

The Honorable Dennis Hastert
United States House of Representatives
235 Cannon House Office Building
Washington, DC 20515-1314

Dear Mr. Speaker:

Each of the undersigned organizations testified in opposition to Wal-Mart's application for federal deposit insurance during hearings held by the FDIC in April. The prospect of the industrial loan company (ILC) exception in the Bank Holding Company Act being exploited by the largest company in the nation is daunting for reasons as diverse as the groups signing onto this letter. In all, 54 witnesses (of 66 total), speaking on behalf of a diverse array of organizations representing banking groups, small businesses, community organizations, consumer groups and labor unions, testified in opposition to Wal-Mart's application during three days of FDIC hearings. And it should be noted that several of the other speakers expressed no official position on the application.

Since those hearings, Wal-Mart has admitted that the testimony it provided concerning the leases it has with bankers currently operating in its stores was "inaccurate." Wal-Mart has also admitted conducting an executive search for "a senior manager to oversee 'new strategic initiatives' in the mortgage business." And most recently it was reported that Wal-Mart had started a pilot program to open its own in-store ATMs. We have enclosed for your review copies of the articles bringing to light the facts contradicting Wal-Mart's testimony and its assurances that it will only use its ILC for specific, limited purposes. This new information raises questions about the accuracy of every aspect of the application. For that reason alone, the application should be denied.

In addition to that, our testimony collectively demonstrated that approval of Wal-Mart's application would be bad for consumers, communities and small businesses across America. Commercially-owned ILCs threaten the basic underpinnings of banking regulation in the United States due to the mixing of banking and commerce and the lack of consolidated supervision of the bank at the holding company level. These threats are particularly acute in this case given Wal-Mart's mammoth size and market reach, and its ability to quickly and easily expand into retail banking. As the undersigned detailed in our testimony, the FDIC should reject Wal-Mart's application for deposit insurance.

In part due to Wal-Mart's size, approval of their application would risk setting policy in this area on an unalterable course without allowing Congress to decide some of the fundamental questions at stake. The policy implications raised here are too broad to allow that to happen.

We urge you to act so that Congress is making these policy decisions. Until Congress is able to pass legislation on ILC policy, we hope you will insist that the FDIC reject Wal-Mart's application or, at the least, hold it until Congress has had the opportunity to consider the policies at stake and legislate.

Sincerely,

AFL-CIO

American Bankers Association

Americans for Democratic Action

American Rights at Work

Capitol City Bank and Trust

Community Bank of Raymore

Community Bankers Association of Alabama

Community Bankers Association of Indiana

Community Bankers of Wisconsin

CountryBank USA

Farmers and Merchants Bank

Federation Bank

First National Bank of Hope

First State Bank

First State Bank of Joplin

Glenwood State Bank

Independent Community Bankers of America

Midwest Independent Bank

National Association of Convenience Stores

National Association of Realtors

National Grocers Association

North Carolina Bankers Association

North Cascades National Bank

Region 5, UFCW

Sound Banking Coalition

The Bank of Illinois in Normal

The Valley State Bank

United Food and Commercial Workers International Union (UFCW)

USAction

Wake-Up Wal-Mart.com

Wal-Mart Watch

Washington State Bank

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May 10, 2006 Wednesday 12:45 AM GMT

LENGTH: 474 words

HEADLINE: UPDATE 1-Wal-Mart testimony inaccurate on bank leases

BYLINE: By Kristin Roberts

DATELINE: May 10, 2006

BODY:

(Adds comments from Wal-Mart, details)

WASHINGTON (Reuters) - Wal-Mart gave inaccurate testimony to U.S. regulators considering its application to open a bank, wrongly describing a provision of some leases signed by banks in its stores, according to leases obtained by Reuters.

The inaccuracy involves testimony Wal-Mart Stores Inc. gave to support its statement that it has no plans to replace community banks now in its stores with bank branches of its own.

The company last month told the Federal Deposit Insurance Corp., the agency reviewing Wal-Mart's application to start limited bank operations, that it has no plans to enter full-service banking, and it pointed to the leases signed by banks in its stores as evidence of its long-term plan to support independent banks.

Specifically, Wal-Mart told the FDIC that leases signed by banks were renewed at the discretion of the banks alone.

But documents seen by Reuters include a provision that requires both the bank and Wal-Mart to agree to renew.

According to industry sources, that provision is included in a handful, not all, of the leases signed by Wal-Mart's bank tenants.

RETAILER CITES 'OVERSIGHT'

Wal-Mart told Reuters it was an oversight and that the testimony it gave to the FDIC it had believed to be true.

The retailer's lawyers are still reviewing the leases to identify how many include the provision that requires mutual renewal of the lease agreement. But a spokesman for the company, which is the world's largest retailer, said it will be a very small percentage of the company's 1,150 active leases.

Wal-Mart also said financial institutions whose leases include the mutual renewal provision can have their agreement changed to let the bank alone decide on renewal.

"It was an oversight," said Marty Heires, Wal-Mart spokesman.

