hybrid institutions can own industrial banks.[17] For instance, the Michigan utility CMS Energy is the holding company for EnerBank USA, a Utah-chartered industrial bank. Nonfinancial parent companies or their affiliates engage in significant business activity not closely related to banking.

In the case of a financial institution holding an industrial bank, the parent company is subject to the same state and federal banking regulations that apply to the holding companies of other types of banks.[18] The Federal Reserve regulates such parent companies under the Bank Holding Company Act (BHCA). This law prohibits them or their affiliates from pursuing business lines unrelated to banking. The BHCA codified the historical separation of banking and commerce in most situations in the U.S.

A nonfinancial institution, such as CMS Energy, holding an industrial bank is also subject to state and federal banking regulations. However, a nonfinancial parent company is exempt from Federal Reserve regulation and business activity limitations under the BHCA, according to the Competitive Equality Banking Act. Instead, the FDIC regulates nonfinancial parent companies under a "bank-centric" model designed to evaluate industrial bank independence, safety, and soundness.[19] The FDIC examines the potential impacts of a parent company and its other affiliates on an industrial bank. Relevant aspects of their relationships include whether the parent can be a source of strength to the bank by providing capital and liquidity if needed.

By establishing an industrial bank, companies with nonfinancial business lines gain the functionality and returns of a fully insured and regulated industrial bank. Associated financial supervision and compliance obligations focus on banking activities within the larger holding company.

Section 2. Industrial Banks Have a Significant Economic Presence in Utah

Active Utah-chartered industrial banks created substantial economic impacts during 2019. Industrial banks provided well-paying jobs for their employees, and generated activity in all major sectors of Utah's economy, which helped support state and local governments. Utah industrial banks also contributed to community efforts to address issues like affordable housing availability. These efforts, like bank operations generally, happened partially in Utah and partially outside industrial banks' headquarters state. As a potential source of economic activity beyond 2019, several companies with plans to establish new industrial banks in Utah either received government approval in 2020 or remained engaged in the application process.

2.1 Which Utah Banks Have an Industrial Bank Charter?

Utah's active industrial banks, established between 1997 and 2006, have been serving customers for an average of 18 years (see Table 2.1). The newest is 14 years old. These branchless industrial banks provide a variety of financial services. Nine of the 14 banks create financial products for individuals, while five of them primarily offer financial services to businesses. Four industrial banks offer credit card services; three provide vehicle loans; two finance home improvements; and two have a health care focus.

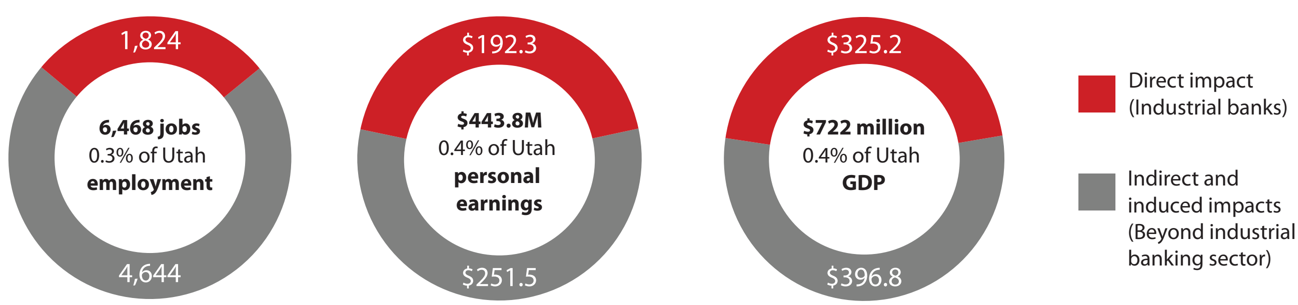
Most Utah industrial banks are financially owned, meaning their parent companies are also financial institutions. Commercial companies, earning a significant share of their revenue from nonfinancial products, own five Utah industrial banks, which are among seven commercially owned industrial banks nationwide.

Table 2.1: Utah-Chartered Industrial Banks, 2019

Name	Headquarters	Established	Financial Services	Ownership
BMW Bank of North America	Salt Lake City	1999	Auto loans and other services for BMW customers	Commercial
Celtic Bank	Salt Lake City	2001	Small business financing	Financial
Comenity Capital Bank	Draper	2003	Credit card and other banking services	Financial
EnerBank USA	Salt Lake City	2002	Home improvement loans	Commercial
First Electronic Bank	Salt Lake City	2000	Credit card services and other financing	Commercial
LCA Bank Corporation	Park City	2006	Equipment leasing and financing	Financial
Medallion Bank	Salt Lake City	2003	Home improvement and recreation product loans	Financial
Merrick Bank	South Jordan	1997	Vehicle loans and other services for RV customers	Financial
Optum Bank	Salt Lake City	2003	Consumer lending for health care	Financial
Pitney Bowes Bank	Salt Lake City	1998	Small business credit cards and other financing	Commercial
Sallie Mae Bank	Salt Lake City	2005	Consumer lending for education	Financial
UBS Bank USA	Salt Lake City	2003	Wealth management and other services	Financial
WebBank	Salt Lake City	1997	Credit cards, installment loans, and other services	Commercial
WEX Bank	Midvale	1998	Fleet fuel cards and business payment services	Financial

Note: Three industrial banks had name changes: Comenity Capital Bank was formerly World Financial Capital Bank; Optum Bank was Exante Bank; and WEX Bank was Wright Express Financial Services. See Table 5.1 for bank ID numbers. "Commercial" parent companies have significant nonfinancial business lines.
Source: Federal Deposit Insurance Corporation, Utah Department of Financial Institutions, company websites, and Barth and Sun (2018)

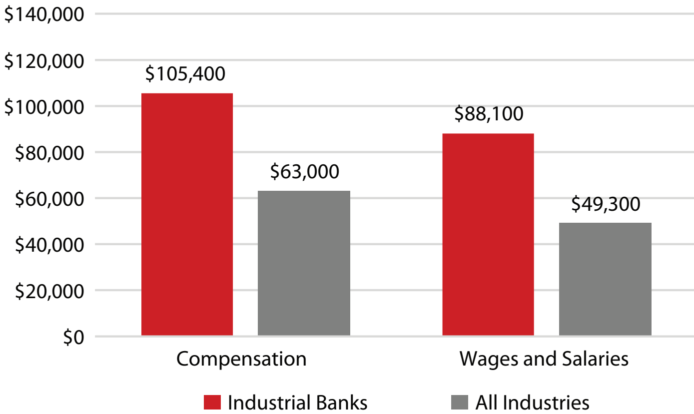
Figure 2.1: In-State Economic Impacts of Utah's Current Industrial Banks, 2019



Note: Includes 14 current industrial banks (direct impacts calculated from bank-reported employment and pay) and industrial bank-generated effects at other Utah companies (indirect and induced impacts estimated by economic modeling). Employment measured as total full- and part-time jobs. Earnings consist of employee wages, salaries, benefits, and self-employment income. Shares equal total economic impacts from Utah industrial banks divided by total statewide employment, earnings, and GDP for all industries. Results based on industrial bank employment, wages, and salaries from the fourth quarter of 2018 and the first three quarters of 2019.
Source: Kem C. Gardner Policy Institute analysis of bank-reported data for in-state work sites from the Utah Department of Workforce Services using the REMI PI+ economic model

Figure 2.2: Industrial Bank Compensation in Utah, 2019

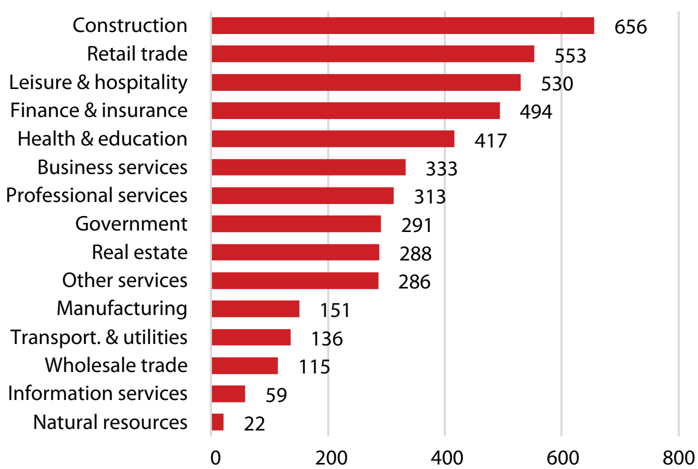
(Annual Average per Employee)



Note: Compensation includes employee wages, salaries, and benefits.
Source: Utah Department of Workforce Services and U.S. Bureau of Economic Analysis

Figure 2.3: Utah Indirect and Induced Employment Impacts by Sector, 2019

(Jobs Generated by Current Industrial Banks)



Note: Impacts of 14 active Utah industrial banks' economic activity during the fourth quarter of 2018 and the first three quarters of 2019. Indirect and induced impacts do not include direct employment at industrial banks.
Source: Kem C. Gardner Policy Institute analysis of data from the Utah Department of Workforce Services using the REMI PI+ economic model

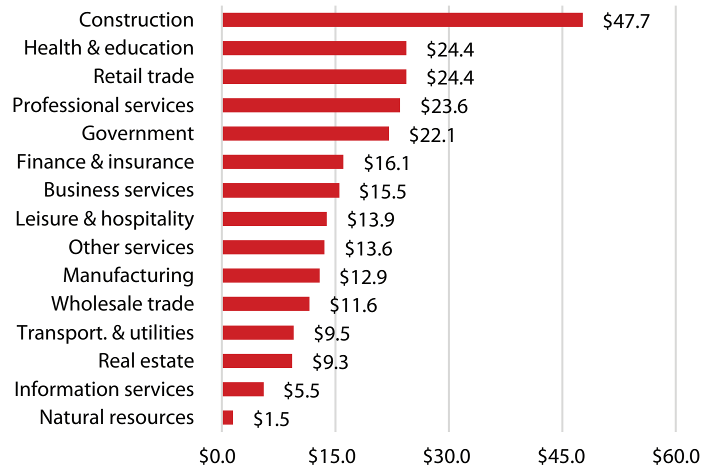
2.2 Economic Impacts: How Wide Are Industrial Banks' Footprints in Utah?

Economic impacts represent the footprint of industrial banks: the portion of Utah's broader economy supported by industrial banks. The Gardner Institute estimated how much economic activity would likely be lost without this robust banking segment operating in the state.

In 2019, industrial banks' total economic impacts in Utah included 6,468 jobs, $443.8 million in personal earnings, and $722.0 million in GDP (see Figure 2.1). These results represented the economic activity of industrial banks themselves, as well as indirect and induced activity these banks and their employees generated in the rest of the state's economy. Utah industrial banks contributed 0.4% of the state's personal earnings and GDP and 0.3% of the state's employment.

Figure 2.4: Utah Indirect and Induced Personal Earnings Impacts by Sector, 2019

(Millions of Dollars Generated by Current Industrial Banks)



Note: Impacts of 14 active Utah industrial banks' economic activity during the fourth quarter of 2018 and the first three quarters of 2019. Earnings consist of employee wages, salaries, benefits, and self-employment income. Indirect and induced earnings do not include direct earnings paid to industrial bank employees.
Source: Kem C. Gardner Policy Institute analysis of data from the Utah Department of Workforce Services using the REMI PI+ economic model

Economic impacts focus on employees' consumer spending and industrial banks' business purchases (intermediate demand) from upstream in their supply chains—for example, when industrial banks lease office space, upgrade communications devices, or contract for IT services. Economic impacts do not include downstream effects from banks serving their customers, the ways industrial bank financial services make possible valued personal and organizational outcomes. Such downstream benefits include consumer savings, company growth, and quality of life gains. For example, industrial banks help small businesses obtain needed equipment, students afford college tuition, and homeowners finance needed repairs. Estimates of economic impacts from these types of tangible downstream benefits would require a counterfactual under–standing of bank customers' next-best alternatives in the absence of industrial bank products.

Direct Impacts: Industrial Banks Provide Over 1,800 Well-Paying Jobs in Utah

Direct economic impacts in 2019 included 1,824 in-state jobs at 14 industrial banks.[20] Total employee compensation reached $192.3 million. Average compensation per job was $105,400 for industrial bank employees, which was 67.3% above Utah's average of $63,000 for all industries (see Figure 2.2). Focusing on wages and salaries, without employer-paid benefits, industrial banks paid $160.8 million to their Utah employees. The $88,100 average per job was 78.7% higher than the average for all industries in the state.

