**TESTIMONY OF**
**JAGJIT "JJ" SINGH**
**CHAIRMAN, PRESIDENT AND CEO**
**TRANSPORTATION ALLIANCE BANK**

**BEFORE THE**
**SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS**

**UNITED STATES SENATE**

**HEARING ON THE SUPERVISION AND REGULATION OF**
**INDUSTRIAL LOAN COMPANIES**

**OCTOBER 4, 2007**

Mr. Chairman and members of the committee:

I thank you for the opportunity to appear before you today to discuss Transportation Alliance Bank and industrial banks. I am Jagjit (JJ) Singh and I appear today on behalf of the Utah Association of Financial Services which is a trade association representing industrial banks and consumer lenders in Utah and Nevada. I am the President, CEO and Chairman of Transportation Alliance Bank located in Ogden, Utah. Transportation Alliance Bank provides a full range of banking services to the interstate Trucking Market Segment.

Transportation Alliance bank is a wholly owned subsidiary of Flying J Inc, a Utah Corporation headquartered in Ogden, Utah. Flying J is the 17$^{th}$ largest privately held company in the U.S. with sales of $ 15 billion and is best known for its "Cadillac" nationwide network hospitality and fueling Travel Plazas located on Interstate highways and in 40 states in the U.S. and 7 provinces in Canada.

I have been involved in business in North America for over 25 years, have held senior management position in a number of Companies and have been the President of Transportation Alliance Bank for the last over four years.

I would like to use my limited time today to clarify some of the issues relating to industrial banks and provide an accurate context to understand this market driven, healthy, safe and sound industry that many people think is the best model for all banks in the current economy.

The story of Transportation Alliance Bank can best be told by first talking about the Industry and Customers it exclusively serves – The Trucking Industry – , why it serves this industry and the critical role the Trucking Industry plays in the economy of the United States.

With as many as three-quarters of a million interstate motor carriers in the U.S., the trucking industry is the driving force behind the nation’s economy. Trucking does the heavy lifting to move, at some point in the supply chain, nearly everything consumed in our modern society. Few Americans realize that trucks deliver nearly 70 percent of all freight tonnage or that 80 percent of U.S. communities receive their goods exclusively by truck. Even fewer are aware of the significant employment, personal income, and tax revenue generated by the motor carrier industry.

It takes nearly nine million people to move approximately 11 billion tons of freight annually. Trucking generates approximately $625 billion in revenue and represents roughly five percent of U.S. Gross Domestic Product. One out of every 13 people working in the private sector in the U.S. is employed in a trucking-related job, with these jobs ranging across the manufacturing, retail, public utility, construction, service, transportation, mining and agricultural sectors. Of those employed in private-sector trucking-related jobs, 3.4 million are commercial drivers.

The trucking industry is composed of both large national enterprises as well as a host of small businesses, all of whom operate in extremely competitive business environments with narrow profit margins. According to the U.S. Department of transportation 91 percent of motor carriers have 20 or fewer trucks and are classified as small businesses.

The story of Transportation Alliance Bank is intricately premised on the fact that the key engine of the trucking industry is primarily the entrepreneurs with 20 of less trucks and the fact that Flying J and, therefore, Transportation Alliance Bank better understands the business, business risks and how to mitigate these risks of these trucking company entrepreneurs better than any other mainstream national, regional or community banks.

The CEO of Flying J Inc., Phil Adams, fully recognized this nature of the trucking Industry and the fact that mainstream banks did not readily finance these small trucking companies and, therefore, trucking was being undercapitalized. Transportation Alliance Bank was organized in 1998 to fill this banking services void to an underserved business community that is key to our economy  This was possible only because we could obtain an Industrial Bank Charter in our home State of Utah.

The services we provide is best expressed in a typical testimonial letter we recently received.  The name of this customer is Sierra Trucking.  It is owned by Gregory Arthur who hails from typical small town America, Mt. Gilead, Ohio., population:

2,840. His sentiments are expressed as follows:

*"…….. I want to talk about Transportation Alliance Bank's helping hand in starting a trucking company and continuing to be there with financing when other "mainstream banks" who do not understand the trucking industry (at least at my level), slammed the door on many requests for financing.*

*I had worked over the years for a few small outfits and in the process gathered data on the specific truck I was driving. In turn I created financial statements. I accumulated these over a few years and created an overview of what I could do if I had my own trucking company. I took these projected financial statements to a number of "mainstream banks but they would not give me any serious consideration. I had the numbers, had the experience in trucking, had the drive to give 110% to make the business work but no one would give me a chance.*

*So as fate would have it, I was working for a company that was going under. I knew they were going to declare bankruptcy and that equipment could be repossessed and thought this may be an opportunity to get started in my own business, This is when I met Steve Parker from Transportation Alliance Bank. If it was not for Steve, this story would end here. Transportation Alliance Bank looked at all the data I had and decided to give me a chance.*

*Steve and TAB allowed gave me a loan on the equipment and together with them I am still in business four years later with a production of revenue close to $ 500,000 and which goes right back in the economy.*

*Another great service Transportation Alliance Bank has provided and that is essential for me to stay in business is their factoring program. This provided me* *working capital funds to operate my business. Also, they have a way to run credit checks on people I haul for and also have them with collections if a company if a Company is past due on my settlement*