Wal-Mart has applied to open a type of bank known as an industrial loan company or ILC to process electronic payments from its stores -- transmitting payment requests from shoppers to credit card issuers and then transferring payments back to Wal-Mart.

As a result, a Wal-Mart bank would be a conduit for such payments.

UPDATE 1-Wal-Mart testimony inaccurate on bank leases Reuters News May 1

Bringing this function in house is expected to generate \$10 million in revenue by the third year of operation. While that amount is only a small fraction of Wal-Mart's total revenue, it reduces what Wal-Mart says is the inefficiency of paying a third party to pass information between its stores and customers' banks.

While the company has repeatedly said it would not offer banking services to the general public, critics of the Wal-Mart plan say they do not believe that the retailer has no intention to enter full-service banking in the future.

The Federal Deposit Insurance Corp., the agency considering Wal-Mart's bank application, is reviewing lease agreements, according to sources.

NOTES: FINANCIAL-BANKING-WALMART (UPDATE 1, REFILE)|LANGEN|RNA|FUN;
PUBLISHER: Reuters Ltd.



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Wal-Mart critics assail bank plan

By [MARILYN GEEWAX](#)

The Atlanta Journal-Constitution

Published on: 05/12/06

Washington — Wal-Mart Stores Inc. confirmed Thursday it is seeking a senior manager to oversee "new strategic initiatives" in the mortgage business, but said the move does not signal an expansion into retail banking.

Some bankers, lawmakers and Wall Street analysts disagreed, saying they believe the executive search shows the retail giant is planning to move into full-service banking, despite promises to the contrary to federal regulators.

"This is the smoking gun. What more do you need?" asked Camden Fine, chief executive of the Independent Community Bankers of America. The trade group for small bankers is fighting Wal-Mart's application to the Federal Deposit Insurance Corp. for permission to launch a small, special-purpose bank.

Community bankers say Wal-Mart is being deceptive when it tells regulators it wants government-backed insurance only to operate a limited bank, known as an industrial loan company, to process its own stores' credit and debit card and electronic check payments.

They fear Wal-Mart, based in Bentonville, Ark., will expand to become a full-service, nationwide banking operation capable of wiping out competing banks in small towns by undercutting their prices.

Wal-Mart spokesman Martin Heires said interpreting the company's executive search as proof of a move into commercial banking is "absolutely off-base."

He said the search is related to an employee benefit program to help Wal-Mart workers in 43 states obtain relatively cheap home mortgages. By partnering with Nationwide Advantage Mortgage Co., Wal-Mart already offers its employees lower closing costs, reduced paperwork and quicker decisions on loans, Heires said.

The new executive would help expand that program, as well as improve existing programs offering customers simple financial services such as money orders, money transfers and credit cards through banking partners, he said.

Those basic services don't require federal insurance. Wal-Mart critics say the FDIC, which is weighing Wal-Mart's application for an ILC, should maintain the legal wall that has long separated commercial companies

from banks.

Earlier this week, Wal-Mart was faced with a new round of criticism when Reuters reported inaccuracies in the retailer's testimony to the FDIC. The company had told regulators it couldn't realistically expand into commercial banking because it already has long-term leases with banks that operate branches in its stores.

Wal-Mart said only the banks could end those leases. But Reuters reported, and the company later acknowledged, that leases with at least some banks could be renewed after five years only if both the banker and Wal-Mart approve.

Questions in Congress

That news, in addition to Wal-Mart's search for a mortgage executive, has raised hackles on Capitol Hill.

"We are beginning to see a pattern of misleading or false statements from Wal-Mart with regard to their interests in branch banking," Rep. Paul Gillmor (R-Ohio) said in a written statement Thursday. Gillmor, a member of the House Financial Services Committee, wants to restrain the proliferation of ILCs.

"If true, reports of easy loopholes for Wal-Mart to escape from their lease agreements with in-store bank branches, and the news that Wal-Mart is actively recruiting mortgage and strategic banking specialists, make the need for FDIC scrutiny of Wal-Mart's ILC application ever more important," Gillmor said.

He noted that Home Depot Inc. also is seeking an ILC. Other retailers, including Target Corp., already operate limited-purpose banks.

"We must consider the impact of giving a company a foot today when it intends to take a mile tomorrow," he said.

Fine, of the community bankers group, said he had a copy of the recruiting letter that laid out Wal-Mart's specification for a senior manager with "broad financial services experience." The letter, also obtained by Cox Newspapers, said the executive would have "direct contact" with Wal-Mart Chief Executive Lee Scott.

Fine said he did not believe Wal-Mart would hire an executive to work directly with Scott if he or she were merely overseeing a minor employee benefit program. "They absolutely are laying the groundwork for a full-service banking operation," he said.

Bart Narter, a senior banking analyst at Celent LLC, a Boston-based research and consulting firm, said Wal-Mart's explanation for hiring a new executive to help with employee mortgages made little sense. "That's an unusual benefit," he said. "Providing better health care coverage is more common."

Narter said he believes Wal-Mart is using its employee base to learn more about helping low- to moderate income families get mortgages — in preparation for its eventual push into retail banking.

The FDIC is expected to make its decision on Wal-Mart's application early in the summer.