Table 2.2: Fiscal Impacts of Utah Industrial Banks, 2019
(Millions of Dollars)

Impact in Utah	State	Local	Total
Tax revenues	$21.3	$10.7	$32.0
Government operating expenditures	$8.9	$2.1	$11.0
Net state and local revenue	**$12.4**	**$8.6**	**$21.0**

Note: Estimates based on the total direct, indirect, and induced economic impacts of 14 active industrial banks with Utah headquarters (see Figure 2.1). Fiscal impacts include total revenues and operating expenditures itemized in Table 2.3 and Table 2.4.
Source: Kem C. Gardner Policy Institute

Table 2.3: State Fiscal Impacts From Utah Industrial Banks, 2019
(Millions of Dollars)

Impact in Utah	Amount
Sales tax revenues	$9.6
Personal income tax revenues	$9.8
Corporate income tax revenues	$1.9
Total state revenues	**$21.3**
Non-education expenditures	$4.6
Public education expenditures	$2.5
Higher education expenditures	$1.8
Total state operating expenditures	**$8.9**
Net state revenue	**$12.4**

Note: Revenue estimates are based on effective state tax rates for Utah as shares of personal income and company sales, the latter by industry. Expenditure estimates are based on state government spending per capita.
Source: Kem C. Gardner Policy Institute

Industrial bank employees produced $325.2 million in state GDP in 2019, a measure of their collective productivity or value-added. Average value-added per industrial bank job was $178,300 in Utah, more than double the statewide average of $84,400 per job for workers in all industries. Industrial bank employees' productivity advantage was even greater than their compensation advantages in Utah.

Due to data release timing, the Gardner Institute based its analysis of industrial banks' direct activity in 2019 on data from the fourth quarter of 2018 and the first three quarters of 2019. If employment and compensation were higher in the fourth quarter of 2019 than in the fourth quarter of 2018, this approach would produce conservative results.

Indirect and Induced Impacts: Industrial Banking Supports All Major Sectors of Utah's Economy

Total economic impacts reach beyond industrial banks and their employees. In 2019, Utah industrial banks' indirect and induced employment impact of 4,644 jobs spread across 15 major economic sectors (see Figure 2.3). With 656 industrial bank-derived jobs, the construction industry received the largest employment benefit from the state's strong industrial banking sector. Industrial banks also generated over 500 jobs in both the retail trade and leisure and hospitality sectors. Meanwhile, non-industrial bank institutions in the finance and insurance sector provided almost 500 jobs supported by industrial banks.

Table 2.4: Local Fiscal Impacts From Utah Industrial Banks, 2019
(Millions of Dollars)

Impact in Utah	Amount
Property tax revenues	$9.0
Sales tax revenues	$1.7
Total local revenues	**$10.7**
Non-education expenditures	$1.2
Public education expenditures	$0.9
Total local operating expenditures	**$2.1**
Net local revenue	**$8.6**

Note: Revenue estimates are based on effective local tax rates in Utah as shares of personal income and employment. Expenditure estimates are based on local government spending per capita in Utah. Local revenues and operating expenditures include counties and school districts. Cities and towns are not included.
Source: Kem C. Gardner Policy Institute

Utah industrial banks generated additional earnings for workers at other companies. Of $251.5 million in indirect and induced personal earnings impacts from industrial banks in 2019, the sectors receiving the largest earnings benefits differed somewhat from those receiving the largest employment benefits (see Figure 2.4). The construction industry led again, with $47.7 million in earnings. However, the health and education sector leap-frogged into second place, a virtual tie with retail trade—each with $24.4 million in earnings generated by industrial banks. Professional services and state and local governments also received over $20 million in earnings. The leisure and hospitality sector provided 5.5% of industrial bank-related earnings, much lower than its 11.4% of employment.

2.3 Fiscal Impacts: Industrial Banks Generated $32.0 Million in Annual Tax Revenue

Industrial banks help fund state and local governments, including schools. Industrial banks' direct, indirect, and induced impacts of $722.0 million in economic activity (GDP) in 2019 generated an estimated $32.0 million in tax revenue in Utah (see Table 2.2). The state received $21.3 million, and local governments received $10.7 million. Additional government expenditures associated with Utah industrial banks partially offset the additional tax revenue industrial banks generated. Bank operations in 2019 supported a net increase in state and local government revenue of $21.0 million. This amount included $32.0 million in tax revenues (noted previously) minus $11.0 million in additional demand for state, county, and school district expenditures.

At the state level, net tax revenue from industrial bank activity in Utah was $12.4 million in 2019 (see Table 2.3). An estimated 91.3% of revenue came from sales and personal income taxes,

Table 2.5: Community Development Investments and Donations From Utah Industrial Banks, 2015 to 2018
(Single-Year Amounts in Thousands of 2019 Dollars)

Bank Name	Year	Total Assets	Community Development		
			Investments and Loans	Donations	Total
BMW Bank of North America	2017	$10,402,832.7	$34,425.4	$0.0	$34,425.4
Celtic Bank	2017	$680,094.6	$7,156.2	$41.4	$7,197.5
Comenity Capital Bank	2017	$8,348,626.2	$74,269.3	$3,373.8	$77,643.2
EnerBank USA	2018	$1,813,020.8	$7,410.9	$68.5	$7,479.4
First Electronic Bank	2016	$19,972.6	$160.1	$8.0	$168.0
LCA Bank Corporation	2015	$149,422.4	$351.6	$26.3	$378.0
Medallion Bank	2017	$1,179,206.9	NA	NA	$14,349.0
Merrick Bank	2017	$3,439,336.4	$34,045.2	$292.5	$34,337.7
Optum Bank	2016	$6,042,159.8	$49,159.3	$95.9	$49,255.1
Pitney Bowes Bank	2016	$771,797.5	$4,631.5	$40.2	$4,671.8
Sallie Mae Bank	2017	$21,847,230.1	$243,909.9	$234.6	$244,144.5
UBS Bank USA	2017	$54,382,615.7	NA	NA	$531,317.1
WebBank	2017	$544,810.4	$2,225.8	$33.8	$2,259.6
WEX Bank	2016	$2,251,222.2	$15,230.3	$52.2	$15,282.5
Total		**$111,872,348.2**	**NA**	**NA**	**$1,022,908.9**

NA = not available
Note: Includes contributions reported under the Community Reinvestment Act for the 14 industrial banks with Utah headquarters in 2019. Assets, reported as of September 30, include loans payable to the bank and other items. "Investments" include new loans and investments; "donations" also include grants. Three banks' CRA evaluations did not follow a calendar year: Comenity Capital Bank (October 1, 2016 to September 30, 2017) and Sallie Mae Bank and WebBank (July 1, 2016 to June 30, 2017).
Source: Federal Deposit Insurance Corporation, Community Reinvestment Act Performance Ratings

each approaching $10 million. Industrial bank employees and workers in other industries supported by industrial banks paid these taxes. The remaining $1.9 million of state revenues came from corporate income taxes paid by industrial banks and other companies that were part of industrial banks' indirect and induced impacts.

Government expenditures fund services for the population of adults and children who live in Utah because of work opportunities that industrial banks support. Public and higher education expenditures reached a combined total of $4.3 million, which was nearly half of total state operating expenditures in 2019. Non-education expenditures amounted to $4.6 million.

Turning to local government, the net fiscal impact of Utah industrial banks was $8.6 million in 2019 (see Table 2.4). This includes an estimated $10.7 million in tax revenues and $2.1 million in operating expenditures for counties and school districts. Most local tax revenues came from property taxes, which amounted to $9.0 million; the local portion of sales tax collections was $1.7 million. As for local government expenditures, public K–12 programs spent $0.9 million; and other county expenditures amounted to $1.2 million.

2.4 Industrial Banks Address Community Needs

Industrial banks work to improve communitywide access to credit in Utah, the Intermountain West, and other regions. Their primary strategies are to provide lending, donations, and volunteer service to support individuals with low or moderate incomes. Industrial bank efforts address affordable housing, child and adult education, and even public health.

The Community Reinvestment Act (CRA) requires the Federal Deposit Insurance Corporation to assess banks' engagement in community development, such as improving access to credit for underserved populations. Without adding to federal requirements, Utah state law requires that the Utah Commissioner of Financial Institutions review bank records showing how they meet state residents' credit needs.[21] All 14 Utah-chartered industrial banks maintain a satisfactory CRA rating, and nine of them achieved an outstanding rating during their most recent examination, based largely on the share of their total assets devoted to community development.[22]

Industrial Bank Loans, Investments, Donations, and Grants—Mostly for Affordable Housing

Industrial banks headquartered in Utah provided $1.0 billion in community development loans, investments, donations, and grants during their most recently reported single year, between 2015 and 2018 (see Table 2.5).[23] This inflation-adjusted amount includes Utah-chartered institutions operating as industrial banks in 2019, not former industrial banks. On average, Utah industrial banks' community development loans, investments, donations, and grants amounted to 0.9% of their inflation-adjusted $111.9 billion in total assets. Industrial banks' community development funding offered substantial in-state benefits, and Utah also sent out resources for the residents of other states.

Community development loans and investments went to recipient individuals and community-focused nonprofits serving residents in Utah and other states. Industrial banks' narratives in CRA documentation suggest Utah organizations received most grants and donations. CRA performance evaluations do not indicate the portion of CRA-qualified dollars that stay in Utah. However, the extent to which banks have first been responsive to available opportunities for community development in "assessment areas" containing their office locations is a key consideration for federal examiners evaluating whether community development activities outside banks' assessment areas also count as CRA-qualified.[24]

Loans and Investments: To qualify under the CRA, these investments and donations supported affordable housing, community services, economic development, revitalization, and stabilization for individuals and neighborhoods with low and moderate incomes. The vast majority of CRA contributions from industrial banks with Utah headquarters—likely 90% or more from 2015 to 2018—were for affordable housing, a pressing issue on the Wasatch Front.

CRA-qualified loans and investments benefit individuals with limited access to credit, without negatively affecting banks' viability. Utah industrial banks provided direct loans to low- and moderate-income customers and invested in funds managed by other banks lending to this group. As in all bank commitments, federal banking regulations advise "safe and sound" lending practices for CRA-qualified community development, meaning that industrial banks monitor their risk exposure and seek reasonable returns.

Donations and Grants: On the other hand, industrial banks do not expect direct returns on their donations, such as grants for community programs providing transitional housing, health care, nutrition, education, job-finding services, and other supports to people earning low or moderate incomes in Provo, Salt Lake City, and other areas in and outside of Utah.

Of the 14 industrial banks in Utah, 12 banks disclosed donations separately from investments. Their community development contributions represented 46.7% of the total during the most recently documented year: a collective $477.2 million. Of this total, the 12 industrial banks devoted $473.0 million to new targeted loans and investments (99.1%) and gave $4.3 million in community donations (0.9%).

Employee Volunteer Service at Schools and Nonprofits for Underserved Communities

Utah-chartered industrial bank employees provided 6,583 hours of volunteer service to communities in Utah and outside the state in one year—an average of 2.2 hours per FTE employee (see Table 2.6). The most recent reporting year varied by industrial bank from 2015 to 2018. In the absence of state-level totals for service hours, the regulatory emphasis on CRA efforts in the vicinity of bank offices suggests that a significant portion of bankwide volunteer hours were spent in Utah.

Examples of Utah industrial banks' community development services include tax preparation services, youth mentoring on entrepreneurship, assistance with affordable housing grant proposals, board membership for community service organizations, and financial literacy education for children in schools with a high percentage of students from families with low or moderate incomes.

Table 2.6: Community Development Service by Utah Industrial Banks

(Employment as of September 30; Annual Employee Volunteer Hours)

Bank Name	Year	FTE Employees	Service Hours
BMW Bank of N.A.	2017	38	475
Celtic Bank	2017	195	387
Comenity Capital Bank	2017	86	687
EnerBank USA	2018	294	1,213
First Electronic Bank	2016	47	263
LCA Bank Corporation	2015	9	264
Medallion Bank	2017	69	484
Merrick Bank	2017	271	367
Optum Bank	2016	33	519
Pitney Bowes Bank	2016	15	189
Sallie Mae Bank	2017	1,428	545
UBS Bank USA	2017	362	683
WebBank	2017	80	304
WEX Bank	2016	38	203
Total		**2,965**	**6,583**

FTE = full-time equivalent; N.A. = North America
Note: Table shows information from the most recent reporting year for the 14 industrial banks that had Utah headquarters in 2019. Three industrial banks' CRA evaluations did not follow a calendar year: Comenity Capital Bank (October 1, 2016 to September 30, 2017) and Sallie Mae Bank and WebBank (July 1, 2016 to June 30, 2017).
Source: Federal Deposit Insurance Corporation, Community Reinvestment Act Performance Ratings

2.5 Bankwide Financial and Employment Measures for Current Industrial Banks

Utah-chartered industrial banks are substantial operations. In 2019, they earned $2.9 billion in net operating income from their offices in Utah and other states (see Table 2.7). Utah industrial banks collectively held $140.6 billion in assets. This section describes entire industrial bank organizations nationwide without state subtotals due to data limitations.

