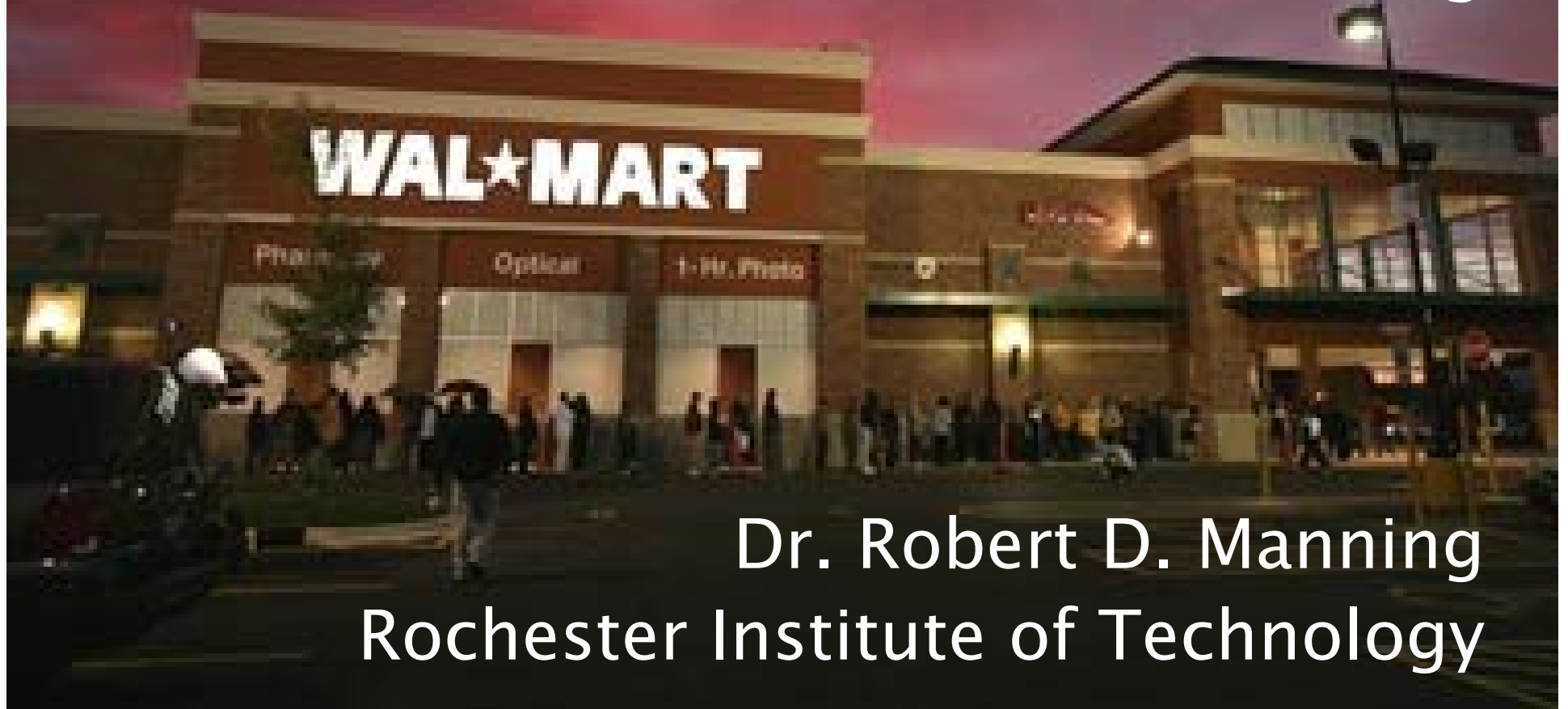


# The Global Bank of WAL★MART?

A look at Wal-Mart's  
backdoor into banking



Dr. Robert D. Manning  
Rochester Institute of Technology

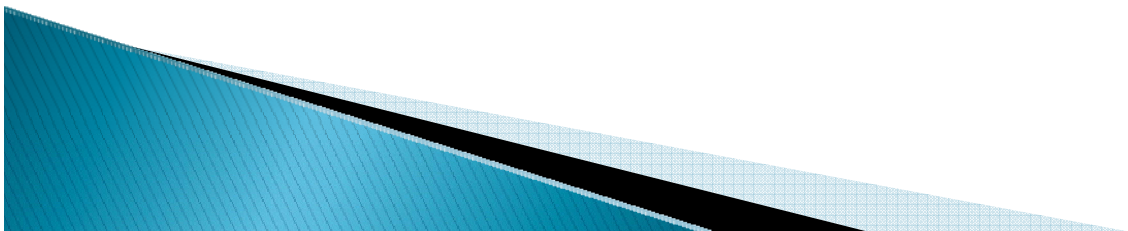
# Reasons for Wal-Mart to Enter Banking

- ▶ Reduce payment processing fees
  - Estimated \$1 billion yearly savings
- ▶ Increase store traffic and impulse purchases
- ▶ Attract the FDIC estimated 40 million households without a banking relationship
- ▶ Try to change the game
  - Apply low-cost, high volume model to financial services
- ▶ Capture \$250 billion remittances market
  - \$24 billion from USA to Mexico in 2007