*In closing, Steve Parker and Transportation Alliance Bank took and risk and gave me a chance. I have been able to stay in business, earn a decent living put money back in the economy. Most of all I can take care of my family and provide relief to Hurricanes Ivan, Jean, Dennis and Katrina. Finally by Transportation Alliance Bank giving me a chance, motivated me and kept me going and my quality of life is better than it ever has been"*

Thanks to the Industrial Bank Charter, Transportation Alliance Bank has been in business for nine years, with an asset base of approx. $500 million and providing a whole host of banking services to the Trucking Industry ranging from receivables factoring, equipment financing to debit and credit cards. It makes CRA investments in the local community and its efforts in this area have been rated highly by regulators. It is a very safe and sound bank serving primarily the needs of drivers, independent Owner Operators and small trucking Company entrepreneurs from small town America and, in my opinion, better than anybody else

I contend this is also true of industrial banks in Utah and which are demonstrably among the strongest and safest banks in the nation today and have been so for some time. Utah banks have the highest aggregate capital and profit ratios in the nation. This record is not a fluke. The industry in Utah has grown to $200 billion in assets over more than 20 years and established a record of safe and sound operations comparable to any other banks insured by the FDIC. This is not attributable to Utah's robust economy since virtually all Utah based industrial banks serve customers nationwide and do most of their business outside of Utah. When the principal goal of the regulatory system is to help ensure the safety and soundness of banks and the banking system, it makes no sense to do anything that would undermine the strongest and safest banks.

There is no deficiency in the regulation of these banks or their holding companies. Regulation of industrial banks is equal to, and in some respects stronger than, the regulation of all other depository institutions. There is also extensive and effective regulation of the holding companies and affiliates. An industrial bank's regulators have the authority to examine affiliates, issue cease and desist orders, assess civil money penalties, remove officials, and force divestiture of the bank if necessary. In fact, and consistent with premise, Flying J Inc. has recently been contacted so that regulators can audit the holding company of Transportation Alliance Bank

Nor is it the case that traditional holding company regulation provides better protection for a bank subsidiary. In reality, most traditional bank holding companies provide little support to their subsidiary banks. In my opinion most traditional holding companies provide only minimal support to their banks and are essentially irrelevant if a bank is failing. Also, traditional bank holding company regulation is outdated because it is no longer needed to accomplish its primary goal, which is to ensure equal access to credit, and is a model for weak holding companies that is increasingly in conflict with the financial services industry and the nation's economy.

In contrast, diversified holding companies usually provide a higher level of support to their bank subsidiaries. Just like Flying J Inc., diversified parents tend to be much larger than the bank and provide extensive financial support as I evidence first-hand with Flying J Inc. For most industrial banks, capital is simply not an issue. They can get whatever capital they need whenever they need it. The same cannot be said for most bank holding companies, especially if a bank is failing. Diversified parents like Flying J Inc., also typically provide the bank with an established business so the bank has few or no marketing costs and is profitable from the outset.

Finally, I would like to briefly discuss the separation of banking and commerce. Flying J has private tanker truck fleet of 800 tractors; one of the largest private fleet for hauling bulk fuel in the country. Consistent with the requirements of Sections 23A and 23 B that strictly control transactions with affiliates, Transportation Alliance Bank does not finance any assets of the Flying J private fleet and all such funding is obtained by Flying J through third party banks. Also, any products purchased by Transportation Alliance Bank Credit Card customers at Flying J facilities is not funded by Transportation Alliance. In my humble opinion, there is no evidence of any inherent structural risk in allowing banks to be owned by companies that engage in activities other than banking as long as the banks do not directly finance its affiliates. I have heard comments that if industrial banks continue to develop the Fortune 500 will all eventually finance their operations through captive banks. This is a misconception. No one I am aware of is arguing for allowing companies to finance their operations with federally insured deposits. The moral hazard is obvious and unacceptable and is already effectively prohibited by Sections 23A and 23B of the Federal Reserve Act. Those laws, and their strict enforcement of it by the FDIC and the State Banking regulators strictly limit transactions between a bank and its affiliates and ensure that affiliate transactions pose no risk to the bank.

Activities restrictions on holding companies are the crux of this issue. The real public policy underlying that doctrine is credit availability. The separation of banking and commerce began when banks were the primary providers of credit and needed to be separate so all businesses had equal access to credit. But the economy has fundamentally changed during the past thirty years. One of the defining characteristics of today's economy is the development of credit and financial services by all kinds of businesses. The U.S. economy has become the most prolific producer of credit that ever existed. Companies operating outside the traditional bank holding company structure may now provide most of the credit in the economy. Many of those companies want access to a depository charter because it enables them to provide their financial services more efficiently and cost effectively. That is what has caused the dramatic growth of the industrial banks over the past twenty years. It has also eliminated the issue of credit availability. (If anything, the issue today is whether credit availability has become too available, as the current subprime mortgage crisis illustrates.)

If you peel away all of the political rhetoric the real issue regarding industrial banks is whether the large number of competent and legitimate businesses in our nation that offer bank quality products and services will be allowed to operate in the most efficient and profitable manner, providing superior value to its customers in a safe and sound manner. That really is the whole issue.

With that I will close and would be glad to respond to any questions. Thank you.