Table 2.7: Assets, Income, and Employment for Utah-Chartered Industrial Banks, 2019

(Bankwide Amounts in Millions of Dollars)

Name	Total Assets	Net Operating Income	FTE Employees
BMW Bank of N.A.	$10,573.6	$149.9	29
Celtic Bank	$973.0	$42.0	225
Comenity Capital Bank	$9,341.9	$211.0	121
EnerBank USA	$2,705.9	$48.9	338
First Electronic Bank	$52.6	$2.9	64
LCA Bank Corporation	$157.6	$3.3	18
Medallion Bank	$1,198.6	$23.0	81
Merrick Bank	$3,965.3	$213.5	336
Optum Bank	$10,826.7	$254.5	377
Pitney Bowes Bank	$747.6	$62.6	21
Sallie Mae Bank	$32,598.5	$598.6	1,952
UBS Bank USA	$63,780.7	$981.7	404
WebBank	$960.7	$50.0	122
WEX Bank	$2,729.6	$271.5	52
Total	**$140,612.4**	**$2,913.5**	**4,140**

N.A. = North America; FTE = full-time equivalent

Note: Amounts for all offices of industrial banks with Utah headquarters in 2019, including locations outside the state. Assets and employment as of December 31; net operating income for the full year. The 4,140 FTE employees imply about 5,400 full- and part-time jobs, of which about two-thirds were in other states.

Source: Federal Deposit Insurance Corporation

Table 2.8: Assets and Liabilities of Utah-Chartered Industrial Banks, 2019

(Bankwide December 31 Balances in Millions of Dollars)

Item	Balance	Share
Net loans and leases	$101,447.2	72.1%
Other assets[1]	$39,165.2	27.9%
Total assets	**$140,612.4**	**100.0%**
Total deposits	$113,990.6	81.1%
Other liabilities[2]	$10,086.3	7.2%
Total equity capital	$16,535.5	11.8%
Total liabilities and capital	**$140,612.4**	**100.0%**

Notes:

1. Other assets include cash and balances due from depository institutions; investment securities; federal funds sold and reverse repurchase agreements; bank premises, fixed assets, and other real estate; goodwill and other intangibles; and all other assets.
2. Other liabilities include federal funds purchased and repurchase agreements, other borrowed funds, and all other liabilities.

Source: Federal Deposit Insurance Corporation

UBS, Sallie Mae, and Optum: Three Largest Banks by Employment, Assets, and Income

In 2019, UBS Bank USA was the largest industrial bank headquartered in Utah, with $63.8 billion in assets, 45.4% of the 14-bank total. UBS offers financial services for the Swiss investment banking group by the same name. The second-largest industrial bank, Sallie Mae Bank, specializes in student loans and held $32.6 billion in assets in 2019, 23.2% of the statewide total. BMW Bank of North America and Optum Bank also had more than $10 billion in assets. Asset holdings of the smallest industrial bank were less than 0.1% of UBS's assets.

From 2018 to 2019, year-end total assets at Utah-chartered industrial banks increased 10.9%, from $126.8 billion to $140.6 billion. Meanwhile, net operating income rose 0.3% from the previous year, rounding to $2.9 billion both years. Median net operating income among Utah industrial banks was $106.3 million.

Based on year-end 2019 employment, the largest industrial bank employer headquartered in Utah was Sallie Mae Bank, although the vast majority of its 1,952 full-time-equivalent (FTE) employees worked outside the state. Four other Utah industrial banks had more than 300 FTE employees nationwide: UBS Bank, Optum Bank, EnerBank USA, and Merrick Bank.

In-state shares of Utah industrial bank employment were just over one-third in 2019, meaning most Utah industrial bank employees worked at offices in other states (see Table 5.2 in Section 5.3). Approximately 1,300 of the 4,140 FTE employees noted in Table 2.7 were associated with Utah offices (representing 1,824 in-state full- and part-time jobs). In-state shares are not available for individual banks.

Nearly $100 Billion in Insured Deposits and Over $100 Billion in Net Loans and Leases

Like other banks, industrial banks make loans and accept deposits. In 2019, total year-end loan and lease balances for Utah-headquartered industrial banks were $101.4 billion, 72.1% of total assets (see Table 2.8). Banks held the remaining 27.9% of assets ($39.2 billion) in investment securities, interest-earning account balances, and other financial instruments.

Total liabilities, which were primarily deposits, and equity capital together matched industrial banks' total assets. Of $114.0 billion in deposits industrial banks held on December 31, 2019, 87.7% were FDIC insured. Equity capital of $16.5 billion secured bank operations with bank reserves and ownership shares.

Net Operating Income Approaches $3.0 billion

During 2019, Utah-chartered industrial banks earned $2.9 billion in net operating income from their local, national, and global operations (see Table 2.9). The 14 banks received $7.1 billion in net interest income, already adjusted by interest paid to their depositors, but not yet adjusted by $1.4 billion in expected losses on loans and leases issued. Industrial banks earned $1.3 billion in noninterest income that includes fees and other revenue for a variety of commercial and personal financial services.

Utah industrial banks itemized two components of their total noninterest operating expenses: $560.6 million in total compensation to their employees nationwide and $52.3 million to rent and maintain equipped office space. These banks also paid $970.3 million in income taxes to federal, state, and local

Table 2.9: Income and Expenses of Utah-Chartered Industrial Banks, 2019
(Millions of Dollars)

Item	Bankwide Amounts[1]
Net interest income	$7,071.5
Provision for loan and lease losses	($1,414.0)
Noninterest income	$1,277.5
Employee compensation[2]	($560.6)
Premises and equipment expense[3]	($52.3)
Additional noninterest expense	($2,438.3)
Applicable income taxes[4]	($970.3)
Net operating income[5]	**$2,913.5**

Notes:
1. Expenses in parentheses.
2. Compensation includes bankwide wages, salaries, and benefits paid to employees working in any state.
3. Premises and equipment expense includes fixed assets, but not mortgage interest.
4. Federal, state, local, and foreign income taxes paid on items included in net operating income.
5. Net operating income excludes gains or losses from the sale of investment securities or extraordinary items.

Source: Federal Deposit Insurance Corporation

governments. The estimated in-state share of employee compensation was 35.7% (see Table 5.2 in Section 5.3). However, no estimates are available for Utah's share of bankwide income tax revenue, premises and equipment expense, or additional noninterest expense.[25]

2.6 Potential Entry of New Industrial Banks

In 2020, the FDIC broke the longstanding nationwide moratorium on new industrial bank formation. This development raised the prospect of financial and nonfinancial companies starting industrial banks in Utah, the only state to charter a new one since 2008. Since 2017, at least five out-of-state companies applied for industrial bank charters to enter Utah's banking sector (see Table 2.10).

In March 2020, the FDIC and Utah Department of Financial Institutions (DFI) approved applications from Nelnet and Square to establish industrial banks in the Salt Lake City area within 12 months. For the new banks' financial strength, the FDIC required $156.0 million in initial capital, the total for both applications.[26]

A month after the announcement, Nelnet and Square had not yet announced their anticipated Utah employment or other operational measures. If their industrial banks, named Nelnet Bank and Square Financial Services, were to have the same jobs-to-capital ratio and average compensation as Utah's 14 mature industrial banks in 2019, the two would begin with 54 jobs bankwide, paying a total of $5.3 million in annual compensation, in 2019 dollars. Their community investments and donations in Utah and other states could reach $10.2 million per year, estimated from Utah industrial banks' CRA-qualified amounts in 2019 as a share of their assets.

While Nelnet and Square both fit in the financial services industry, they are not traditional banks. San Francisco-based Square, Inc. offers financial services and mobile payment solutions to small businesses.[27] Square plans to open Square Financial Services for commercial lending in the first quarter of 2021.

Nelnet Bank will be an internet-only industrial bank for consumer lending, focused on student loans.[28] Besides issuing and servicing student loans, its parent, Nebraska-based conglomerate Nelnet, Inc., provides life and disability insurance for students and families, technology services in the education and nonprofit sectors, and telecommunications connectivity in Nebraska and Colorado.

Pending Applications

As of late June 2020, Utah's DFI had applications pending for two other new industrial banks: Rakuten Bank America and GreatAmerica Bank.[29] Applicants' business lines include commercial equipment finance and international e-commerce.

As of July 2019, Rakuten Card Co., Ltd., intended to start Rakuten Bank America with $400.0 million in initial capital.[30] The new Utah industrial bank would support Rakuten Card's e-commerce operations. Rakuten Card, a San Mateo, California credit card services company, is a subsidiary of Rakuten Group, Inc., a Tokyo-headquartered corporation offering fintech, e-commerce, digital content, and communications services in 30 countries. In March 2020, Rakuten withdrew its FDIC application, but not its DFI application, intending to resubmit after incorporating FDIC feedback on its original application.[31]

Table 2.10: Utah Industrial Bank Charter Applications, March 2020
(Millions of Dollars)

Proposed Utah Bank	Financial Services	Capital	Parent Company	Parent Headquarters	Status
Square Financial Services	Mobile payments	$56.0	Square	San Francisco, California	Approved
Nelnet Bank	Student loans	$100.0	Nelnet	Lincoln, Nebraska	Approved
Rakuten Bank America	Credit cards	$400.0	Rakuten Group	Tokyo, Japan	Pending
GreatAmerica Bank	Equipment financing	NA	GreatAmerica Financial Services	Cedar Rapids, Iowa	Pending

NA = not available
Note: Federal and state approval status as of June 26, 2020 for pending applications Utah's DFI received between September 2017 and March 2020. The four industrial bank headquarters would be in Utah, although their parent companies have out-of-state headquarters.
Source: Utah Department of Financial Institutions, Federal Deposit Insurance Corporation, and company websites

GreatAmerica Financial Services Corporation is a commercial equipment finance company with headquarters in Iowa and offices in three other Midwestern and Southern states. An industrial bank in Utah would expand its commercial lending and other banking services for manufacturers, vendors, and other clients.[32] GreatAmerica did not release initial capital amounts. For a lower bound estimate, DFI suggests each new industrial bank have a minimum of about $20 million in equity capital to support its initial operation as it acquires customers and revenue-generating assets.

Utah is not the only state with recent industrial bank charter applications. Nevada has one pending application, and nationwide, at least four would-be parent companies later withdrew applications they filed between 2017 and 2019, with the option to reapply.[33] Nevada is contemplating its first industrial bank opening since 2007. In August 2019, the Nevada Financial Institutions Division received an application to establish AmeriNat Bank from AmeriNational Community Services (AmeriNat).[34] With expertise in economic development and affordable housing financing, AmeriNat provides lending services for governments and nonprofits. AmeriNat is a subsidiary of O'Brien-Staley Partners, a Minnesota-based asset management and social impact investing firm.

Like the rest of this report, Section 2 has focused on industrial bank activity through 2019. Activity in 2020 and beyond will be the net effect of bank entry, expansion, downsizing, and exits. Outcomes are subject to developments in the banking sector, macroeconomic conditions given the coronavirus pandemic, and government policies affecting financial institutions.

Section 3. Several Former Industrial Banks Continue to Play Large Roles in Utah's Financial Sector

Over two dozen Utah banks of all sizes began as industrial banks before finding new paths in the past two decades. Their inflation-adjusted assets during their peak years as industrial banks totaled $353.9 billion. Only one of these banks was closed unable to meet its obligations to depositors; the remainder had smooth transitions.

Similar to the analysis of Utah's current industrial banks in Section 2, this section addresses the economic activity and impacts of former Utah industrial banks. In 2019, the direct successors to Utah-chartered industrial banks generated over 4,600 Utah jobs and $22.7 million in state and local tax revenue.

Table 3.1: Economic Impacts of Utah's Former Industrial Banks, 2019

(Millions of Dollars)

Category	Direct	Indirect and Induced	Total	Share of Utah Economy
Employment	1,332	3,323	4,655	0.23%
Personal Earnings	$133.8	$181.2	$315.0	0.29%
GDP	$237.5	$283.9	$521.4	0.30%

NA = not available

Note: Includes nine successor banks to 10 Utah industrial banks that exited since 2000 without closing (direct impacts), as well as former industrial bank-generated effects at other Utah companies (indirect and induced impacts). Employment measured as full- and part-time jobs. Earnings consist of employee wages, salaries, benefits, and self-employment income. Shares equal total economic impacts from Utah's former industrial banks divided by statewide employment, earnings, and GDP for all industries. Results based on former industrial bank employment, wages, and salaries in Utah from the fourth quarter of 2018 and the first three quarters of 2019.

Source: Kem C. Gardner Policy Institute analysis of data from the Utah Department of Workforce Services using the REMI PI+ economic model

References to "industrial banks" in Section 3 encompass FDIC-insured depository institutions the Utah Department of Financial Institutions referred to as "industrial loan companies" until 2004 and "industrial banks" thereafter. These financial institutions varied in purpose, size, and longevity.