# Wal-Mart's Current US Financial Services

- ▶ Expansion of in-store MoneyCenters
  - Just opened 500th MoneyCenter
  - Plan to reach 1000 by early 2009
- ▶ Check cashing
- ▶ Express bill payment (MoneyGram)
- ▶ Money orders (MoneyGram)
- ▶ Money transfers (MoneyGram)
- ▶ Wal-Mart credit cards
  - Discover card or store-branded card



### Bill Payment

Pay rent, utilities, more!

**Sign up now** and we'll pay for 3 Bill Payments!\*

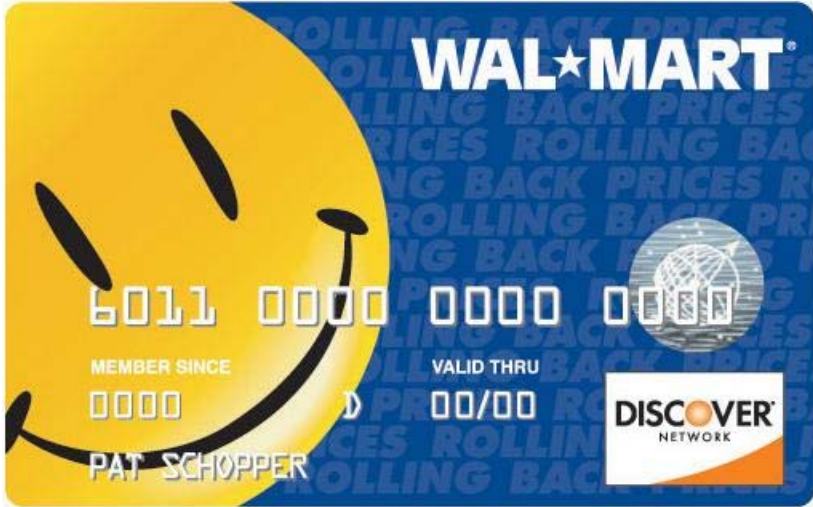


### Easy to get

- ✓ Safer than cash
- ✓ No credit check
- ✓ No bank account required

### Easy to use

- ✓ Pay your bills & shop online
- ✓ Pay at the pump
- ✓ Get cash at ATMS\*



**CASH YOUR CHECK AT WAL-MART**  
Load your Personalized Card for FREE!  
check cashing fees apply

### Apply & Buy Today

**No Interest** if paid in 12 months on any Wal-Mart Credit Card purchase of \$250 or more.\*  
\*Minimum payments required.

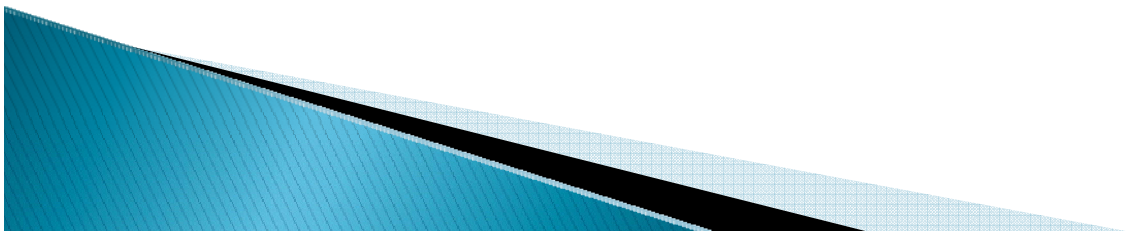


[Learn More](#)



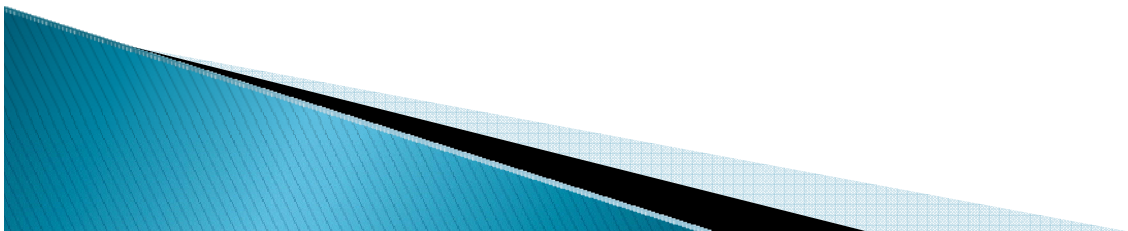
# Wal-Mart's Current US Financial Services

