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September 19, 2005

FDIC – San Francisco Regional Office
Regional Director John F. Carter
22 Jessie Street at Ecker Square, Ste. 2300
San Francisco, CA 94105

Dear Mr. Carter:

Home Federal Savings Bank is pleased to have the opportunity to comment on the Wal-Mart application for FDIC insurance. Home Federal strongly opposes Wal-Mart's application for FDIC insurance because Wal-Mart's entry into banking would be an inappropriate mixing of business and commerce, which would not serve the best interests of the public.

Wal-Mart is the largest company in the United States. It has wanted to own a bank for some time, and until now it has not been successful. In its application, the business plan for the industrial loan company (ILC) is limited and does not contemplate full-service banking. However, because Wal-Mart's previous attempts to get into banking were less limited in scope, there can be little doubt that the originally narrow business plan will grow over time into full-service banking at retail locations across the country. This application for deposit insurance is the appropriate place to limit Wal-Mart's entry into banking.

**Banking and Commerce Should Not Mix**

Our banking laws have a long history of separating banking and commerce for two important reasons. First, a commercial retail enterprise that also runs a bank would put that bank at risk if the commercial entity has financial problems. It is not appropriate to put the federal deposit insurance funds at risk because a commercial entity was poorly managed. A strong separation of commerce and banking ensures that all banking institutions are primarily focused on the management of the financial institution. Second, financial institutions should not use the financial services business, which consumers and business customers need in today's world, to sell commercial products. It is anti-competitive for both financial institutions and retailers if a retailer owning a bank could offer financial products and retail products. For example, suppose the retailer's

bank could give discounts on its retail products and services to everyone who opens a checking account with the retailer's bank. That ability to combine banking and commerce would put both bank competitors and retail competitors at an inappropriate disadvantage.

Wal-Mart's application threatens our long history of separating banking and commerce. Unfortunately, given Wal-Mart's size, it is the absolute worst case scenario. This application is not about a small commercial entity attempting to establish a small financial company. It is about a behemoth commercial operation attempting to establish a huge financial company, significantly exacerbating the concerns about combining banking and commerce.

We question whether the existing regulatory oversight rules would give any federal agency enough authority to thoroughly review the operations of the parent commercial entity. Do current federal laws and regulations give the agencies sufficient guidance and opportunity to review Wal-Mart's operations? Do the agencies have experience at analyzing that type of company? Unless the agencies are certain they could regulate both the parent commercial entity and the bank, there is a huge risk to the insurance funds and the integrity of the financial system.

**Impact on Community Banks and Local Communities**

Minnesota has an exceptional tradition for community banking. We still have the third most bank charters in the country, behind Texas and Illinois. This application threatens the community banks that are so vital to their communities. Community banks are the heart and soul of their communities, from a financial standpoint and from a community involvement standpoint. Very little economic growth and development happen without the support of the local bank. Local deposits fund consumer and business loans in the community. Also, bankers spend countless hours working on community development and volunteering in their communities, lending their expertise to causes that improve their towns. The success of their towns is of paramount importance to these bankers. We question whether Wal-Mart bank would have that same dedication to their communities. Wal-Mart's attempt in its application to avoid responsibility under the Community Reinvestment Act is not a promising sign.

One could argue that competition is a good thing – that a nationwide Wal-Mart Bank would mean prices will be lower for consumers. Lower prices are certainly possible in the short term, though most banks already offer low or no-cost deposit and checking products. As has happened in the past, prices could go back up once the competition is put out of business. Just the perception that costs are lower at Wal-Mart could be enough to reduce the number of banks and as the number of banks shrinks, so does the amount of choices available to consumers. Choice is extremely important in banking, even more so than with the clothing retailers and flower shops which have been put out of business. It's nice to have a choice in shirts and flowers, but it is even more important to have a choice in financial services. If Wal-Mart manages to shut down local banks, there would be fewer places to get a mortgage or a car loan.

Even worse, imagine individuals trying to obtain small business loans at Wal-Mart Bank. Here's where lack of competition can really hurt a community. Wal-Mart would have control over what businesses exist in the community and could deny loans to those that would compete with any of their commercial business lines. The effect on economic development in communities across the country could be devastating.

**Impact on Federal Deposit Insurance Funds**

Federally-insured deposits have increased over the past few years. Much of that increase was from new, large depositories. These new financial institutions have never paid insurance premiums for their federal deposit insurance coverage, but they are enjoying the benefits of deposit insurance. That situation is not fair to all the banks that did have to pay a lot of money to capitalize the funds. Adding another new, huge financial institution that will benefit from federal deposit insurance, without paying for it, is just plain wrong.

**Summary**

Our nation has a long-standing policy of separating banking and commerce, which Congress confirmed in 1999 with the Gramm-Leach-Bliley Act. The risks associated with changing that policy are very real. Because Wal-Mart is such a huge entity, those risks are increased significantly. Home Federal urges the FDIC to reject Wal-Mart's application for federal deposit insurance. If you have any questions or comments, please feel free to contact me.

Sincerely,

Jon Eberle
SVP/CFO/Treasurer
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