3.1 Economic Impacts: Measuring Former Industrial Banks' Impacts on the Broader Utah Economy

This subsection focuses on the 2019 economic activity of the direct successors to Utah industrial banks that were active for at least one year since 2001. Nine successor banks continued to offer financial services from Utah offices after merging in former industrial banks. In 2019, they provided over 1,300 Utah jobs paying $133.8 million in compensation, an average of $100,400 each (see Table 3.1).

Table 3.2: Fiscal Impacts of Utah's Former Industrial Banks, 2019

(Millions of Dollars)

Impact in Utah	State	Local	Total
Tax revenues	$15.1	$7.6	$22.7
Government operating expenditures	$6.4	$1.5	$7.9
Net state and local revenue	**$8.7**	**$6.1**	**$14.8**

Note: Estimates based on total direct, indirect, and induced economic impacts of 10 former industrial banks still operating in Utah (see Table 3.1). Revenues estimated using effective tax rates for Utah as shares of personal income, employment, and company sales. Expenditure estimates based on government spending per capita.

Source: Kem C. Gardner Policy Institute analysis using the Gardner Institute fiscal model

Table 3.3: Former Utah Industrial Banks During Their Peak Years, 2001 to 2019
(Millions of 2019 Dollars, Maximum December 31 Bankwide Amounts as Utah-Chartered Industrial Banks)

Name	Headquarters	Peak Asset Balance		Peak Employment Level	
		Year	Total Assets	Year	FTE Employees
Allegiance Direct Bank (ADB)	Cedar City	2009	$64.2	2008	19
Advanta Bank Corp.	Draper	2008	$3,939.7	2006	873
American Express Centurion Bank	Salt Lake City	2017	$85,386.1	2001	1,335
American Investment Financial	Salt Lake City	2001	$195.8	2001	63
Arcus Bank	Salt Lake City	2009	$225.2	2009	7
Associates Capital Bank	Salt Lake City	2004	$506.1	2004	117
Capmark Bank	Midvale	2009	$12,410.0	2010	129
CIT Bank	Salt Lake City	2007	$4,057.5	2007	25
Escrow Bank USA	Midvale	2002	$70.6	2001	90
GE Capital Bank	Salt Lake City	2014	$32,110.9	2002	2,731
GMAC Bank	Sandy	2007	$33,728.1	2008	530
Goldman Sachs Bank USA	Salt Lake City	2007	$23,584.1	2007	1,334
Marlin Business Bank	Salt Lake City	2008	$100.0	2008	9
Merrill Lynch Bank USA	Salt Lake City	2007	$96,340.7	2007	1,419
Mill Creek Bank	Salt Lake City	2002	$4,323.0	2002	733
Morgan Stanley Bank	Salt Lake City	2007	$43,234.6	2007	75
Providian Bank	Salt Lake City	2001	$3,020.9	2001	13
Republic Bank	Bountiful	2009	$619.2	2008	8
Target Bank	Salt Lake City	2014	$151.5	2006	25
Transportation Alliance Bank (TAB)	Ogden	2011	$924.6	2012	258
Universal Financial Corp.	Salt Lake City	2002	$1,026.4	2002	230
Volkswagen Bank USA	Salt Lake City	2005	$943.8	2004	27
Volvo Comm. Credit Corp. of Utah	Salt Lake City	2003	$41.1	2002	26
Woodlands Commercial Bank	Salt Lake City	2007	$6,839.9	2010	26
YourBank.com	Salt Lake City	2001	$32.5	2001	3
Total (various years)			**$353,876.5**		**10,105**

FTE = full-time equivalent
Note: Includes Utah-chartered industrial banks that were open for at least one full year from 2001 to 2019. Names and headquarters are the most recent within banks' industrial bank years. Previous names include Arcus Financial Bank, CIT Online Bank, GE Capital Financial Inc., GMAC Automotive Bank, and Lehman Brothers Commercial Bank (renamed Woodlands Commercial Bank). See Table 3.4 for successor names and Table 5.1 for bank ID numbers. Bank-reported total assets include loans, leases, securities, and other liabilities payable to the bank.
Source: Utah Department of Financial Institutions, Federal Deposit Insurance Corporation, and Federal Financial Institutions Examination Council

How Loud Is the Echo? Former Industrial Banks' Direct, Indirect, and Induced Economic Impacts in Utah

In 2019, successors of Utah industrial banks generated 4,655 jobs, $315.0 million in personal earnings, and $521.4 million in GDP in total economic impacts. These combined direct, indirect, and induced effects represented 0.2% to 0.3% of the Utah economy. Utah's former industrial bank operations generated economic impacts that were significant to the state.

Fiscal Impacts: Former Industrial Banks Generated $22.7 Million in Taxes for State and Local Governments

Industrial bank successor banks help fund state and local governments. Former industrial banks' direct, indirect, and induced impacts of $521.4 million in 2019 GDP generated an estimated $22.7 million in tax revenue in Utah (see Table 3.2). The state received $15.1 million, and local governments received $7.6 million.

Additional government expenditures associated with Utah's former industrial banks partially offset the additional tax revenue they generated. Former industrial bank operations in 2019 supported a net increase in state and local government revenues of $14.8 million. This amount included $22.7 million in tax revenues (noted previously) minus $7.9 million in additional demand for state, county, and school district expenditures.

3.2 Former Industrial Banks in Their Peak Years Held $353.9 Billion in Total Assets

From 2001 to 2019, 25 former industrial banks operated with a Utah charter for at least one year (see Table 3.3). Their peak asset years as industrial banks ranged from 2001 to 2017. Peak employment years were sometimes earlier, ranging from 2001 to 2012. The available data describes entire industrial bank organizations nationwide without in-state subtotals.

The inflation-adjusted value of assets held by former industrial banks during their peak years totaled $353.9 billion. The median for total assets was $1.0 billion. Large banks, such as Merrill Lynch and American Express, brought the average peak balance up to $14.2 billion per bank.

The total employment for each bank's peak year was 10,105 full-time-equivalent (FTE) employees paid a collective $765.0 million in compensation. This employment represented approximately 13,800 full-time and part-time jobs based on the average nationwide jobs-to-FTE ratio for the finance sector during those years. Some portion of these employees worked in Utah. Historical in-state employment shares may have varied from the estimated 33.9% in-state share for Utah-headquartered industrial banks in 2019 (see Table 5.2 in Section 5.3).

Utah has been home to FDIC-insured industrial banks since the 1980s, some of which did not continue in-state as active industrial banks into the 21st century. For example, Citicorp Person-to-Person Financial Center of Utah was established in Salt Lake City in 1975 and gained FDIC insurance in 1983. Three years later, it merged into the commercial bank Citibank Utah, which merged into Key Bank in 1997. A second example is USAA Financial Services Association, which was established with FDIC insurance in 1988. In 1993, the Salt Lake City bank merged into USAA Federal Savings Bank, headquartered in San Antonio, Texas. Industrial banking operations moved to Nevada under the name USAA Savings Bank, which remained active in 2020.[35] USAA Financial Services Association still has an inactive industrial bank charter in Utah.

3.3 Industrial Banks' Second Lives: Utah Industrial Banks Reinventing Themselves as Commercial Banks

Of the 25 companies that relinquished their Utah industrial bank charters between 2001 and 2019, 14 became commercial banks (see Figure 3.1). For example, American Express, Goldman Sachs, and Morgan Stanley continued operating after a charter conversion, merger, or acquisition. Another 10 industrial banks closed down voluntarily, including GE Capital. Only one failed and required government deposit insurance assistance to liquidate, Advanta.

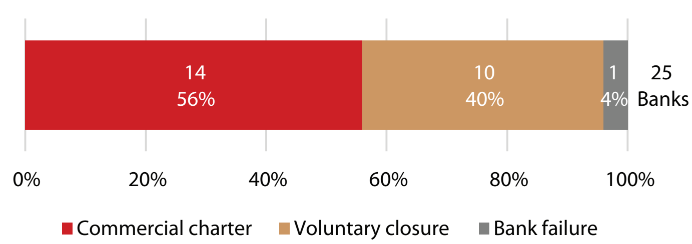
A handful of former industrial banks had a second transition up to 10 years after their industrial bank charters became inactive.[36] Of the successors to the 14 former industrial banks that transitioned to a commercial charter, nine remain active, two merged into another bank, two failed, and one closed voluntarily.

Distinctions between exit categories involve operational continuity, changes in in-state economic activity, and the customer experience.[37] Conversion to a commercial charter affects regulatory and management processes for industrial bank leadership without necessarily affecting customer service, staffing, or the scale of bank operations. In a merger or acquisition, one or more banks assume at least 95% of industrial bank assets. Since successor banks often plan to continue operations in the same market, disruption from merger or acquisition exits may be small for former industrial bank customers and employees, perhaps with gradual or delayed adjustments. Still—as with many banks and other organizations—relocation, downsizing, or expansion are all possible at some point.

In the case of voluntary closure or failure, a disbanding industrial bank transfers to successor institutions any balances it does not return to customers or otherwise liquidate. A closing bank places liabilities such as deposits with other banks, sells assets such as loans to other banks or nonfinancial institutions, and returns bank equity to capital investors with gains or losses. Management of former industrial bank accounts may be fragmented among in-state and out-of-state offices. Wherever financial services resume, successor institutions agree to fulfill prior obligations to customers post-transition, though sometimes with proposed changes to terms of service. The ultimate destinations of former industrial banks' components and accounts can be difficult to identify after voluntary liquidation or bank failure.

The 25 former Utah industrial banks in Table 3.4 started between 1978 and 2008 and exited the industrial banking sector between 2002 and 2018, after which 14 continued on in an identifiable form. As of December 31, 2019, nine successor banks still operated in Utah following an industrial bank merger, acquisition, or conversion to a commercial charter, some with the same name and address.[38] Six of the successor banks have Utah headquarters like their former industrial banks, while the other three—Bank of America, Citibank, and Goldman Sachs—have out-of-state headquarters and in-state operations.

Figure 3.1: Utah Industrial Bank Exits by Type, 2001 to 2019
(Subsequent Status of Industrial Banks)



Note: Includes 25 industrial banks headquartered in Utah and open for at least one full year from 2001 to 2019. "Commercial charter" exits include conversions from an industrial bank charter to a commercial bank charter, as well as mergers or acquisitions without government assistance where a commercial bank is the successor institution. See Table 3.4 for individual banks.
Source: Utah Department of Financial Institutions, Federal Deposit Insurance Corporation, and Federal Financial Institutions Examination Council

Table 3.4: Establishment and Exit of Former Utah Industrial Banks, 2001 to 2019

Name	Established	Exited	Type of Exit	Successor Bank
Allegiance Direct Bank (ADB)	2005	2010	Voluntary closure	(None)
Advanta Bank Corp.	1991	2010	Bank failure	(None)
American Express Centurion Bank	1989	2018	Commercial charter	American Express National Bank
American Investment Financial	1981	2004	Commercial charter	American Investment Bank, National Association (inactive)
Arcus Bank	2008	2010	Voluntary closure	(None)
Associates Capital Bank	1993	2005	Commercial charter	Citibank, National Association
Capmark Bank	2003	2013	Voluntary closure	(None)
CIT Bank	2000	2008	Commercial charter	CIT Bank, National Association
Escrow Bank USA	1999	2009	Voluntary closure	(None)
GE Capital Bank	1993	2016	Voluntary closure	(None)
GMAC Bank	2004	2009	Commercial charter	Ally Bank
Goldman Sachs Bank USA	2004	2008	Commercial charter	(Same name)
Marlin Business Bank	2008	2009	Commercial charter	(Same name)
Merrill Lynch Bank USA	1988	2009	Commercial charter	Bank of America, National Association
Mill Creek Bank	1997	2003	Voluntary closure	(None)
Morgan Stanley Bank	1990	2008	Commercial charter	Morgan Stanley Bank, National Association
Providian Bank	1996	2003	Commercial charter	Washington Mutual Bank (inactive)
Republic Bank	1999	2009	Commercial charter	(Same name, inactive)
Target Bank	2005	2015	Voluntary closure	(None)
Transportation Alliance Bank	1998	2015	Commercial charter	(Same name)
Universal Financial Corp.	1978	2006	Commercial charter	Citibank, National Association
Volkswagen Bank USA	2002	2007	Voluntary closure	(None)
Volvo Comm. Credit Corp. of Utah	2000	2007	Commercial charter	Proficio Bank (inactive)
Woodlands Commercial Bank	2005	2011	Voluntary closure	(None)
YourBank.com	2001	2002	Voluntary closure	(None)

Note: Includes industrial banks headquartered in Utah and open for at least one full year from 2001 to 2019. "Commercial charter" exits include conversions from an industrial bank charter to a commercial bank charter, as well as mergers or acquisitions without government assistance where a commercial bank is the successor institution. Two industrial banks became FDIC insured years after they were established: American Investment Financial in 1986 and Universal Financial Corp. in 1985. JP Morgan Chase Bank purchased Washington Mutual Bank assets in 2008 after FDIC intervention.
Source: Utah Department of Financial Institutions, Federal Deposit Insurance Corporation, and Federal Financial Institutions Examination Council

Section 4. National Trends: Utah-Chartered Industrial Banks' Rising Share of U.S. Banking Segment

Utah has become the nationwide center for the industrial banking segment of the U.S. financial sector. In 2019, Utah-chartered industrial banks held 93.5% of the country's industrial banking assets. For decades, the state has provided a supportive regulatory environment for its well-developed financial sector.[39] Of the states with active industrial bank charters, Nevada is home to banks most similar in character to Utah industrial banks, followed by California and Hawaii.