- ▶ MoneyCard
  - Brings all the services together
  - Prepaid Visa debit card acts as checking account
  - Since first offered June 20, 2007:
    - Over 1 million MoneyCards sold
    - Over \$1 billion loaded
  - Invest with automatic withdrawals (ShareBuilder by ING Direct)



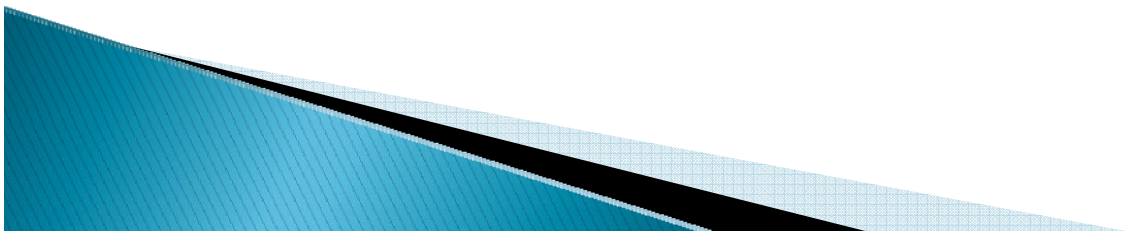
# MoneyCard Fees

- ▶ MoneyCard fees
  - \$8.94 set-up fee
  - \$4.94 monthly fee
    - Fee waived if loading \$1000 per month
  - \$4.64 reload fee
    - Fee waived if using direct deposit or cashing check
  - \$1.95 ATM fee
  - \$8.94 personalized card fee
  - \$2.00 per operator assisted telephone call
  - \$4.00 automatic investment fee




# The Bottom Line

- ▶ According to Jane Thompson, president of Wal-Mart Financial Services Division:
  - Financial services business handles 2.5 to 3.5 million transactions each week
  - Financial services activity has grown between 30% to 40% each week the past year
  - Financial services division has seen 58% compound annualized growth since launch 6 years ago
- ▶ Wal-Mart doesn't disclose exact numbers about Financial Services Division

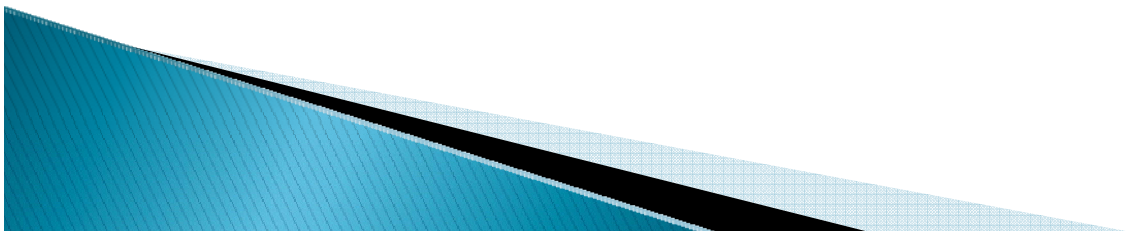


# Wal-Mart's Bank Aspirations

- ▶ Thwarted trying to buy an Oklahoma savings bank in 1999, a small Californian ILC in 2002, and an attempt to purchase Canada's Toronto-Dominion Bank was stopped by regulators in 2003
  - ▶ Applied for ILC charter in July 2005
  - ▶ Withdrew application March 16, 2007
  - ▶ Jane Thompson, Wal-Mart's president of Financial Services Division
    - "At no stage did we intend to use the ILC to establish branch banking operations as critics have suggested – we simply sought to reduce credit and debit card transaction costs"
    - "Since the approval process is now likely to take years rather than months, we decided to withdraw our application to better focus on other ways to serve customers. We fully intend to continue to introduce new products and services that champion those who deserve convenient, lower priced financial services."
- 

# What is an ILC?

- ▶ Industrial loan companies and industrial banks
  - FDIC-supervised financial institutions
  - Can be owned by commercial firms
  - Not regulated by a federal banking agency
  - State-chartered institutions
  - Are not "banks" under the Bank Holding Company Act (BHCA)
  - Not required to register as a bank holding company with the Federal Reserve Board; therefore, is not subject to regulation and supervision by the Federal Reserve Board.
  - Generally, an ILC satisfies at least one of the following conditions: (1) the institution does not accept demand deposits, (2) the institution's total assets are less than \$100,000,000, or (3) control of the institution has not been acquired by any company after August 10, 1987



