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February 19, 1987

Richard S. Carnell
Counsel
Senate Banking Committee
Room 534
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Rick:

As I explained briefly on the phone, one of our clients is in a unique situation which we believe merits some attention. The Senate Banking Committee Print No. 1, introduced on February 17, 1987 by Chairman Proxmire, contains a flat prohibition on tandem operations by unitary savings and loan associations, which prohibition would severely hamper the ability of our client, United Services Automobile Association ("USAA"), to serve its member/owners. Section 104(c) would prohibit, without exception, cross-marketing between a thrift and its affiliates which provide "non-thrift" products or services. According to the section-by-section summary, this prohibition was prompted by Glass-Steagall concerns over the abuses which occur when the barrier between banking and commerce is removed. Its enactment could require USAA to divest its savings and loan subsidiary or to cease cross-marketing of its banking and consumer-oriented non-thrift products and services. USAA, a reciprocal interinsurance exchange, serves a special segment of the population, current and former officers of the U.S. Armed Forces, and provides consumer rather than commercial services and products. This unique operation simply does not represent the type of abuse which the tandem operation prohibition was designed to address since the owners of the business are also the consumers. The Senate has already recognized the special circumstances of USAA by passing S.2851 in 1984 with a noncontroversial managers' amendment which exempted USAA from the application of Glass-Steagall to thrift companies, which favorable treatment was carried over in part to the February 17, 1987 Committee Print.

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USAA, an insurance cooperative first created to provide car insurance to its members who otherwise could not obtain it because of their mobility, now provides additional basic financial services. It provides not only basic insurance products, but also mutual funds, real estate limited partnership interests, discount brokerage services, travel services and buying services. In addition, USAA provides reasonably priced deposit and lending services through its subsidiary, USAA Federal Savings Bank (USAA F.S.B.). When it acquired USAA F.S.B., USAA formally agreed to restrict its securities activities specifically to address Glass-Steagall concerns raised by the Federal Home Loan Bank Board in granting the USAA F.S.B. charter. Consequently, USAA does not and will not engage in investment banking activities and provides only consumer products and services. USAA is uniquely positioned to meet the special needs of its members and at prices generally lower than those available elsewhere, precisely because it serves only a limited group and keeps its overhead low through direct marketing. However, enactment of the tandem operations provision would drastically curtail the consumer services and products USAA can provide its members.

If §104(c) is enacted, the USAA member who purchases car insurance from USAA because he or she cannot obtain it at a reasonable price anywhere else cannot be informed of the valuable opportunity to obtain reasonable banking services from USAA F.S.B. This will occur even though a stable banking relationship is as difficult to obtain as car insurance because of the mobility required of those serving in the U.S. Armed Forces. USAA could no longer offer its buying services in conjunction with the USAA F.S.B. Mastercard credit card. In addition, USAA F.S.B. could not offer a limited self-directed IRA that includes life insurance and securities products, as well as bank products, even though these products and services are offered at a price lower than can be generally found in the marketplace.

USAA only serves a unique segment of the population, officers in the armed services, with unique problems in obtaining basic financial services. Applying a prohibition on tandem operations to USAA will only harm its special membership without furthering the stated purpose of the tandem operations prohibition: to prevent conflicts with the policy of separating banking and commerce. Because USAA has already formally agreed to limit its securities activities in response to such concerns, limitations on tandem operations of USAA companies is not warranted. In addition, as a strong, consumer-oriented organization, USAA is the type of entity which should be encouraged to participate in the thrift industry. Accordingly, we hope that Chairman Proxmire would be amenable to our discussing this problem further with his

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staff to see if a solution can be found. I appreciate your help on this and look forward to hearing from you.

Sincerely,



Ann S. Costello

ASC/dad