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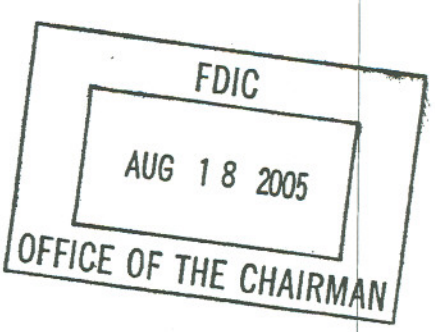
August 8, 2005



Mr. Donald E. Powell
Chairman of the Board
Federal Deposit Insurance Corporation
550 17th St. NW
Washington, D.C. 20429

Dear Chairman Powell:

I write to urge you, in your role as Supervisor of Industrial Banks for the State of Utah, to give extremely careful consideration to the application of Wal-Mart Stores to receive a charter for an industrial loan company in the State of Utah.

This application deserves the fullest and most careful review, including extensive public hearings, for several reasons:

1. Wal-Mart Stores already offers an extensive set of financial services, including money orders, on-site ATMs, consumer credit, and so on, to the diverse clientele that buys goods at Wal-Mart stores. This clientele includes many lower-income people, who often lack sophistication in managing their financial affairs, and who are now the locus of intense competition by bank and non-bank financial firms. Since a large proportion of these customers' personal-consumption expenditures are made at Wal-Mart, conflicts of interest between the financial and commercial arms of Wal-Mart's operations may arise. Given the unsettled state of financial competition for lower-income customers, and given the rapid evolution of regulations specifying fair and appropriate treatment of these customers in banking markets, it would be best to delay approval of a new charter that could significantly affect the banking practices of many lower-income customers.

2. The Gramm-Leach Bliley Act, passed by the US Congress and signed into law by President Clinton in 1999, restricted the ability of commercial entities to enter banking. This Act was passed in the wake of the many recent financial and banking crises in the US and abroad; these crises have demonstrated that even carefully considered loan contracts can lead borrowers and lenders alike into default and insolvency. It must also be considered that the US Federal Reserve stands ready, as the guarantor of orderliness in US and global financial markets, to serve as "lender of last resort" in any such crisis. This creates a potential moral hazard: if firms that operate in US financial markets weaken considerably, the Federal Reserve has no choice but to intervene to maintain systemic stability. Because of the size of Wal-Mart, and because its cash flows and revenues derive primarily from non-financial activity, permitting Wal-Mart to operate a financial intermediary would expose the Federal Reserve -- and implicitly American taxpayers – to a substantial new source of risk.

3. Because of the central role of depository financial institutions in community, household, and business welfare, and in recognition of the special lender-of-last-resort support that depository institutions enjoy under US law, these institutions are required to comply with the Community Reinvestment Act of 1977 (12 U.S.C. 2901). This Act requires banking firms to identify and respond to the credit and banking needs of their entire market area. Banking firms have since 1977 expended considerable resources in complying with this Act. Academic studies have consistently found that the CRA increases full and fair access to banking services. It is not clear whether Wal-Mart can be held accountable for the banking services it delivers under this Act. As the largest retail company in the United States, Wal-Mart has a vested interest in mitigating retail competition; this is a very different circumstance than meeting the banking needs of the small businesses operating in a given market area. That is, unavoidable conflicts of interests may prevent the company from being fully CRA-compliant.

In sum, the markets for banking services are changing rapidly, with some depository institutions choosing not to offer instruments once considered part and parcel of core banking activities, and non-bank firms offering instruments that provide portions of core banking services. Many open questions exist at the present time, including these: Can a firm that secures an industrial loan company charter emit instruments that effectively mimic the products offered by banks? What guarantees are there that Wal-Mart will provide credit to its customers in a manner that is consistent with their long-term financial viability? There are not, at present, answers to these and many other questions.

Since Utah permits de novo interstate branching, once this charter is granted, Wal-Mart will acquire the ability to open non-bank bank branches that may profoundly affect the lives of many Americans. This suggests the need for careful consideration of the consequences of approving this application. I urge you to engage in such careful consideration in this case.

Best regards,

Gary Dymski
Director, University of California Center Sacramento (UCCS)
Professor of Economics, University of California, Riverside (on leave)

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KC

OFFICE OF THE CHAIRMAN
CORRESPONDENCE ASSIGNMENT

OC 05-258 ASSIGNED TO: DSC-S DATE: 08/18/2005

CORRESPONDENT: GARY DYMSKI
DIRECTOR
UNIVERSITY OF CALIFORNIA CENTER
SACRAMENTO
PROFESSOR OF ECONOMICS, UNIVERSITY OF
CALIFORNIA, RIVERSIDE

MR. DYMSKI WRITES TO COMMENT ON THE WAL-MART APPLICATION.

THE ATTACHED CORRESPONDENCE HAS BEEN ASSIGNED TO DSC-S FOR ATTENTION AS APPROPRIATE.

IF YOU HAVE ANY QUESTIONS RELATING TO THIS ASSIGNMENT, PLEASE CONTACT THE CORRESPONDENCE UNIT OF THE OFFICE OF LEGISLATIVE AFFAIRS AT 898-7055.

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