Find this article at:

<http://www.ajc.com/business/content/business/stories/0512bizwalmart.html>

Wal-Mart's New Jersey ATM sparks cries of foul from wary banks

By Lauren Coleman-Lochner
Bloomberg News

Advertisement

July 12, 2006, 11:04 AM CDT

In Kearny, New Jersey, a 20-minute drive from Manhattan, a Wal-Mart-branded automated teller machine is reigniting fears among small banks that the world's largest retailer wants to drive them out of business.

Wal-Mart Stores Inc. leases space to banks operating 1,100 branches within its 3,230 U.S. discount stores and supercenters. The company pledged when it applied for a bank charter a year ago that it wouldn't open its own branches. The Sound Banking Coalition, a Washington-based lobbying group, and some legislators aren't buying it.

They point to the ATM in Kearny -- part of what Wal-Mart calls a test -- and to Wal-Mart's July 2005 application to open a Utah-chartered bank to lower its cost of processing payments from credit and debit cards. Local bankers like Brad Williams, president of Security Bank of the Ozarks, say ATMs are a wedge that might allow Wal-Mart to start branch banking and terminate local-bank leases.

"Wal-Mart has really hurt the small-town businesses and they will do the same thing with banking," said Williams, 59, whose bank based in Eminence, Missouri, has two branches -- neither in a Wal-Mart -- and \$50 million in assets.

Representative Barney Frank of Massachusetts, the ranking Democrat on the House Committee on Financial Services, and Representative Paul Gillmor, a Republican on the panel, introduced a bill this week to bar non-financial companies from operating banks. One provision would require companies that received charters after June 1 to divest themselves of banks within two years unless at least 85 percent of their revenue comes from financial services.

The proposal would also bar non-financial companies that already operate banks, including No. 2 discount chain Target Corp., from offering new services. Target opened its bank in 2004 to issue credit cards to small-business customers.

A hearing on the Frank-Gillmor bill is scheduled for today.

Last month, Frank, 66, sent a letter to Wal-Mart asking it to expand to cash machines its pledge not to open its own branches. Frank's office says Wal-Mart hasn't responded.

The New Jersey ATM ``undercuts their argument that they're not interested in banking," Frank said in an interview. ``It shows that they have ambitions far beyond just processing their own paper."

Wal-Mart spokeswoman Tara Raddohl said the Bentonville, Arkansas-based company has no intention of entering retail banking. Wal-Mart says a bank charter makes sense because it will lower the cost of letting customers pay with cards.

Raddohl said Wal-Mart is testing the Kearny machine and others to make services such as ordering gift cards more convenient. Wal-Mart owns and operates the cash machines in its test program, except where state law stipulates it has to partner with a financial institution, she said. She declined to provide the number of machines in the pilot.

The Kearny cash machine bears a green ``Wal-Mart Money Center" logo. It sits at the front of the store, next to a portrait studio and near the checkout lines.

In addition to processing gift cards, shoppers can withdraw cash from their local accounts for no fee, buy phone cards and pay Wal-Mart credit-card bills. The free cash withdrawals undercut some local banks. People who aren't customers of Security Bank of the Ozarks pay a \$2 fee to use the bank's teller machines.

Among the banks leasing space at Wal-Marts are Domestic Bank in Cranston, Rhode Island, and Cornerstone Bank of York, Nebraska. At 98 SunTrust Banks Inc. branches in the retailer's stores, signs say ``Member, Wal-Mart Financial Services Network" underneath the bank's logo, SunTrust spokesman Mike McCoy said.

Doug Kantor, a lobbyist for the Sound Banking Coalition, a group that favors restrictions on banks owned by non-financial companies, said such co-branding accustoms shoppers to thinking of the retailer as a source for financial transactions.

How easily Wal-Mart can break its bank-branch leases has been a matter of concern for critics. In a May 25 letter to Frank, Wal-Mart's financial services president, Jane Thompson, said 89 percent of Wal-Mart bank leases last for 15 years, with some as short as two years.

Kantor said Wal-Mart's history of expansion indicates it's only a matter of time before it moves into retail banking.

The cash machines ``would be further evidence that they are looking to get into this space," Kantor said. His group's members include the Independent Community Bankers of America and the National Association of Convenience Stores.

One of every nine retail dollars spent in the U.S. last year was at Wal-Mart, excluding automobiles. Before a Wal-Mart opened near his bank, Williams said three communities each had several grocery, hardware, clothing and shoe stores. Now, only one grocery store operates in each town, he said.

Wal-Mart's banking-related moves are being closely watched. The company's Utah bid is pending. Its application for U.S. deposit insurance prompted more than 4,000 comment letters to the Federal Deposit Insurance Corp., a record. In response, the FDIC in April held its first-ever public hearings on a bank

insurance application.

This year, five states have passed laws restricting the ability of industrial banks -- those owned by non-financial companies -- from opening branches, and seven others introduced or amended legislation to do so, according to the Washington-based community bankers' group.

"All of this, it can fairly be said, was a reaction to Wal-Mart's application," Sound Banking's Kantor said.

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