# Comparison between Commercial Banks and ILC Charters

Powers	State Commercial Bank That Is a BHCA Bank	Industrial Loan Company (or Industrial Bank) That Is Not a BHCA Bank
Ability to accept demand deposits	Yes	Varies with the particular state. Where authorized by the state, demand deposits can be offered if either the ILC's assets are less than \$100 million or the ILC has not been acquired after August 10, 1987
Ability to export interest rates	Yes	Yes
Ability to branch interstate	Yes	Yes
Ability to offer full range of deposits and loans	Yes	Yes, including NOW accounts, but see the first entry above regarding demand deposit accounts
Authorized in every state	Yes	No. ILCs currently are chartered in seven states*
Examination, supervision, and regulation by federal banking agency	Yes	Yes
FDIC may conduct limited scope exam of affiliates	Yes	Yes
Golden Parachute restrictions apply	Yes	Yes, to the institution; no, to the parent
Cross Guarantee liability applies	Yes	No
23A & 23B, Reg. O, CRA apply	Yes	Yes
Anti-tying restrictions apply	Yes	Yes
Parent** subject to umbrella federal oversight	Yes	No
Parent** activities generally limited to banking and financial activities	Yes	No
Parent** could be prohibited from commencing new activities if a subsidiary depository institution has a CRA rating that falls below satisfactory	Yes	No
Parent** could be ordered by a federal banking agency to divest of a depository institution subsidiary if the subsidiary becomes less than well capitalized	Yes	No
Full range of enforcement actions can be applied to the subsidiary depository institutions if parent fails to maintain adequate capitalization	Yes	Yes
Control owners who have caused a loss to a failed institution may be subject to personal liability	Yes	Yes

\*California, Colorado, Hawaii, Indiana, Minnesota, Nevada, and Utah.

\*\*Parent, with respect to a state commercial bank, refers to a bank holding company or financial holding company subject to supervision by the Federal Reserve. Under a proposed rule, broker-dealers who own ILCs may soon be able to choose consolidated supervision by the Securities and Exchange Commission. See "Alternative Net Capital Requirements for Broker-Dealers That Are Part of Consolidated Supervised Entities," 62 Fed. Reg. 62872 (proposed November 12, 2003, to be codified at 17 C.F.R. Part 240). Note: NOW = negotiable order of withdrawal; CRA = Community Reinvestment Act

Source: Federal Deposit Insurance Corporation, Supervisory Highlights

# Top 20 ILC's, listed by Total Assets

Insured	Institution	Total Assets	Total Deposits	State	Parent
10/31/1988	MERRILL LYNCH BANK USA	60,879.30	51,601.10	UT	Merrill Lynch
5/25/1990	MORGAN STANLEY BANK	27,391.00	19,535.00	UT	Morgan Stanley
3/20/1989	GMAC BANK	23,451.00	10,740.00	UT	Cerberus/GMAC
3/20/1989	AM. EX. CENTURION BANK	23,419.50	2,791.50	UT	American Express
9/15/2003	UBS BANK USA	23,090.80	20,222.20	UT	UBS AG
7/6/2004	GOLDMAN SACHS BANK USA	15,028.00	13,341.90	UT	Goldman Sachs
9/24/1984	FREMONT INVESTMENT & LOAN	10,767.50	9,754.40	CA	Fremont General Corporation
4/1/2003	CAPMARK BANK	6,616.80	4,918.90	UT	Capmark Financial Group/GMAC
9/27/1996	USAA SAVINGS BANK	6,346.30	326.2	NV	USAA Life Company
10/20/2000	CIT BANK	4,065.60	3,078.70	UT	CIT Group
8/24/2005	LEHMAN BRO. COMMERCIAL BANK	3,431.70	2,849.10	UT	Lehman Brothers Bank FSB
11/12/1999	BMW BANK OF NORTH AMERICA	2,365.00	1,815.30	UT	BMW Group
2/12/1993	GE CAPITAL FINANCIAL INC	2,217.30	214.6	UT	GE (General Electric)
12/16/1991	ADVANTA BANK CORP	2,011.40	1,408.20	UT	Advanta
8/2/2004	BEAL SAVINGS BANK	1,505.80	62	NV	Beal Financial Corporation
10/5/1984	FIRESIDE BANK	1,437.00	1,210.80	CA	Unitrin, Inc.
9/22/1997	MERRICK BANK	1119	880	UT	CardWorks, LP
6/1/1998	WRIGHT EXPRESS FINL SERVICES	1108.2	927.2	UT	Wright Express
11/28/2005	SALLIE MAE BANK	807.3	611.9	UT	Sallie Mae
11/3/1989	CENTENNIAL BANK	673.1	524.8	CA	Land America Financial Group

Source: Statement of John F. Bovenzi, Chief Operating Officer and Deputy to the Chairman: Federal Deposit Insurance Corporation  
 October 4, 2007 before the Senate Banking, Housing, and Urban Affairs Committee  
 \* Financial Data as of June 30, 2007

# Other notable ILC's

1/10/2002	VOLKSWAGEN BANK USA	288	239.8	UT	Volkswagen
8/16/2004	TOYOTA FINANCIAL SAVINGS BANK	272.2	68.6	NV	Toyota
8/25/1997	EAGLEMARK SAVINGS BANK	51.6	4.2	NV	Harley-Davidson
9/27/2004	TARGET BANK	15.3	6.5	UT	Target Corporation



