



Office of Inspector General

December 8, 2004
Supplement to Evaluation Report No. 04-048
Dated September 30, 2004

The Division of Supervision and Consumer
Protection's Approach for Supervising
Limited-Charter Depository Institutions

****This is Not an Evaluation Report.****

This supplement contains copies of correspondence between the Office of Inspector General and the Director, Division of Supervision and Consumer Protection subsequent to the issuance of Evaluation Report No. 04-048, dated September 30, 2004. The intent of this supplement is to clarify an issue in the final evaluation report.



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Memorandum dated December 8, 2004, from the Assistant Inspector General for Audits to the Director, Division of Supervision and Consumer Protection

I. OIG Clarification to the Final Report



DATE: December 8, 2004

MEMORANDUM TO: Michael J. Zamorski
Director, Division of Supervision and
Consumer Protection

FROM: Russell A. Rau [Electronically produced version; original Signed by Russell A. Rau]
Assistant Inspector General for Audits

SUBJECT: Final Evaluation Report Entitled, *The Division of
Supervision and Consumer Protection's Approach for
Supervising Limited-Charter Depository Institutions*
(Report No. 04-048)

This memorandum is being issued as a matter of clarification of the subject report. We performed the evaluation to provide an independent assessment of the risks presented by Industrial Loan Companies (ILCs) and their parent companies to the insurance fund. Accordingly, our objectives were to evaluate (1) whether ILCs pose greater risks to the insurance fund than other financial institutions and (2) the Division of Supervision and Consumer Protection's (DSC) supervisory approach in determining and mitigating material risks posed to ILCs by parent companies. One of the issues addressed in our report is the extent to which ILC parent companies are subject to federal regulatory oversight.

We benchmarked the Federal Deposit Insurance Corporation's (FDIC's) supervision of non-bank holding companies not otherwise subject to consolidated federal supervision against the Federal Reserve Board's (FRB) supervision of bank holding companies primarily because most holding companies of FDIC-supervised institutions are subject to FRB supervision. Our review used FRB's supervisory and enforcement authorities over bank holding companies as a basis for evaluating the FDIC's authorities over ILC holding companies. We also used the FRB for evaluative purposes because ILCs are included in the definition of insured depository institutions owned by organizations that are exempt from the Bank Holding Company Act of 1956 and not subject to FRB supervision. As a point of clarification, while our report used FRB as a benchmark, a reader should not lose sight of the role of the Office of Thrift Supervision (OTS) in supervising savings and loan holding companies that are affiliated with ILCs or conclude that we assessed the adequacy of the oversight of either OTS or FRB.

Finally, with regard to our recommendation 8 on page 29 of the evaluation report that DSC establish a 2005 divisional objective to consider the expansion of the FDIC's examination program for non-bank parents and affiliates, we did not intend to imply

that there was a need for the FDIC to expand its examination program to exercise more direct oversight of bank or savings and loan holding companies. Rather, we envision that an examination program for parents and affiliates of ILCs would generally rely on the consolidated supervision of the FRB and OTS for bank and savings and loan holding companies, respectively, and provide additional attention, when needed, to those parent holding companies that are not subject to consolidated supervision by another federal regulator. Our report recognizes the sensitivity associated with FDIC examining entities for which it is not the primary federal regulator and specifically mentions the importance of minimizing uncertainty on the part of other federal regulators regarding the FDIC's examination approach for ILC holding companies subject to their supervision.