The seven states with any industrial banks or related financial institutions in the past two decades have their own names for these institutions. The second-most common name, after "industrial banks," is "industrial loan company" (ILC).[40] In keeping with their status and function as "banks," Section 4 uses "industrial banks" as shorthand for industrial banks, ILCs, and similar financial institutions. Still, the purpose and size of industrial banks (in the umbrella-term sense) vary considerably. For example, some of these institutions offer consumer lending locally, and others are large-volume commercial lenders with customers nationwide. Not all industrial banks accept deposits.[41]

In 2019, Utah, Nevada, and California were home to both consumer lending- and commercial lending-focused industrial banks (see Table 4.1). Hawaii, Indiana, and Minnesota each exhibited one specialization type. FDIC categories reflect banks' year-end asset composition.[42]

While most industrial banks operated entirely from their headquarters office during 2019, industrial banks in four states, not including Utah, also provided services at brick and mortar branch locations (see Figure 4.1). The California and Minnesota industrial banks with branch offices had three in-state branches each; Hawaii's Finance Factors had 13 branch offices on five U.S. islands, including Guam; and Nevada's Beal Bank had 22 branch offices in 19 states.

Table 4.1: Industrial Bank Asset Specialization, 2019
(Number of Financial Institutions)

Specialization	California	Hawaii	Indiana	Minnesota	Nevada	Utah	U.S. Total
Consumer lending	**2**	**0**	**1**	**1**	**1**	**7**	**12**
Credit card	0	0	0	0	0	2	2
Mortgage	0	0	0	1	1	0	2
General	2	0	1	0	0	5	8
Commercial lending	**1**	**1**	**0**	**0**	**1**	**4**	**7**
Other	**0**	**0**	**0**	**0**	**2**	**3**	**5**
Total	**3**	**1**	**1**	**1**	**4**	**14**	**24**

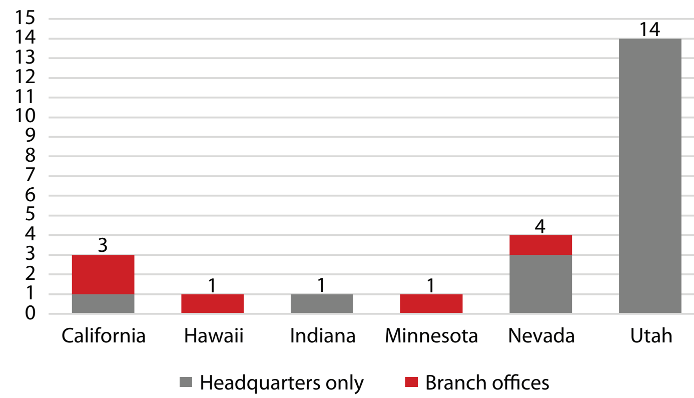
Note: Mutually exclusive categories assigned as of December 31, 2019 include industrial banks, industrial loan companies, and similar financial institutions.
Source: Federal Deposit Insurance Corporation

Section 4 addresses state trends in industrial bank employment and employee compensation from 2001 to 2019. Due to data limitations, most findings in Section 4 address bankwide economic activity reported by the industrial headquarters state, rather than place of work respecting state boundaries.

Utah-chartered industrial banks accounted for more than half of the total U.S. industrial bank employment and compensation during 14 of the 19 years from 2001 to 2019. During that period, the share of U.S. industrial bank employment at banks with Utah headquarters rose from 65.5% to 87.4% (see Figure 4.2). The lowest Utah share during these years was 37.7% in 2005.

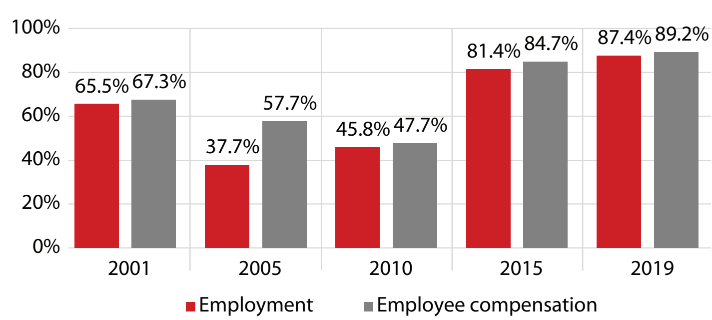
The rise in Utah's share of industrial bank employee compensation was similar to its employment trend, going from 67.3% in 2001 to 89.2% in 2019. With an intervening low of 47.7% in 2010,

Figure 4.1: Industrial Banks with Branch Offices, 2019
(Number of Financial Institutions)



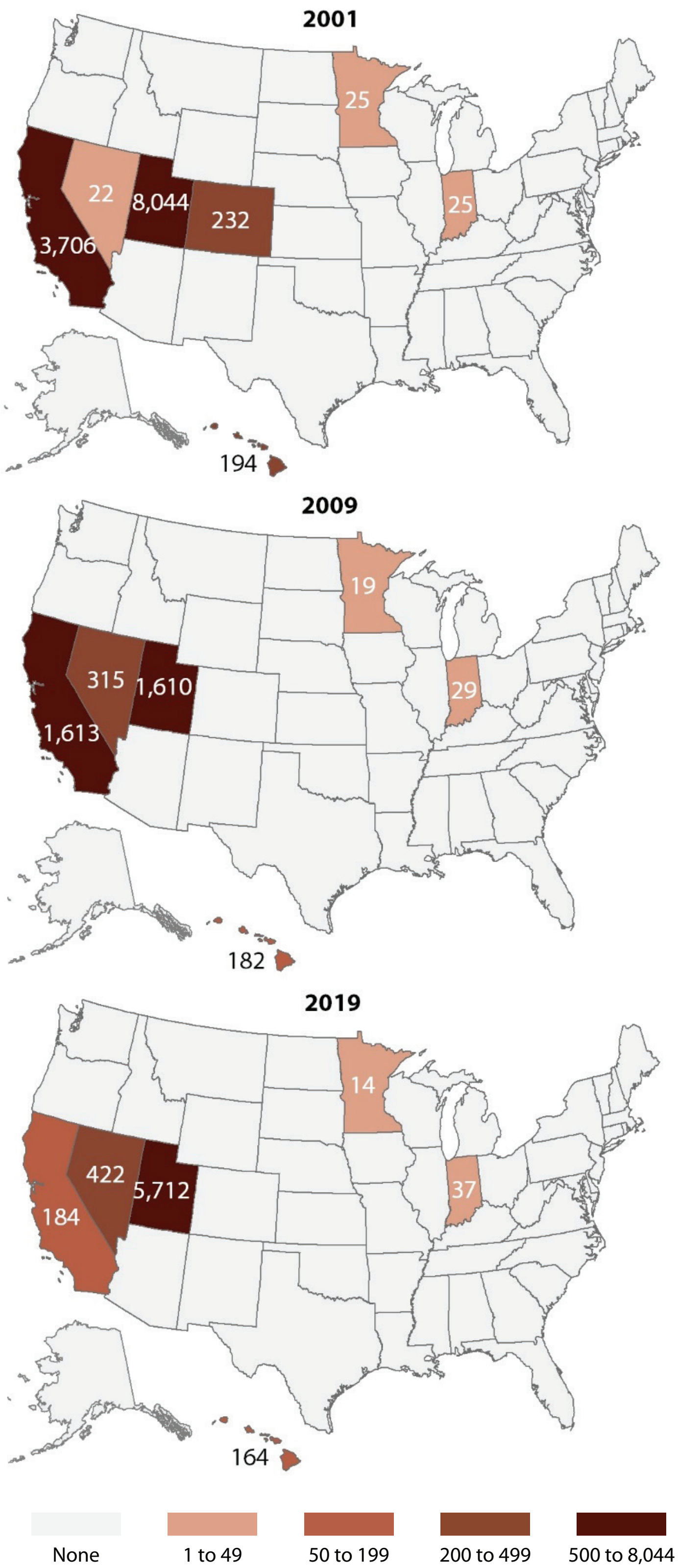
Note: The five banks with branch offices had between four and 23 offices each, median of four, including headquarters.
Source: Federal Deposit Insurance Corporation

Figure 4.2: Utah Share of U.S. Industrial Bank Employment and Compensation, Selected Years 2001 to 2019
(Utah-Headquartered Industrial Banks as a Share of U.S. Total)



Note: SIncludes industrial banks, industrial loan companies, and similar financial institutions. Since these banks reported year-end employment and full-year compensation bankwide, shares are based on chartering state, not workplace locations, for out-of-state branch offices. Compensation includes employee wages, salaries, and benefits.
Source: Federal Deposit Insurance Corporation and Federal Financial Institutions Examination Council

Figure 4.3: Industrial Bank Employment by State
(Year-End Bankwide Jobs in the U.S. by Headquarters State)



Note: Includes industrial banks, industrial loan companies, and similar financial institutions active as of December 31. Since these banks report bankwide employment, amounts are by chartering state, not workplace location, for out-of-state branch offices. Total full- and part-time jobs are estimates based on December 31 full-time-equivalent employee counts.
Source: Utah Department of Financial Institutions and Federal Deposit Insurance Corporation

Utah industrial banks' compensation share never fell quite as far as their employment share did during this period. Utah's compensation share was higher than its job share in every year but three from 2001 to 2019, which reflected the historical trend of above-average pay at industrial banks with Utah headquarters compared with industrial banks headquartered in other states.

4.1 Following 2008 Recession, Employment Expands at Utah's Industrial Banks and Fades Elsewhere

Five western states and two Midwestern states had active industrial bank charters between 2001 and 2019. In 2001, industrial banks provided an estimated 12,300 jobs nationwide, mostly at banks with Utah or California headquarters (see Figure 4.3). From a two-decade peak of 14,600 jobs the following year, employment declined to 3,800 in 2009, when Utah- and California-chartered banks each had barely more than 1,600 jobs. After a two-decade employment trough in 2011, years of strong growth led to industrial bank employment of 5,700 jobs in 2019, a large majority created by banks headquartered in Utah.

How Much Industrial Banking Activity Have Individual States Seen Since 2001?

From 2001 to 2019, industrial bank employment gradually came to an end in Colorado; fell precipitously in California; and declined moderately in Hawaii, Indiana, Minnesota, and Utah; and rose considerably in Nevada.

- **Colorado** was home to five industrial banks providing over 200 jobs in 2001, the last two of which closed or converted to a commercial bank in 2009.
- **California** had 20 industrial banks in 2001 and 10 in 2009. Only three remained in 2019. California-chartered industrial banks' two-decade employment peak of over 6,600 jobs came in 2006, one of four years during which the state's industrial banks created more jobs bankwide than the industrial banks of any other state.
- In **Hawaii,** two small industrial banks closed in 2002 and 2003. Employment at its remaining industrial bank, established in 1952, declined from 150 jobs in 2004 to about 120 jobs in 2019, mostly during the aftermath of the financial crisis of 2007.
- **Indiana** had one industrial bank with about 25 to 35 jobs bankwide throughout this nearly two-decade period.[43]
- **Minnesota's** peak employment year was 2002, when industrial banks headquartered there provided about 20 jobs. The smaller of Minnesota's two industrial banks closed during 2008.
- **Nevada** chartered three new industrial banks and saw two exits from 2001 to 2019. Industrial bank employment in the state reached a peak in 2013 with just over 400 jobs then settled to about 300 jobs in 2019. Among the state's four

active industrial banks that year, Eaglemark Savings Bank and Toyota Financial Savings Bank were the only two commercially owned industrial banks outside of Utah.

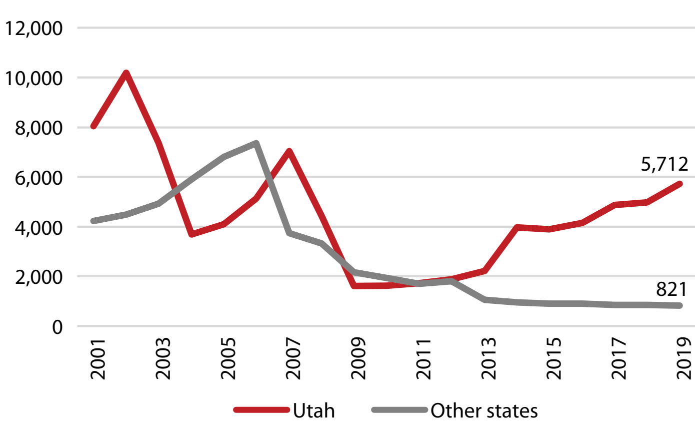
- **Utah** experienced a wave of industrial bank exits with the financial crisis of 2007, including the voluntary closure of a Utah industrial bank owned by Lehman Brothers. The Utah-chartered industrial bank count dropped from a two-decade peak of 31 industrial banks in 2006 to 20 industrial banks in 2010, but the remaining banks experienced strong job growth thereafter. Through the entire period, all five of the state's commercially owned industrial banks stayed intact. The next subsection addresses Utah industrial bank employment trends.