Source: Statement of John F. Bovenzi, Chief Operating Officer and Deputy to the  
Chairman: Federal Deposit Insurance Corporation  
October 4, 2007 before the Senate Banking, Housing, and Urban Affairs Committee  
\* Financial Data as of June 30, 2007

# Wal-Mart bank in the U.S.?

## Pros

- ▶ Provide unbanked or under banked an opportunity to start a checking/savings account, get an auto loan, or even a home mortgage at reasonable costs.
- ▶ Low-cost, high volume competitive strategy could provide people who are currently banked the chance to obtain various credit instruments at a lower cost
  - Increased competition results in better prices overall for consumers
- ▶ Target Corporation, one of Wal-Mart's key competitors, currently has an ILC charter for credit/debit card transactions and caused no disruptions to banking industry.

## Cons

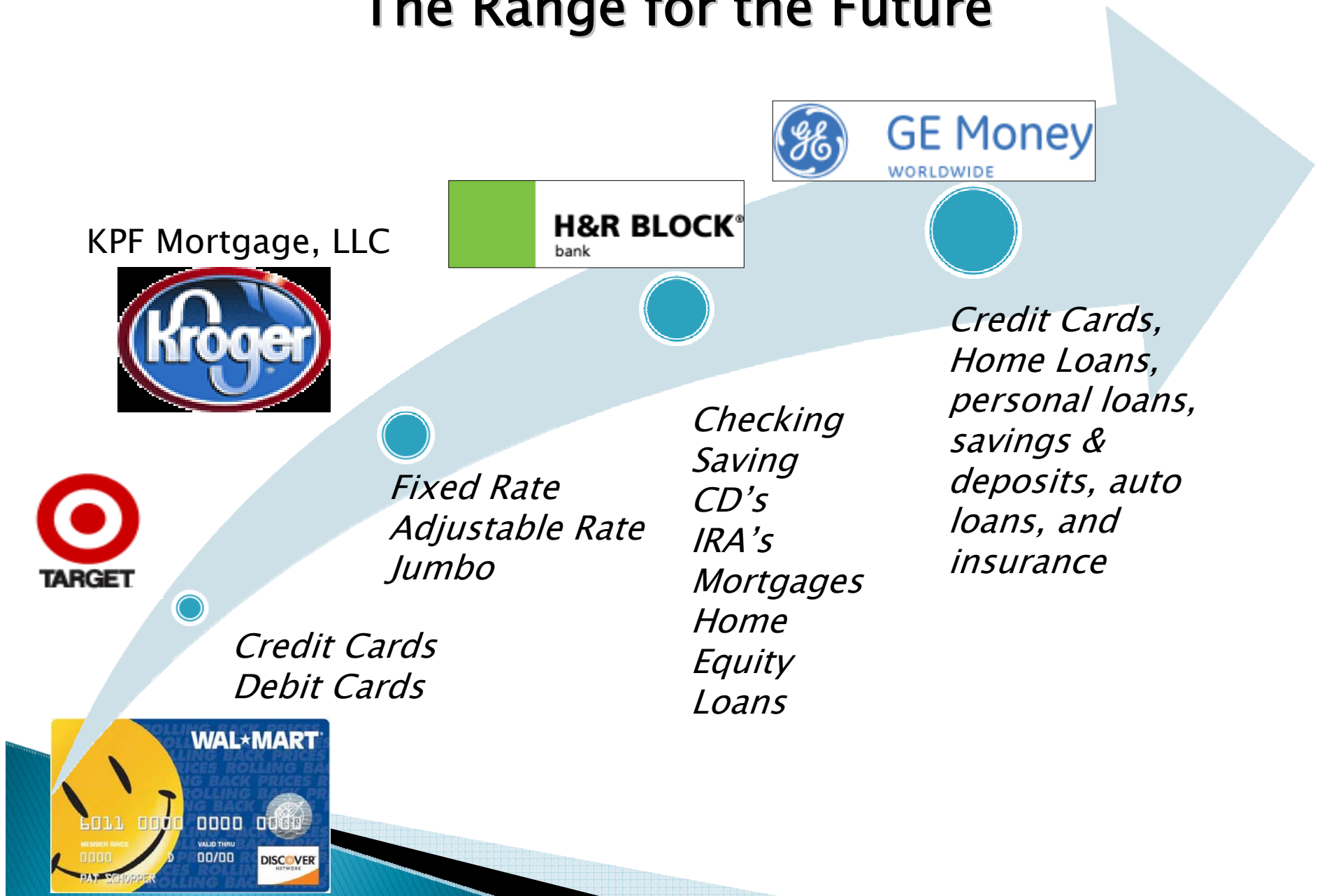
- ▶ The amalgamation of banking and commerce (specifically the # 1 retailer in the world)
- ▶ Low-cost model could push many small community based banks/credit unions out of business.
  - Communities could ultimately be deprived of needed capital for growth
  - Wal-Mart's selects certain areas to provide loans.
- ▶ No regulation and supervision by the Federal Reserve (non-financial ILC chartered banks are regulated by the FDIC and abide by less stringent standards than bank holding companies)

