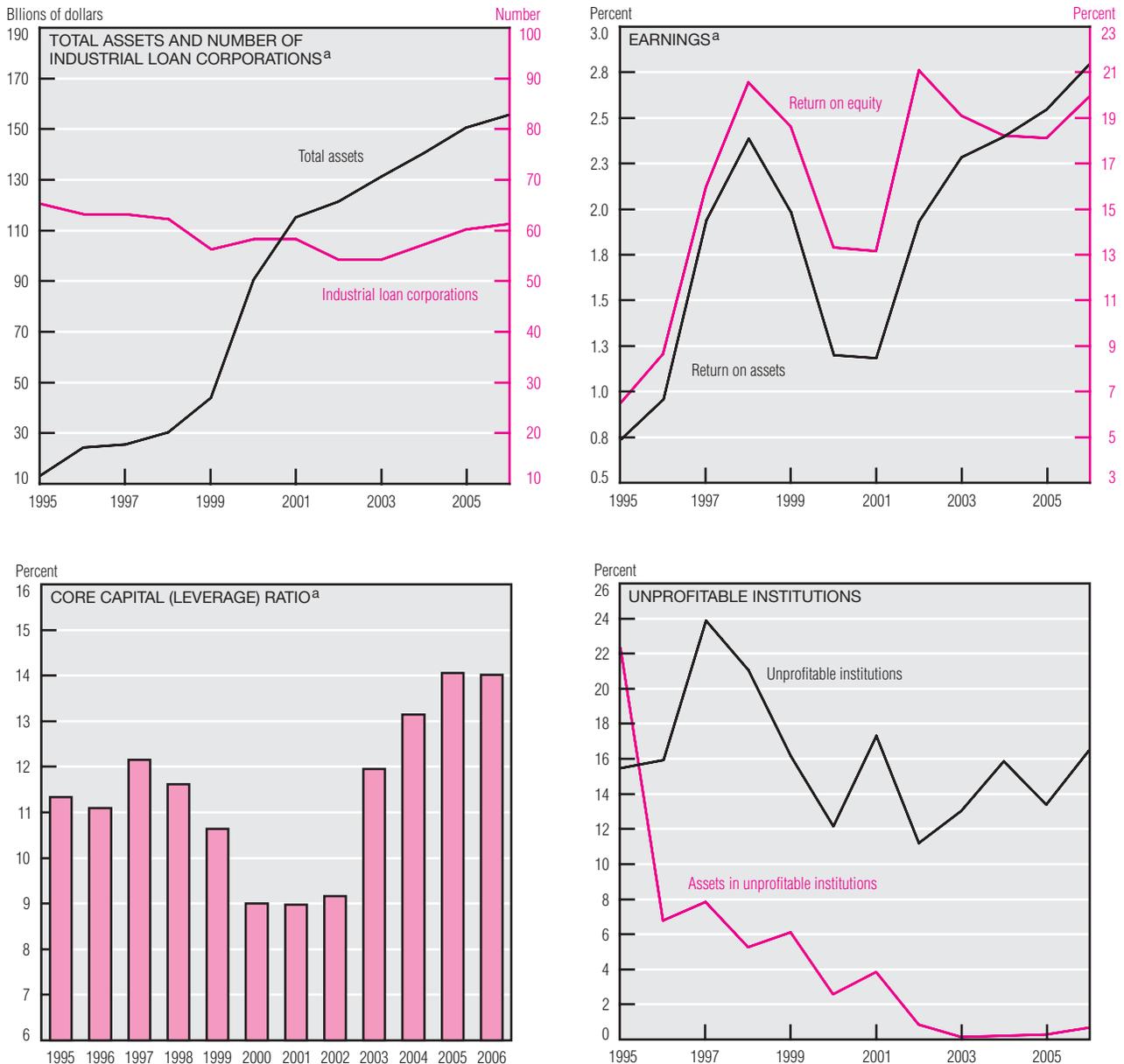


Industrial Loan Corporations



a. Through 2006:1Q. Data for 2006 are annualized.

SOURCE: Author's calculation from Federal Financial Institutions Examination Council, *Quarterly Bank Reports of Condition and Income*.

Industrial loan corporations and industrial banks (collectively known as ILCs) are FDIC-insured, state-chartered depository institutions. Unlike traditional commercial banks, they can be owned by nonfinancial firms, such as Target and General Motors. Recent applications by Walmart and Home Depot to acquire an ILC have thrust this once-sleepy little industry into the spotlight.

Although the number of ILCs fell slightly from 65 at the end of 1995 to 61 in 2006:1Q, their assets increased

12-fold, from around \$13 billion to more than \$155 billion. The five largest ILCs hold 76% of industry assets; the largest of all ranks in the top 25 depository institutions in terms of total assets.

The acceleration of asset growth that started in 1999 depressed the industry's performance temporarily, and return on assets (ROA), return on equity (ROE), and the core capital ratio (common equity to assets) all fell. The impact of growth on these performance indicators abated in

2003, and they now exceed those of the 1990s. Moreover, ILCs' core capital ratio of 14% in 2006:1Q compares favorably to the 8.25% average for all FDIC-insured institutions.

Although the share of unprofitable ILCs has dropped from a recent high of nearly 24% to 16%, it still exceeds the 6% for all FDIC-insured institutions. But unprofitable ILCs carry little weight because they tend to be small; in fact, they hold less than 1% of the ILC industry's assets.