



January 15, 2026

Mr. Paul Worthing
Regional Director
Federal Deposit Insurance Corporation
25 Jessie Street, Suite 2300
San Francisco, CA 94105-2780

Regarding: PayPal Holdings, Inc.'s application to the FDIC for deposit insurance for
PayPal Bank

Dear Regional Director Worthing:

The Community Bankers Association of Illinois ("CBAI"), which proudly represents nearly 250 Illinois community banks appreciates the opportunity to provide our observations and recommendations to the Federal Deposit Insurance Corporation ("FDIC" or "Agency") regarding the application by PayPal Holdings, Inc. ("Applicant" or "PayPal Holdings") for deposit insurance ("Application") for their proposed Industrial Bank charter ("PayPal Bank" or "Subsidiary"). CBAI opposes this Application for the well-founded reasons contained in this letter. CBAI believes the FDIC has the statutory authority and urges the Agency to exercise that duty by denying PayPal Holdings' application for deposit insurance for PayPal Bank.

CBAI has been a staunch supporter of closing the industrial loan company and the industrial

CBAI is dedicated exclusively to representing the interests of Illinois community banks and thrifts through effective advocacy, outstanding education, and high-quality products. CBAI's members hold more than \$80 billion in assets, operate 940 locations statewide, and lend to consumers, small businesses, and agriculture. For more information, please visit www.cbai.com.

bank (collectively “Industrial FIs”) “loophole,” which is so named because it allows the holding company owners to escape consolidated supervision of their holding companies by the Federal Reserve. This lack of additional regulatory supervision presents heightened safety and soundness risks for Industrial FIs that are not present with community banks that are owned by holding companies. The additional risk lies in part in an inability to conclusively determine if the holding companies are able to be a *source of strength* for the subsidiaries of the Industrial FIs (like PayPal Bank), which is an important and longstanding requirement of all bank holding companies, including those for community banks.

It is vitally important for the Federal Reserve to be able to assess the ability of PayPal Holdings, Inc. to serve as a *source of strength* to PayPal Bank. CBAI has confidence in the Federal Reserve’s ability to supervise PayPal Holdings. The Federal Reserve’s purpose and function include promoting “the safety and soundness of individual financial institutions and monitoring their impact on the financial system as a whole; and promotes the stability of the financial system and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad.” The Federal Reserve is also responsible for “promoting the effective operation of the U.S. economy and, more generally, the public [not private commercial] interest.” While state regulators do have the authority to examine the parent companies of Industrial FIs, believing that the state regulators are an acceptable substitute for Federal Reserve supervision is naïve. CBAI believes the Fed’s added involvement would make for a sounder regulatory regime and mitigate the risks posed by these massive companies like PayPal Holdings that is seeking deposit insurance for their PayPal Bank.

That additional layer of regulatory oversight to ensure the safe and sound operations of Industrial FIs is necessary to protect the FDIC’s Deposit Insurance Fund (“DIF”). Community banks know better than other banks and financial institutions the importance of maintaining a well-funded and properly protected DIF because unlike too-big-to-fail banks whose deposits receive de facto 100% deposit insurance, community bank depositors do not enjoy unlimited deposit insurance coverage. Some CBAI members have been paying into the DIF for more than a century. They have a significant investment in and are very concerned about the careful stewardship of the DIF. Community banks, including those that are owned by holding companies, are subject to the complete regime of state or federal supervision, including the Federal Reserve’s supervision of their holding companies. Allowing Industrial FIs to avoid consolidated holding company

supervision is an unacceptable threat to the integrity and stability of the DIF, which the FDIC is tasked with protecting and ensuring that it is properly funded and maintained.

CBAI has consistently opposed the mixing of banking and commerce, which Industrial FIs represent, because of the risks they pose to the financial system, our economy and American taxpayers. The repeal of these prohibitions was largely responsible for the housing meltdown and the Great Financial Crisis, and there is ample evidence to believe that, unless diligence is maintained, another financial crisis may be caused by the failures of one or more Industrial FIs.