# FDIC's Response to Wal-Mart's ILC Application Withdrawal

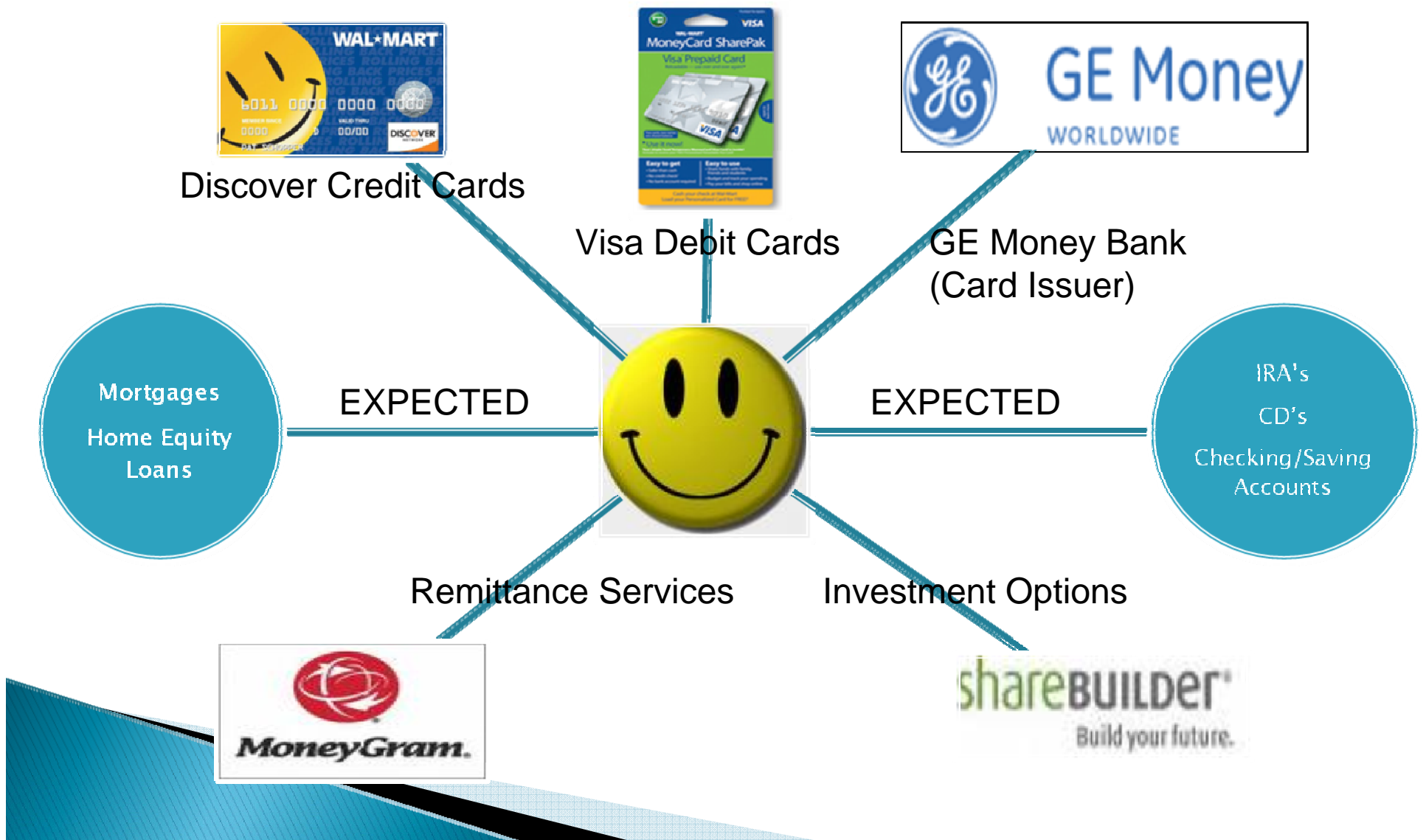
- ▶ (March 2007) Statement from FDIC Chairman Sheila C. Bair:
  - "Wal-Mart made a wise choice. This decision will remove the controversy surrounding their intentions. They don't need an ILC to play an important role in expanding access to financial services, they can do so by partnering with banks and others. We look forward to working with Wal-Mart in meeting the need for low-cost financial services across all populations."