Utah-Chartered Industrial Banks Log 10 Years of Strong Employment Growth Following a Wave of Industrial Bank Exits

The number of industrial banks in Utah declined from 23 at the beginning of 2001 to 14 in 2019. The net change of nine banks between these years belies the churn of 27 industrial banks exiting and 18 starting. Even through challenging periods for the U.S. banking sector, Utah industrial banks experienced more job growth (or smaller employment declines) than industrial banks headquartered in other states. Utah-chartered industrial banks' share of U.S. industrial bank employment rose by more than 20 percentage points over the 19-year period.

Overall, employment at Utah-chartered industrial banks declined from 2001 to 2019, but the most recent 10 years featured strong employment growth (see Figure 4.4). From 2001 to its two-decade low point in 2009, Utah industrial banks' collective bankwide employment fell from about 8,000 jobs to about 1,600 jobs as two recessions occurred. Many of the employees no longer employed at industrial banks continued working in the same location under a commercial charter and perhaps new ownership. In a marked reversal from previous years, employment in Utah industrial banks more than doubled from 2009 to 2019, surpassing 5,700 jobs.

Figure 4.4: Industrial Bank Employment, 2001 to 2019
(Year-End Bankwide Jobs in the U.S. by Headquarters State)



Note: Includes industrial banks, industrial loan companies, and similar financial institutions active as of December 31 of each year. Since these banks report bankwide employment, amounts are by chartering state, not workplace location. In 2019, one-third of Utah-chartered industrial bank jobs were in-state. Total full- and part-time jobs estimated from full-time-equivalent employee counts.
Source: Utah Department of Financial Institutions, Federal Deposit Insurance Corporation, and Federal Financial Institutions Examination Council

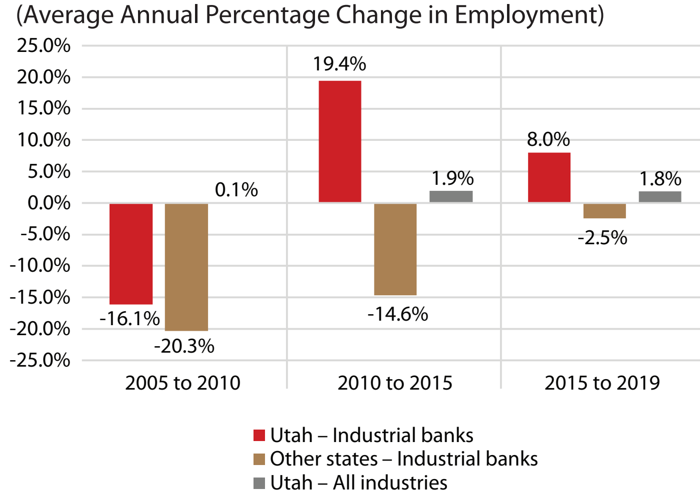
Job Growth Rate at Utah-Chartered Industrial Banks Exceeds Statewide Average for All Industries Since the 2007 Recession

Employment trends for industrial banks have varied greatly by state and over time, largely due to industrial bank conversions to commercial banks, macroeconomic forces, and regulatory changes. Figure 4.5 reviews job growth for industrial banks headquartered in Utah and other states over three sequential time periods since 2005. Utah results represent total industrial bank employment for all offices of Utah-headquartered industrial banks, including those outside the state.

From 2005 to 2010, a financial crisis and unusually severe recession drove steep job losses among industrial banks, while job growth for the Utah economy as a whole averaged 0.1% per year. Because of downsizing and exits, employment at industrial banks with Utah headquarters declined at an average rate of 16.1% per year, which was several percentage points smaller than the rate of job losses for other states' industrial banks.

Of the 17 industrial bank exits in Utah and 11 exits in other states during this period, many were charter conversions or

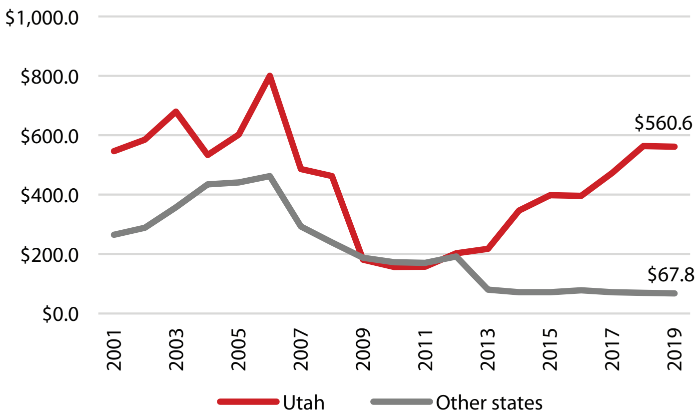
Figure 4.5: Job Growth at Industrial Loan Corporations, 2005 to 2019
(Average Annual Percentage Change in Employment)



Note: Includes bankwide employment reported by active industrial banks' chartering states, not workplace locations. To approximate the four-quarter average employment measure for all industries, industrial bank employment for a given year is the average of December 31 jobs in the current and previous years. All industries amount for 2019 forecasted based on annual employment growth rate in 2018. Percentage changes are compound average annual growth rates.
Source: Utah Department of Financial Institutions, Federal Deposit Insurance Corporation, Federal Financial Institutions Examination Council, and U.S. Bureau of Economic Analysis

Figure 4.6: Total Employee Compensation Paid by Industrial Banks, 2001 to 2019

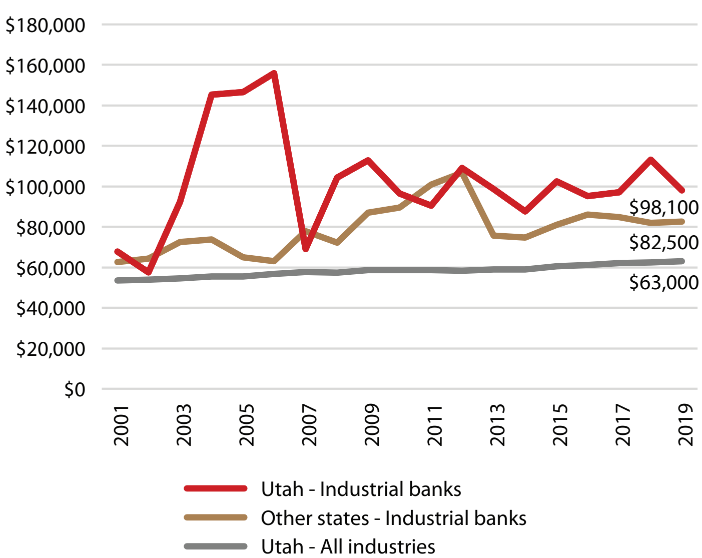
(Millions of 2019 Dollars Bankwide by Industrial Bank Headquarters State)



Note: Includes industrial banks active as of December 31 of each year. Amounts assigned to banks' chartering state, not their employees' places of work, for branch offices located in other states. Annual compensation includes employee wages, salaries, and employer-paid benefits.
Source: Utah Department of Financial Institutions, Federal Deposit Insurance Corporation, and Federal Financial Institutions Examination Council

Figure 4.7: Average Annual Compensation at Utah Industrial Banks, 2001 to 2019

(2019 Dollars per Job by Industrial Bank Headquarters State)



Note: Industrial bank averages are based on full-year compensation and year-end, bank-wide employment, both reported by headquarters state, not place of work for branch offices outside Utah. Amounts rounded to the nearest $100. Industrial bank averages also include industrial loan companies and similar financial institutions. All industries amount for 2019 forecasted based on annual inflation-adjusted compensation growth rate in 2018. Compensation includes employee wages, salaries, and benefits.
Source: Utah Department of Financial Institutions, Federal Deposit Insurance Corporation, Federal Financial Institutions Examination Council, and U.S. Bureau of Economic Analysis

bank mergers rather than closures. For example, in 2008 the Federal Reserve facilitated the conversion of a few large Utah industrial banks to commercial bank charters as it guaranteed their liquidity amid extraordinary market conditions: CIT Group, GMAC Bank (renamed Ally Bank), Goldman Sachs, and Morgan Stanley.[44] The next year, Merrill Lynch Bank merged into Bank of America. Through these transitions, financial leadership limited disruptions to bank customers, staff, suppliers, and owners.

From 2010 to 2015, Utah industrial banks rebounded strongly, with 19.4% average annual job growth. At industrial banks headquartered in other states, employment reductions continued, as seven of the remaining 17 non-Utah industrial banks exited, most via merger. Lastly, from 2015 to 2019, Utah industrial banks' job growth moderated somewhat to 8.0% annual growth, still far above the statewide average for all industries of 1.8% per year. Meanwhile, employment at industrial banks from other states stabilized, with only small declines in their job counts.

4.2 Nine Years of Growth: Utah Industrial Banks' Compensation to Their In-State and Out-of-State Employees

Industrial banks in the U.S. provided $628.3 million in employee compensation in 2019, 89.2% of it from Utah-chartered industrial banks. Average compensation per employee was $96,200 nationwide, with Utah industrial banks paying 18.9% more than the bankwide average for industrial banks headquartered in other states. Compensation includes employee wages, salaries, and benefits.

While total employee compensation at Utah-chartered industrial banks was volatile in the first decade of the 2000s, their compensation showed consistent and dramatic growth through the 2010s. Industrial bank compensation rose from an inflation-adjusted $546.1 million in 2001 to $800.2 million in 2006 (see Figure 4.6). During the Great Recession, Utah compensation fell precipitously to $156.8 million in 2011. Then, showing a strong recovery not observed collectively for industrial banks in other states, Utah-chartered industrial banks' compensation more than tripled in eight years, reaching $560.6 million in 2019.

For all but three years from 2001 to 2019, average bankwide compensation at Utah-chartered industrial banks exceeded the average of the other states with industrial banks (see Figure 4.7). For these nearly two decades, average inflation-adjusted compensation for Utah industrial banks was 31.3% higher than that of other states.

Inflation-adjusted employee compensation swung dramatically at Utah industrial banks in the first decade and fluctuated moderately during the 2010s. In 2019, Utah industrial bank compensation averaged $98,100 per employee bankwide, including out-of-state offices. This amount was 18.9% above the $82,500 average for industrial banks headquartered in other states.

From 2001 to 2019, Utah-headquartered industrial banks paid their employees more than the average for other companies in the state. In 2019, the average employee compensation of $98,100 at Utah industrial banks nationwide was 55.8% above the in-state average of $63,000 per worker for all industries in Utah.

In-state offices for Utah-chartered industrial banks paid their employees more than did Utah industrial banks' out-of-state offices. During 2019, in-state jobs at industrial banks—which made up one-third of bankwide employment for Utah-headquartered industrial banks—paid an average of $105,400 each, 9.6% more than the bankwide average compensation (see Section 2.2). Historical in-state employment and compensation data is not available. Also, public data on industrial banks does not address the distribution of compensation dollars among industrial bank employees in different pay grades, either bankwide or in-state.

Section 5. Research Methods

For conceptual clarity and research transparency, this section addresses economic and banking terms, data preparation processes, and economic impact modelling.

5.1 Terms

An industrial bank—also known as an industrial loan company, especially outside of Utah and California—is a federally insured, state-chartered financial institution whose parent holding company can be a financial, nonfinancial (commercial), or hybrid institution. Like other banks and credit unions, industrial banks can make loans and accept deposits. They are similarly regulated by the Federal Insurance Deposit Corporation (FDIC). However, state governments, rather than federal agencies, oversee certain aspects of the regulatory process for the non-industrial bank portions of industrial bank holding companies. Industrial banks became more common in the U.S. since the 1980s, and the term gained official currency in Utah and California in the early 2000s. In Sections 3 and 4, we use "industrial bank" as an imprecise umbrella term for industrial banks, industrial loan companies, and related state-chartered financial institutions, since a large majority of these are industrial banks, especially considering their employment and total asset shares.

An industrial loan company (ILC) is a state-chartered financial institution related to industrial banks. Over the decades, ILCs have featured divergent business models and financial service offerings, depending on market conditions and federal and state regulation. Not all ILCs have accepted deposits, and some have held federal, state, private, or no deposit insurance. Going back to 1910, ILCs were precursors to industrial banks, with relatively few exceptions until the 1980s. By 2020, only a handful of ILCs in the U.S. were not industrial banks by name or in character. The related term "industrial loan corporation," common in Utah, especially before 2005, is also abbreviated ILC. "Industrial loan company" and "ILC" have been used as umbrella terms to loosely refer to industrial banks, ILCs (either meaning), and various related financial institutions in the U.S.