Closing this loophole is particularly important now as large and technology companies are eying these types of charters as a way to enter the banking industry and enjoy its many benefits without their holding companies being subject to Federal Reserve supervision. These new big data, social media, e-commerce, artificial intelligence, financial technology, payment and digital asset companies extend an ominous reach into the economic lives of their potential customers, with very real privacy and conflict of interest concerns. PayPal Bank will be supporting the operations of PayPal Holdings, whose stated mission (in its Form 10-K) “is to revolutionize commerce globally.” That is indeed an ambitious and far reaching goal.

An inescapable fact associated with Industrial FIs is their inseparable commercial connection with their parent holding companies. This fact poses inherently heightened risks that are not found with traditional banks and their holding companies. Industrial FIs were created to assist their parent companies (it is the very reason for their existence) and there is a very real concern that they will not be a neutral party in loan and deposit decision making. Rather, the needs and concerns of the parent will inevitably enter the decisions made by the subsidiary. In the extreme, when the parent holding company is needed and called on to act as a *source of strength* to the subsidiary, the reverse could be the case, and the resources of the subsidiary may be drained to support the parent. The financial disaster of the not too distant past is detailed below and must be assiduously avoided.

Industrial FIs are promoted for being high performers and posing no risk to the financial system. In reality, they are not risk-free institutions, and their current industry performance analysis suffers from “survivor’s bias.” More than a decade-and-a-half ago, almost half of the industry assets could be traced through to their Wall Street bank and financial firm holding companies

(i.e., Lehman Brothers Holdings, Merrill Lynch, Goldman Sachs, Morgan Stanley, General Electric Company, and Ally Financial [GMAC]). During the Great Financial Crisis, these giant institutions were saved from failure by taxpayer-funded bailouts and many of them ceased to exist. Their industry shrunk to a shadow of what it was in the past (approximately half of its asset size) but has strongly rebounded such that its assets are now approximately 50% larger in 2025 than they were in 2020. This rapid growth highlights the need for enhanced Federal Reserve supervision of the Industrial FIs' holding companies, together with the appropriate coordination with other state and federal regulators like the FDIC, to prevent or minimize the impact of their potential demise during times of economic stress.

To characterize support for the proper regulation of these Industrial FIs and their holding companies as protectionism, that the banking industry or community banks are being anti-competitive by objecting to their applications, is simply not true. Community banks compete among themselves, with the largest bank, credit unions, Farm Credit System lenders, a growing number of non-banks and fintechs, and will soon be in competition for deposits with permitted payment stablecoin issuers ("PPSI") and other forms of digital assets. As long as all competitors are being appropriately supervised and regulated, community bankers do not fear competition. However, if some financial service providers are subject to a lesser regulatory regime, as are Industrial FIs, they will gain a competitive advantage that discriminates against community banks, in addition to the very real potential for harming the financial system and American taxpayers in the event of their failures.

CBAI is also concerned about the timing of the Application and its potential consideration for approval by the FDIC. In July of 2025, the FDIC published a Request for Information ("RFI") and sought public comment regarding its review process for the applications of Industrial FIs and by their parent companies. The focus of the RFI was "how the agency reviews filings submitted by industrial banks and industrial loan companies." The RFI further states, "feedback will help inform how the FDIC evaluates the statutory factors applicable to each filing, considering the unique aspects of industrial bank business plans and the broad range of companies that may seek to establish an industrial bank in the modern era." The comment period on this RFI closed on September 19, 2025, and the FDIC has yet to take further formal action. CBAI believes the acceptance and consideration of any Industrial FI's application should only commence after a formal rule has been proposed, a reasonable comment period has been provided, and the final

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rule had been published. In the absence of the completion of this rulemaking, CBAI urges the FDIC to stop all action on and reject PayPal Holdings' application for FDIC insurance for PayPal Bank.

Thank you for considering our thoughts and recommendations in opposition to PayPal Holdings, Inc.'s application for deposit insurance for PayPal Bank. Please contact me with any questions at 847/909-8341 or davids@cbai.com.

Sincerely,

/s/

David G. Schroeder
Senior Vice President
Federal Governmental Relations