# Where is Wal-Mart Financial Services Headed? The Range for the Future



# Wal-Mart's Current Relationship Web in Financial Services: What else could be in store?



# Internal Finance Business Model

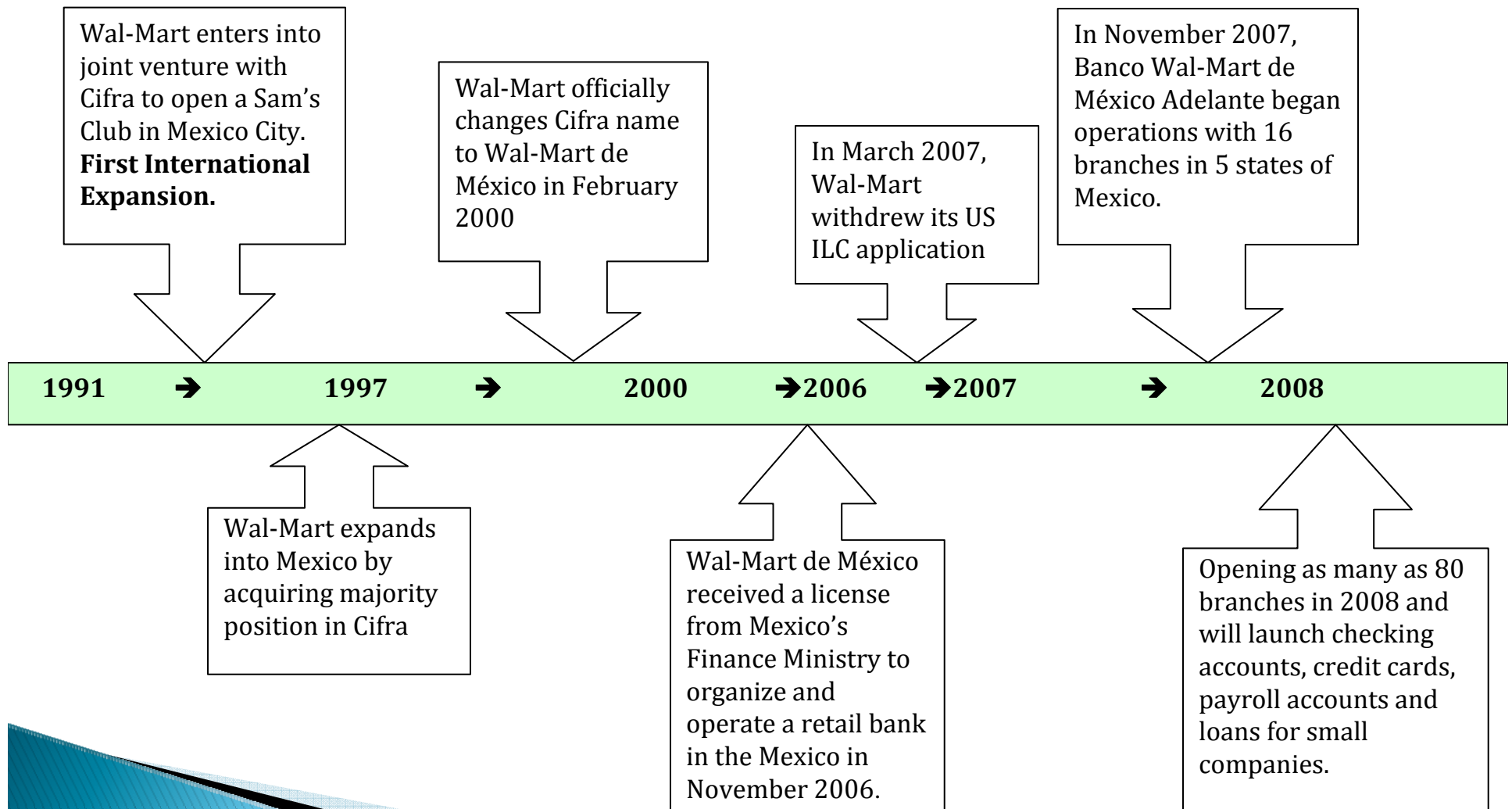
## Traditional Model

- ▶ Cement Customer Loyalty
- ▶ Another avenue for marketing
- ▶ No revenue goals for offering credit

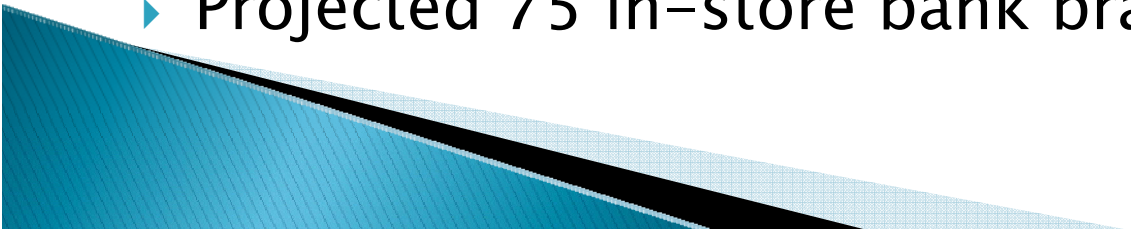
## Current Model

- ▶ *Expanding sales within stores*
- ▶ *Reduce Interchange fees*
- ▶ *Revenue objectives for offering credit*
  - *Current customers*
  - *Non-customers*
- ▶ Cement Customer Loyalty
- ▶ Another avenue for marketing

