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## United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

TO: Media

FROM: Senate Banking Committee

WHAT: Sen. William Proxmire addresses Thomas Circle, a coalition of groups promoting the availability of credit for farmers, small business, consumers, and others.

WHEN: 9.30 a.m., Friday, February 20, 1987

WHERE: Dirksen 538; Senate Banking Committee hearing room

BACKGROUND: On February 25, the Senate Banking Committee will vote on major banking legislation. One of the more controversial elements is a ban on so-called nonbank banks. These are vehicles that permit commercial firms such as retailers and manufacturers to enter the banking industry. Congress has traditionally prohibited the mixing of banking and commerce because it led to serious conflicts of interest and the general concentration of capital. The number of banks has now swollen to about 14,000, thrifts to 7,000 and credit unions to 20,000. Sen. Proxmire, who authored the bill slated for a February 25 vote, is concerned that a relatively few commercial firms may swallow up the credit markets now served by a great number of independent banks, making it difficult for smaller borrowers to secure loans.

THOMAS CIRCLE: More than 30 groups are involved, representing agriculture, small business, consumer and other interests. The name derives from the address of several of the members.

contact: Ken McLean or Bart Naylor: 224-7391

Banks are businesses that both make commercial loans and accept deposits. As such, they're prevented from branching interstate (except where states permit them); and from being owned by commercial businesses, such as agribusiness conglomerates. Nonbank banks, however, escape these restrictions by only taking deposits, or only making loans. So they can branch interstate, and they can be owned by agribusiness conglomerates. There are those who are already saying, "Why shouldn't any company be able to buy a bank, and why shouldn't a bank be able to buy any company? Won't this increase the availability of credit?" Here are some questions to consider.

#### -- Conflict of Interest

\*Will banks go through "work out" situations with a struggling farmer who has long-term potential if they can foreclose on the company instead and acquire the company at a fire sale price.

\*Will banks make loans to a farmer if they have an ownership interest in a competitor? Will the bank use the information gained in the credit relationship to buy or start a competing business?

\*New sources of credit are good, but do big companies such as Merrill Lynch and Sears really want to make farm loans?

#### -- Concentrations of Economic Power

\*If businesses are permitted to own banks, it will also follow that banks will be able to acquire businesses. Does the public want to permit the largest banks in the country to acquire the largest businesses and vice versa?

\* Once some of the Fortune 500 acquire banks there will be a snowball effect among other major companies to acquire a bank to assure themselves a ready source of credit. Is it in the public interest to have big businesses owning banks while farmers generally will not have that advantage?

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On February 25, the Senate Banking Committee will vote on a bill aimed at preserving farm credit. It will ban nonbank banks.

Another important provision calls for what's known as a bridge bank. This is an intermediate institution set up by federal authorities after closing a bank. The intention is to help the failed bank service farm loans, until new management can be found. Under current law, federal authorities must either sell the bank immediately, or close it.

THOMAS CIRCLE

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f 3