

THE DAILY REPORTER

Wisconsin's Construction, Law and Public Record Authority Since 1897

Objectors make case against Wal-Mart bank

Marcy Gordon , AP Business Writer

April 10, 2006

Washington - A parade of objectors spanning American business, unions and charities are going before federal regulators to make the case against allowing Wal-Mart Stores Inc. to expand its empire into banking.

The first-ever public hearings by the Federal Deposit Insurance Corp. on a bank application are drawing a wave of opposition to the move by the world's largest retailer. The company insists that consumers and retail banks have nothing to fear and is pledging to stay out of branch banking and consumer lending.

Some 300 institutions operate branches in 1,150 Wal-Mart stores and the company says it doesn't want to compete with them.

Opponents are not convinced. They portray Wal-Mart's proposed in-house bank -- which would handle the 140 million credit, debit card and electronic check payments the company handles each year -- as leading eventually to full-scale banking with retail branches that would destroy local banks.

Bentonville, Ark.-based Wal-Mart already is too big, they say, with 3,900 stores nearly saturating the U.S. market and unrivaled dominance -- accounting for 10 percent of the U.S. retail economy, according to some researchers.

"Wal-Mart is a company that does not play by the rules," Robert E. McGarrah Jr., a corporate governance official with the AFL-CIO, said in a statement prepared for Monday's hearing.

"That factor alone makes its proposed bank a threat to the taxpayers and the nation's banking system. ... Wal-Mart's record in communities across America reveals a company that ruthlessly wipes out important community businesses."

In an unusual alignment, the banking industry, unions and consumer groups have come together to make the case that a Wal-Mart bank would unfairly concentrate power over retail and small-business lending in one company that is already the biggest business in many small towns and rural communities.

Supporters varied too

But Wal-Mart's proposal has its supporters, too, including the American Financial Services Association,

which represents credit card issuers and other consumer lenders, and the Salvation Army and the National Center for Missing and Exploited Children, which receive donations from the retailer.

Supporters say a move by Wal-Mart into banking would benefit consumers by lowering fees and prices in an industry needing more vigorous competition.

Nearly 70 witnesses are testifying, both for and against Wal-Mart's application for federal deposit insurance for a state-chartered bank in Utah, in FDIC hearings on Monday and Tuesday in Arlington, Va., and on April 25 in Overland Park, Kan.

Among them: Rep. Stephanie Tubbs Jones of Ohio, who heads a group of Democratic lawmakers opposed to the application; officials of trade groups representing banks of every type and size; unions; consumer and community organizations; and associations of convenience stores, grocers, retailers, real estate agents and farmers.

An unprecedented outpouring of 1,900 comment letters to the FDIC, most opposed to the application, prompted the agency to hold the hearings.

Previous deals blocked

Over the past five years, Wal-Mart has tried unsuccessfully to buy financial institutions in California and Oklahoma and to partner with a bank in Canada. The California legislature, Congress and regulators blocked those deals over worries about big retailers getting into banking without full bank supervision.

This time, Wal-Mart is seeking to use a regulatory loophole that allows any type of company to own a certain sort of bank, known as an industrial loan corporation, or ILC, in California, Nevada or Utah.

When the exemption was adopted in 1987, ILCs were mostly small, locally owned institutions that had only limited deposit-taking and lending powers. Since then, they have grown astronomically, to some \$140 billion in assets in 2004, regulators say.

General Motors, General Electric, Pitney Bowes, BMW and Harley-Davidson are among companies that now own ILCs under the exemption. Wal-Mart rival Target Corp. has one in Utah that it uses to issue credit cards for corporate customers.

The exemption allows the corporate owners of ILCs to avoid the regulatory requirements that apply to corporate owners of other types of insured banks overseen by the Federal Reserve, regulators say. Both Alan Greenspan, who retired as Fed chairman at the end of January, and the current head of the central bank, Ben Bernanke, have urged Congress to close the loophole.

The FDIC has not set a deadline for a decision.

"My sense is, whatever happens, there's going to be a court challenge," said Bert Ely, a banking consultant in Alexandria, Va., and longtime FDIC observer. If the agency rejects the application, he said, Wal-Mart likely would sue, and if it approves it, the bankers and other critics could sue.

"There are lots of people itching to have a fight with Wal-Mart," he said. "They're a real lightning rod now."

AP Business Writer Marcus Kabel contributed to this report from Bentonville, Ark.

© 2006 Daily Reporter Publishing Co., All Rights Reserved.