# Banco Wal-Mart Timeline

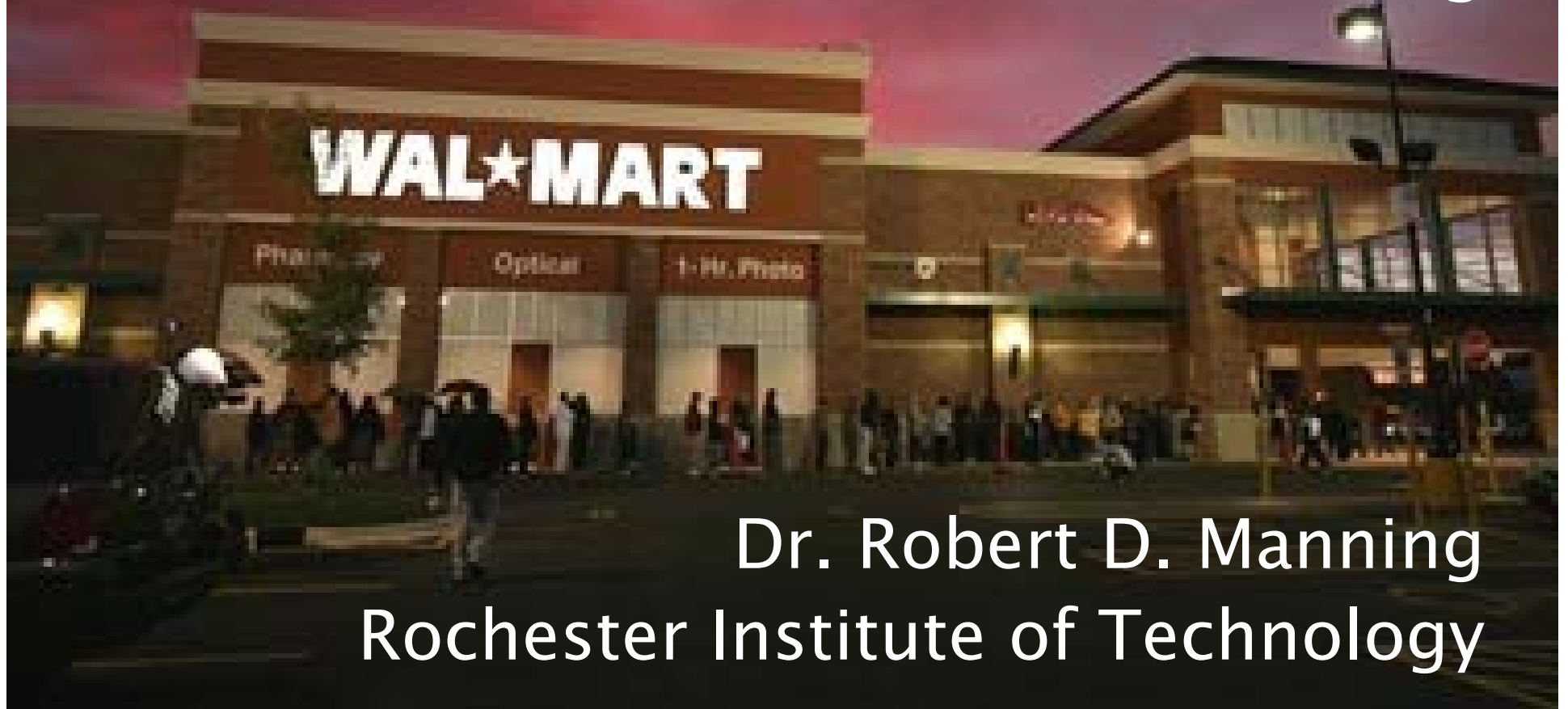


# Banco Wal-Mart de México Adelante

- ▶ Launched bank in November 2007
  - ▶ Expects banking unit to break even by 2010
  - ▶ Started issuing credit cards to consumers this year (GE Money was previous card issuer)
    - Plans to issue more than 100,000 credit cards by year end
    - Interest rates on credit cards more than 75%
  - ▶ Preparing more financial products aimed at customers who have never had a bank account, about 75 % of Mexico's 103 million population.
  - ▶ First 3 quarters of 2008: Wal-mex's banking unit generated revenues of 15 million pesos (\$1.1 million).
  - ▶ Projected 75 in-store bank branches by year end
- 

# The Global Bank of WAL★MART?

A look at Wal-Mart's  
backdoor into banking



Dr. Robert D. Manning  
Rochester Institute of Technology