Employment is a measure of the average number of full-time and part-time jobs. Companies report their employment to the Utah Department of Workforce Services by place of work, not by place of residence. Banks report their employment to the FDIC in terms of full-time-equivalent employees, with the hours part-time employees work counted as a fraction of full-time hours. While there is no self-employment at industrial banks, self-employed workers are part of their indirect and induced economic impacts in other sectors.

Compensation is the sum of wage and salary disbursements and supplements to wages and salaries received by employees. Supplements include such items as employer contributions for employee health insurance policies and retirement accounts.

Personal earnings consist of compensation and self-employment income. Earnings equal the sum of wage and salary disbursements, supplements to wages and salaries, and proprietors' income. No industrial banks are proprietorships, but self-employment income is part of industrial banks' indirect and induced economic impacts.

Gross domestic product (GDP) is a measure of total economic activity in a region. A "product" can be either a service or a tangible good. GDP avoids double-counting intermediate sales and captures only the value added to final products by capital and labor in a region, such as the state of Utah.

An economic sector is a category for grouping companies with some commonality. The hierarchical North American Industry Classification System (NAICS) provides standard groupings. For example, the finance sector includes all industries that primarily provide financial services. Since industrial banks do not have a distinct NAICS industry within the finance sector, we identify each industrial bank based on its charter type.

Economic impacts refer to the economic activity in a geographic region generated by some source—in this case, industrial banks—for which we estimate four components: *direct impacts,* which involve employee compensation and other spending of industrial banks in Utah; *indirect impacts,* which include the relevant portion of spending at companies that provide inputs to industrial banks; *induced impacts,* which include the household spending of industrial bank workers and the relevant portion of spending by workers at companies that are part of the indirect impacts; and *fiscal impacts,* which include tax revenue and government expenditures associated with the combined direct, indirect, and induced impacts.

The Community Reinvestment Act (CRA) is a federal law from 1977 that requires financial institutions that hold deposits to report how they help address the credit and other needs of lower-income communities where they operate. Bank size and type determine the criteria and frequency of public CRA reports and which federal oversight agency evaluates them—whether the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, or the Federal Reserve System.[45]

The Federal Deposit Insurance Corporation (FDIC) is an independent government agency that oversees U.S. financial institutions. The FDIC insures qualified deposits and regulates banks in the interest of financial sector stability and consumer protection.

The Federal Financial Institutions Examination Council (FFIEC) is an interagency body responsible for U.S. reporting systems and performance standards for the federal regulation of financial institutions. FFIEC also provides public access to banking data. Governance and participation come from the Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Consumer Financial Protection Bureau.

5.2 Identifying Industrial Banks in Utah and Other States

The Utah Department of Financial Institutions (DFI) website provides a list of current industrial banks and pending applications. DFI staff also shared its compiled records of timelines and quarterly asset balances for current and former Utah industrial banks from 2005 to 2019.[46] Timeline details included bank entry and exit dates, as well as type of exit. DFI's offline archives include copies of its annual "Report of the Commissioner of Financial Institutions, State of Utah" going back several decades. We reviewed reports from fiscal years 2000 through 2005 to avoid missing any of the earlier Utah industrial banks or industrial loan corporations.

Three sources helped us identify industrial banks and related financial institutions outside Utah. The Federal Financial Institutions Examination Council's National Information Center provides downloadable lists of all active and closed financial institutions in the U.S. These include basic identifying information and dates for bank establishment, becoming FDIC-insured, name changes, charter conversions, mergers, and closures.

A report on industrial banks from the Utah Center for Financial Services provided a list of current and former banks by state from 2005 to 2017.[47] The report's annual counts and contextual information corroborated what we found in federal data. Also, an FDIC list of active industrial banks as of 2007 similarly guided us in data searches and helped avoid omitting any former industrial banks in our historical analysis.[48]

From these sources the Gardner Institute created a dataset with historical information for the 80 industrial banks chartered and headquartered in one of seven U.S. states for at least one year between 2001 and 2019. Following each bank name in Table 5.1 is a unique RSSD ID number from the Federal Reserve that links to any previous names with the same ID, and cross-references with any successor institutions in banking data systems. We group industrial banks by their status at the end of 2019:

- *Industrial Bank:* Financial institution with an industrial bank charter holding assets and employing people in 2019
- *Commercial Bank:* A former industrial bank that through merger, acquisition, or charter conversion, became part of an active financial institution that is not an industrial bank
- *Closed:* A former industrial bank that discontinued bank operations through voluntary dissolution or bank failure[49]

5.3 Compiling Data

This section addresses methods for preparing industrial bank information from federal and Utah government sources for the banks in Table 5.1.

Bankwide Data on Financial Institutions

Data from 2019 and prior years for U.S. industrial banks comes from official self-reported data in quarterly "consolidated reports of condition and income" (call reports) submitted to the Federal Financial Institutions Examination Council (FFIEC). Call reports include end-of-period employment counts; asset, deposit, and capital balances; and total period income and expenses.

We compiled most employment, compensation, assets, and other data points for this report through the Federal Deposit Insurance Corporation (FDIC) institution directory.[50] This tool offers bank identification and statistics for virtually any active or closed individual financial institution that has been FDIC insured.

The FFIEC provides a Central Data Repository with individual call report files since March 31, 2001, with an earlier release date than FDIC for the fourth quarter of 2019.[51] FFIEC includes a few banks that are not in the FDIC directory.

Banks report their employment as full-time-equivalent (FTE) employees at the end of each period. For several tables and charts in the report, we adjusted FTE employee counts to match the employment measure used in the economic impact analysis: the total number of full-time and part-time jobs (jobs). For each year, we multiplied FTE employee counts by U.S. jobs-to-FTE ratios from the BEA for NAICS industries 521 to 522, both

Table 5.1: U.S. Current and Former Industrial Banks Active Between 2001 and 2019

Chartering State, 2019 Status, Bank Name, and RSSD ID
California (22)
Industrial Bank (3)
Balboa Thrift and Loan Association (696168)
Community Commerce Bank (299868)
Hatch Bank (733661)
Commercial Bank (10)
CapitalSource Bank (3806100)
Centennial Bank (1421095)
Circle Bank (1436473)
Finance and Thrift Company (803461)
Franklin Bank of California (543066)
Golden Security Bank (613464)
Home Bank of California (118660)
Independence Bank (3295320)
Silvergate Bank (1216826)
Tustin Community Bank (1418255)
Closed (9)
Affinity Bank (1187391)
eosbank (1160424)
Fireside Bank (612364)
First Fidelity Investment and Loan (803966)
First Security Business Bank (1401903)
Fremont Investment and Loan (762661)
Imperial Capital Bank (1349890)
Southern Pacific Bank (1029325)
Tamalpais Bank (1890598)
Colorado (5)
Commercial Bank (3)
5Star Bank (455253)
First Community Industrial Bank (849553)
Home Loan State Bank (499154)
Closed (2)
First Financial Bank (830458)
Trust Industrial Bank (2726443)
Hawaii (3)
Industrial Bank: Finance Factors, Ltd. (827560)
Commercial Bank: GECC Financial Corp. (787860)
Closed: OFC, Inc. (539368)
Indiana (1)
Industrial Bank: Morris Plan Co. of Terre Haute (1826382)
Minnesota (2)
Industrial Bank: Minnesota First Credit & Savings (821559)
Commercial Bank: American Savings, Inc. (2581558)
Nevada (6)
Industrial Bank (3)
Beal Bank USA (3284397)
Eaglemark Savings Bank (2605566)
Toyota Financial Savings Bank (3287660)
USAA Savings Bank (2502656)
Closed (2)
Fifth Street Bank (3599886)
Security Savings Bank (2901688)

Chartering State, 2019 Status, Bank Name, and RSSD ID
Utah (41)
Industrial Bank (14)
BMW Bank of North America (2850722)
Celtic Bank (2998576)
Comenity Capital Bank (3224580)
EnerBank USA (3121072)
First Electronic Bank (2947556)
LCA Bank Corporation (3407084)
Medallion Bank (3228908)
Merrick Bank (2615190)
Optum Bank, Inc. (3202702)
Sallie Mae Bank (3394278)
The Pitney Bowes Bank, Inc. (2649177)
UBS Bank USA (3212149)
WebBank (2576134)
WEX Bank (2700984)
Commercial Bank (13)
Ally Bank (3284070)
American Express Centurion Bank (1394676)
American Investment Financial (496573)
Associates Capital Bank (2035716)
CIT Bank (2950677)
Goldman Sachs Bank USA (3278305)
Marlin Business Bank (3716852)
Merrill Lynch Bank USA (1225800)
Morgan Stanley Bank, National Assoc. (1456501)
Republic Bank (2854113)
Transportation Alliance Bank (TAB) (2736219)
Universal Financial Corporation (193470)
YourBank.com (2973715)
Closed (14)
Advanta Bank Corp. (1916751)
Allegiance Direct Bank (ADB) (3370366)
Arcus Bank (3817067)
Capmark Bank (3181197)
eCharge Bank (1213704)
Escrow Bank USA (3803789)
First USA Financial Services, Inc. (2343402)
GE Capital Bank (2017570)
Mill Creek Bank (263645)
Providian Bank (2454027)
Target Bank (3296149)
Volkswagen Bank USA (3080852)
Volvo Commercial Credit Corp. of Utah (2908575)
Woodlands Commercial Bank (3376461)

Note: Bank names are the most recent for the period during which an institution held an industrial bank, industrial loan company (ILC), or similar charter. "Commercial bank" category does not include successors to former industrial banks (see Table 3.4 in Section 3.3). Section 3.2 mentioned two noteworthy ILCs active in Utah before 2001: Citicorp Person-to-Person Financial Center of Utah (RSSD-ID 407476) merged into a commercial bank, and USAA Financial Services Association (RSSD-ID 1191455) moved to Nevada, where it is an active industrial bank.
Source: Utah Department of Financial Institutions, Federal Deposit Insurance Corporation, Federal Financial Institutions Examination Council, Barth and Sun (2018), Bovenzi (2007), and California Department of Business Oversight (2000–2006)[52]

combined, which include public and private banking services. Thus, we assumed industrial bank staffing in Utah and the other six states had a similar full- and part-time composition (or hours worked profile) compared with contemporary banking organizations. Separate data for the credit intermediation and related activities industry (NAICS 522), which is a good match with industrial banking, was not available. Including the smaller central bank "industry," the Federal Reserve System, (NAICS 521) should not dramatically affect our employment adjustment.

Throughout the report, we adjusted dollar amounts for compensation, assets, and other measures from 2018 and earlier to account for inflation. We used the U.S. consumer price index from the U.S. Bureau of Labor Statistics and labelled inflation-adjusted values "2019 dollars."

In-State Economic Activity of Utah Industrial Banks

For economic and fiscal impacts in Sections 2.2 and 2.3, we included in-state economic activity for the 14 Utah industrial banks listed in Table 2.1. The Quarterly Census of Employment and Wages reports employment and pay by business establishment (location), subject to disclosure limitations. Although most industrial banks had one establishment in 2019, some industrial banks had multiple establishments. In a few cases, we differentiated between a current industrial bank itself and its non-banking affiliates:

- BMW Bank: We did not include BMW dealerships, although they have close operational ties with the financial services offered through the industrial bank.
- Optum Bank: We did not include Optum360 Services, Inc., which offers health care services. Some services besides banking are likely part of Optum Services, Inc. and not reliably separable in DWS employment data.
- Pitney Bowes: We did not include Pitney Bowes, Inc. or Pitney Bowes Management Service, which provide office equipment, tech services, consulting, and other services.

Economic impacts in Section 3.1 included nine successor banks to 10 former Utah industrial banks. (Two former industrial banks merged into the same successor bank.) At least part of each successor bank came from an industrial bank headquartered in Utah at some point from 2000 through 2019. Extant Utah banks with industrial bank roots either converted from an industrial bank charter to a commercial bank charter, merged with another bank and took on its identity, or were acquired by a non-industrial bank financial institution. A few former industrial banks did not meet the criteria for inclusion in economic impacts:

- Providian Bank and American Investment Financial Services: The banks into which these two industrial banks merged later failed. Although their assets were transferred to other banks, after an infusion of FDIC insurance dollars, the former industrial banks' operations were disrupted substantially.

Table 5.2: In-State Employment and Compensation for Utah-Chartered Industrial Banks, 2018 Q4–2019 Q3
(Millions of Dollars)

Item	Bank-wide	In-State	Share
Employment (FTE employees)	3,905	NA	NA
Employment (full- and part-time jobs)	5,388	1,824	**33.9%**
Wages and salaries	NA	$160.8	NA
Employee compensation	$539.1	$192.3	**35.7%**

FTE = full-time equivalent; NA = not available
Note: Bankwide amounts include offices outside Utah. Bankwide jobs, in-state compensation, and percentages are estimates; Utah industrial banks reported the other values. Wages and salaries do not include employer-paid benefits, but compensation does include them.
Source: Federal Insurance Deposit Corporation, Utah Department of Workforce Services, and U.S. Bureau of Economic Analysis

- First Community Industrial Bank: Only one of at least 10 branches of this Denver, Colorado industrial bank was in Utah until 2002. More than 17 years after First Community merged into U.S. Bank National Association, we were unable to link a distinguishable component of the latter with the former industrial bank branch's banking activity—assets, customers, location, office, or staff—with sufficient continuity.

Estimating In-State Shares of Utah-Chartered Industrial Bank's Economic Activity

The Gardner Institute used actual Utah employment, wages, and salaries for the economic impact analysis of the industrial bank sector as a whole. However, we did not disclose individual banks' in-state employment and pay shares. To help the reader interpret bankwide measures—such as those in Table 2.6, Table 2.7, and Table 3.1—we estimated in-state shares of employment (33.9%) and compensation (35.7%) for industrial banks with Utah headquarters, based on 2018 Q4 through 2019 Q3 data (see Table 5.2). This period matches the most recent 12 months for which DWS had released data. We also found that Utah captures little to no employment or compensation from any of the 10 industrial banks headquartered in other states.

The employment share calculation required an adjustment from bankwide full-time-equivalent (FTE) employees to total full- and part-time jobs in order to match in-state jobs from DWS. We used the 2018 FTEs-to-jobs ratio of 1.38 for the U.S. banking sector (NAICS industries 521 and 522) from the Bureau of Economic Analysis (BEA).

The compensation share calculation required an adjustment from in-state wages and salaries to employee compensation, to match bankwide compensation from the FDIC. We used the BEA ratio of average compensation to average wages and salaries, 1.20, for the U.S. banking sector. This ratio indicates that the value of non-cash employer benefits is 20% of wages and salaries.

5.4 Industrial Banking and Utah Economic Impacts

Job creation and non-payroll spending by industrial banks support individuals and organizations around the state, outside the immediate circle of industrial bank employees and suppliers. We used economic impact analysis to evaluate how much of Utah's economy industrial banks support. In the process, we made assumptions and adapted economic and fiscal models.

Considerations on Economic Impact Analysis Appropriateness

Not all economic activity counts as an economic impact. The broadest rationale for counting the economic activity of Utah industrial banks as an economic impact is the counterfactual scenario of a Utah economy without industrial banks. For a banking segment only found in six states, the prospect of having no industrial banks is conceivable. In such a scenario, other types of banks in Utah or outside the state could help satisfy the demand for industrial bank services—though perhaps not quite as well as industrial banks uniquely situated for their lines of business. We do not venture to estimate what portion of industrial bank activity would eventually be offset by any in-state substitutes. Our premise is the loss of the entire industrial bank sector and dependent economic activity in Utah.

Banking capital comes from owners and investors in Utah and other states. Regardless of their origin, these funds could otherwise have gone to other uses in global financial markets. Industrial banks draw them into productive use in Utah. While other investment capital comes from banks' earnings in previous periods, at least some industrial bank activity should be counted as economic impacts based on their investment funding.

Many industrial bank customers are located outside of Utah, When they pay interest and fees that cover the in-state costs of Utah-headquartered industrial banks, new money comes into the state. Whereas Utah personal and business customers may have more local connections, out-of-state customers would be more likely to find non-Utah alternatives to industrial bank services from Utah, were those (their manifest first choices) no longer available. Banks do not publicly specify amounts for the out-of-state origins of their revenue. Even the share of customers by state may be unavailable for most states. Industrial bank activity associated with out-of-state revenue can be counted as an economic impact.

Finally, industrial banks capture revenue from in-state industrial bank customers that otherwise may be lost to Utah. When they pay for financial services from Utah industrial banks, in-state customers recirculate dollars from mostly local sources of income, which is not necessarily an economic impact. However, if industrial banks were to serve these customers no longer, a portion of their in-state banking dollars would leave for out-of-state banks offering alternatives. Some of the more routine banking needs industrial banks provide for individuals and businesses could be taken up by non-industrial bank financial institutions in Utah. Still, especially in the digital age, proximity is not necessarily geographic, and Utahns look outside the state for financial services.

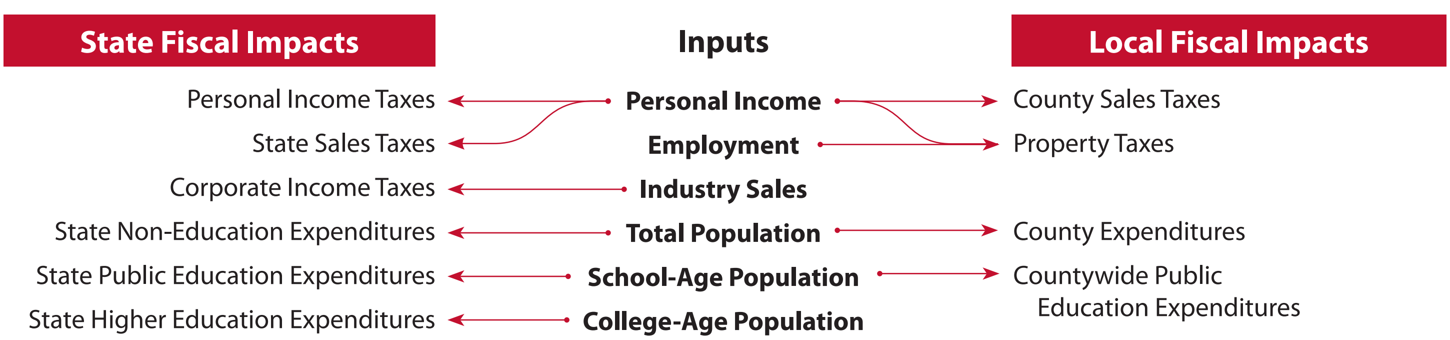
Modelling Direct, Indirect, and Induced Impacts

Industrial bank economic impacts include direct, indirect, induced, and fiscal impacts. The first three add up to total economic impacts. Direct impacts are from industrial banks themselves, while indirect and induced impacts are from companies besides industrial banks. Direct impacts result when industrial banks spend money on the payroll for employees and purchases from suppliers.

To establish direct economic impacts, we used information industrial banks reported to the Utah Department of Workforce Services (DWS) and federal regulatory agencies. The DWS source is the Quarterly Census of Employment and Wages. The federal agencies are the Federal Financial Institutions Examination Council, which oversees reports from banks, and the Federal Deposit Insurance Corporation, which compiles these reports and provides historical information on banks it insures.

Identifying indirect and induced economic impacts involves economic modeling. Indirect impacts result from spending by in-state companies from which industrial banks purchase

Figure 5.1: Diagram of Fiscal Impact Calculations



Note: Calculation inputs are total industrial bank economic impacts, including total direct, indirect, and induced effects from REMI PI+ economic model.
Source: Kem C. Gardner Policy Institute

inputs. We estimate the portion of activity at companies and other organizations besides industrial banks, including state and local government, that occurs because of industrial bank spending. Induced economic impacts result from in-state personal spending by workers who earn income from industrial banks or industrial banks' suppliers. We estimate the portion of activity at in-state companies that results from workers' consumer spending.

To estimate indirect and induced impacts that resulted from direct activity industrial banks reported, we customized an economic impact model for Utah. REMI PI+ version 2.3, developed by Regional Economic Models, Inc., is a dynamic, multiregional simulation software package that estimates the economic, population, and labor market impacts of specific economic changes. The analytical framework incorporates input-output relationships, general equilibrium effects, economic geography, and econometrics.

Aggregation in REMI's most detailed model for Utah yields 70 economic sectors with two- to four-digit NAICS codes made up of multiple six-digit industries. Over 90% of industrial banks identify their bank as belonging to the industry NAICS 522: credit intermediation and related activities. By inputting activity for the 14 current and 10 former industrial banks in REMI under NAICS 522, which the model combines with the much smaller NAICS 521 due to data limitations, we assume industrial banks are similar to other companies in that industry, in terms of the average profile of intermediate goods industrial banks purchase. Likewise, for our GDP estimates, we assume industrial banks have similar value-added per worker as other companies in their industry. To estimate worker earnings, we calibrated the model to reflect pay at named banks, instead of relying on averages for NAICS 521 and 522.

Modelling Fiscal Impacts

The Gardner Institute's fiscal impact calculator uses economic and demographic measures to estimate state and local revenues and expenditures associated with Utah's industrial banks (see Figure 5.1). Revenues are based on ratios of historical tax payments to personal income, industry output, and employment. Expenditures are based on historical averages of spending per capita. While the estimates include state and county governments and school districts, they do not include revenue to or spending by cities and towns due to data limitations.

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9. The FDIC had insured a handful of industrial banks in the decades before the 1982 Garn-St Germain Depository Institutions Act made the practice common (West, 2004). From 1982 to 1990, the FDIC approved dozens of industrial banks for insurance. In 1987, the Competitive Equality Banking Act (CEBA) required nearly all FDIC-insured industrial banks to follow regulations in the Bank Holding Company Act. CEBA also relaxed regulations for commercial firms that own industrial banks.
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11. Barth and Sun (2018)
12. Due largely to the Great Recession and developments in the financial sector, the number of FDIC decisions (approvals or otherwise) on federal insurance applications for prospective Utah banks fell from 31 during the 2000s to four decisions during the 2010s. None of these occurred from 2008 to 2018. Utah's 87.1% between-decade decline in FDIC responses to banks' insurance applications was lower than the 96.4% nationwide decline from 1,398 decisions in the 2000s to 50 decisions in the 2010s. *Source*: Federal Deposit Insurance Corporation. (2020e, June 10). Decisions on bank applications: Deposit insurance. https://www.fdic.gov/regulations/laws/bankdecisions/depins/index.html
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20. For comparison with Table 2.7, in-state employment of 1,824 full- and part-time jobs corresponds to about 1,300 FTE employees of the 4,140 FTEs at Utah-headquartered banks nationwide.
21. Utah Code § 7-1-507. Assessing institution's record in meeting credit needs — Requirements — Remedial order. https://le.utah.gov/xcode/Title7/Chapter1/7-1-S507.html
22. CRA requirements depend on bank size and type. Three performance criteria categories fit Utah industrial banks: strategic plan (11 banks), wholesale purpose institution (two banks), and limited purpose institution (one bank).
23. The most recent CRA performance evaluations for Utah industrial banks occurred in 2017 (five industrial banks), 2018 (seven), or 2019 (two). Evaluations described community development efforts through 2015 (one industrial bank), 2016 (four), 2017 (eight), and 2018 (one). Loan and investment amounts for these years represent new outlays, not cumulative balances of outstanding community development loans and investments.
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25. The income tax estimate in Table 2.3 includes indirect and induced economic impacts in Utah, not just industrial banks in the state.
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38. Since two former industrial banks have the same successor bank, 10 former industrial banks continued to operate in Utah in 2019 through nine successor banks. In 2005, Associates Capital Bank merged into Citibank NA, and the next year, Universal Financial Corporation did the same.
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40. According to state government websites, primarily, California (since 2000) and Utah (since 2004) have used the term "industrial banks" for these state-chartered financial institutions, as did Colorado until its last industrial bank closed in 2009. As it had since the 1920s, the Utah Department of Financial Institutions continued its use of the term "industrial loan corporations" for over two decades after it had become commonplace for ILCs to accept federally insured deposits as full-fledged banks, starting in 1983. Codified by Utah Senate Bill 176, the 2004 name change emphasized industrial banks' similarities with other banks offering a range of services. The name change also made a distinction between modern industrial banks in Utah and more limited ILCs. Nevada uses the most common term for the equivalent of an industrial bank outside of California and Utah—"industrial loan company" (ILC)—as did Hawaii until it adopted the more descriptive "financial services loan company." Indiana prefers "industrial loan and investment company," and Minnesota prefers "industrial loan and thrift company."
41. Barth and Sun (2018)
42. In the FDIC asset specialization definitions, credit card lending also includes securitized receivables, even in the denominator for the share; mortgage lending also includes mortgage-backed securities; "general" consumer lending includes all mortgage, credit card, and other loans to individuals; and commercial lending also includes industrial and real estate-related loans. The threshold for the three consumer lending categories are 50% of total assets. The commercial lending threshold is only 25% of total assets. Categories are hierarchical, with banks defined by the first category in which they fit, in this order: credit card, commercial, mortgage, consumer, and other. (The hierarchy begins with two categories no industrial bank matched, international and agricultural. The "other" category in Table 4.1 combines three FDIC categories differentiated by the amount of the bank's total assets and its combined asset share of loans and leases.)
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